

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
(A Not-for-Profit Organization)

FINANCIAL STATEMENTS

Year Ended June 30, 2011

KENNETH KUHNS & CO.

Certified Public Accountants
570 Liberty Street S.E., Suite 210
Salem, Oregon 97301-3594

Telephone: (503) 585-2550

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5 to 11

KENNETH KUHNS & CO.
CERTIFIED PUBLIC ACCOUNTANTS
570 LIBERTY STREET S.E., SUITE 210
SALEM OREGON 97301-3594
TELEPHONE (503) 585-2550

INDEPENDENT AUDITOR'S REPORT

February 9, 2012

Board of Trustees
Klamath Community College Foundation, Inc.
Klamath Falls, Oregon

We have audited the statement of financial position of Klamath Community College Foundation, Inc. (a not-for-profit organization) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Klamath Community College Foundation, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Kenneth Kuhns & Co.

Kenneth Kuhns & Co.

FINANCIAL STATEMENTS

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2011

Assets

Cash and cash equivalents	\$ 126,227
Investments	54,962
Accounts receivable	400
Real property available for sale	<u>54,290</u>
Total assets	<u><u>\$ 235,879</u></u>

Liabilities and Net Assets

Liabilities:	
Deferred revenue	<u>\$ 500</u>
Net assets:	
Unrestricted	6,865
Temporarily restricted	99,631
Permanently restricted	<u>128,883</u>
Total net assets	<u>235,379</u>
Total liabilities and net assets	<u><u>\$ 235,879</u></u>

The accompanying notes are an integral part of this statement.

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 900	\$ 29,184	\$ 2,446	\$ 32,530
Noncash contributions	3,681	-	-	3,681
Donated services	31,241	-	-	31,241
Investment earnings	6	3,580	14	3,600
Net unrealized gains on investments	-	2,981	920	3,901
Special events	13,226	7,969	-	21,195
Endowment administration	547	-	-	547
Net assets released from restrictions	<u>59,392</u>	<u>(50,340)</u>	<u>(9,052)</u>	<u>-</u>
Total revenues, gains and other support	<u>108,993</u>	<u>(6,626)</u>	<u>(5,672)</u>	<u>96,695</u>
Expenses and losses:				
Program services:				
Scholarships	46,976	-	-	46,976
College support	12,416	-	-	12,416
Noncash college support	3,681	-	-	3,681
Special events	<u>9,731</u>	<u>-</u>	<u>-</u>	<u>9,731</u>
Total program services	<u>72,804</u>	<u>-</u>	<u>-</u>	<u>72,804</u>
Supporting services:				
General administration	3,355	-	-	3,355
Endowment administration	-	101	446	547
Donated services	<u>31,241</u>	<u>-</u>	<u>-</u>	<u>31,241</u>
Total supporting services	<u>34,596</u>	<u>101</u>	<u>446</u>	<u>35,143</u>
Unrealized loss in fair value of property available for sale	<u>-</u>	<u>16,210</u>	<u>-</u>	<u>16,210</u>
Total expenses and losses	<u>107,400</u>	<u>16,311</u>	<u>446</u>	<u>124,157</u>
Change in net assets	1,593	(22,937)	(6,118)	(27,462)
Net assets, beginning of year	<u>5,272</u>	<u>122,568</u>	<u>135,001</u>	<u>262,841</u>
Net assets, end of year	<u>\$ 6,865</u>	<u>\$ 99,631</u>	<u>\$ 128,883</u>	<u>\$ 235,379</u>

The accompanying notes are an integral part of this statement.

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2011

Cash flows from operating activities:	
Revenues collected:	
Public support	\$ 53,398
Investment earnings	3,600
Expenses paid:	
Program services	(69,073)
Supporting services	<u>(3,355)</u>
Net cash used in operating activities	<u>(15,430)</u>
Cash flows from investing activities:	
Sale of investments	3,886
Investment earnings reinvested in investments	<u>(2,812)</u>
Net cash provided by investing activities	<u>1,074</u>
Net decrease in cash and cash equivalents	(14,356)
Cash and cash equivalents, beginning of year	<u>140,583</u>
Cash and cash equivalents, end of year	<u><u>\$ 126,227</u></u>
Reconciliation of change in net assets to net cash used in operating activities:	
Change in net assets	<u>\$ (27,462)</u>
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Unrealized loss in fair value of property available for sale	16,210
Donated services revenues	(31,241)
Donated services expenses	31,241
Noncash contributions	(3,681)
Noncash college support expense	3,681
Net unrealized gains on investments	(3,901)
Decrease in accounts receivable	1,123
Decrease in prepaid expenses	50
Decrease in deferred revenue	<u>(1,450)</u>
Total adjustments	<u>12,032</u>
Net cash used in operating activities	<u><u>\$ (15,430)</u></u>

The accompanying notes are an integral part of this statement.

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Klamath Community College Foundation, Inc. (the Foundation) is an Oregon not-for-profit organization incorporated on May 21, 1997 under the laws of the State of Oregon. The Foundation operates for the limited purpose of financially and otherwise supporting the mission of Klamath Community College District, a political subdivision of the State of Oregon. The Foundation is governed by a Board of Trustees.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Basis of Financial Statement Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, the net assets of the Foundation are reported in the following three classes:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd)

Investment Policy/Spending Policy

The Foundation adopted a statement of investment policy which reflects the investment policy, objectives, and constraints of the Foundation. The Foundation's investment objectives are as follows:

- Generate a dependable source of annual income consistent with market rates to support Foundation activities and operating budget as approved by the Foundation Board of Trustees.
- Enhance the long-term growth in value of the assets to preserve the real (inflation adjusted) purchasing power of the Foundation.
- Provide sufficient income and cash flow to meet requirements of distribution.

The Foundation follows a spending policy which states that the Foundation is responsible for distributing funds as directed by donors, and for managing funds so that the endowment accounts are preserved and increased to a level that retains their purchasing power. The Foundation's endowments generally provide that earnings only shall be available for academic scholarships. To that end, the following guidelines were established by the Foundation Board of Trustees:

- The Foundation Board shall work with the Financial Aid Office and Scholarship Committee to distribute scholarship awards according to guidelines set by individual donors.
- The Foundation Board shall have the authority to spend five percent, inclusive of administrative fees, of the total principal, interest, and other earned income, of endowed scholarship funds each year based on June 30 account figures.

The Foundation's spending policy also provides that an annual administrative fee of 1% of the fund will be assessed on all endowed accounts based on their fund balance as of June 30 of each year.

Oregon Revised Statutes 128.305 to 128.336 cited as the Uniform Prudent Management of Institutional Funds Act establishes requirements for the management and expenditure of endowment funds. The Foundation's spending policy provides that the Foundation shall have the authority to spend four percent of endowed scholarship funds, plus 1% for administrative costs, each year subject to the guidelines set by individual donors.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in a checking account and money market accounts.

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Realized and unrealized gains and losses are reflected in the statement of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by the passage of time or by use) in the reporting period in which the income and gains are recognized.

Real Property Available for Sale

Real property available for sale is reported at its estimated fair value as of June 30, 2011.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Promises to give which are, in substance, unconditional are recorded as unrestricted, temporarily restricted, or permanently restricted support at the time the promise is made.

All donor-restricted support is reported as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services

The Foundation receives donated services from the College in the form of management and administrative personnel support. Revenues and expenses for these services are reflected in the statement of activities based on compensation and fringe benefits paid to College personnel. The College also provides facilities for the operation and administration of the Foundation's activities. The estimated fair value for the use of these facilities is not reflected in the financial statements.

Deferred Revenue

Revenue that has been raised for future fund raising events is deferred and recognized in the period to which it relates.

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd)

Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Foundation is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and is exempt from Oregon excise taxes under applicable state law.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following deposits with financial institutions at June 30, 2011:

Checking account	\$ 26,573
Money market accounts	<u>99,654</u>
Total cash and cash equivalents	<u><u>\$ 126,227</u></u>

The Foundation maintains bank accounts at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Amounts on deposit may at times exceed FDIC coverage.

3. INVESTMENTS

Investments are stated at fair value and consist of investments totaling \$54,962 in equity and debt mutual funds at June 30, 2011.

The following summary summarizes the investment return and its classification in the statement of activities. Investment earnings include revenues from the Foundation's checking account, money market accounts, certificates of deposit, and equity and debt mutual funds.

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Investment earnings	\$ 6	\$ 3,580	\$ 14	\$ 3,600
Net unrealized gains on investments	<u>-</u>	<u>2,981</u>	<u>920</u>	<u>3,901</u>
Total	<u><u>\$ 6</u></u>	<u><u>\$ 6,561</u></u>	<u><u>\$ 934</u></u>	<u><u>\$ 7,501</u></u>

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011

3. INVESTMENTS (Contd)

During the year, \$3,886 in mutual funds was liquidated to fund scholarships.

The Foundation's investments are in two equity and debt mutual funds. The Foundation's investments are subject to market fluctuations which could dramatically affect the fair value of these assets. The Foundation's investments are held by third-party custodians and are subject to custodial risk.

4. REAL PROPERTY AVAILABLE FOR SALE

In May 2007, a resident of the State of Oregon donated real property located in the City of Klamath Falls, Oregon to the Foundation. The property consists of one-plus adjacent residential lots with an estimated fair value of \$54,290 as of June 30, 2011. The donor asks that any proceeds received from the sale of the real property are to be dedicated to the Foundation's building fund.

5. TEMPORARILY RESTRICTED NET ASSETS

Net assets include temporarily restricted funds. Temporarily restricted net assets consist of the following for periods after June 30, 2011:

Scholarships	\$ 41,471
Building fund	58,074
Other	<u>86</u>
Total	<u>\$ 99,631</u>

Net assets of \$59,392 were released from temporarily restricted net assets for scholarships and college support during the year.

6. PERMANENTLY RESTRICTED NET ASSETS

Net assets include permanently restricted funds for endowments. The purpose of these funds is to provide exclusively for scholarships. Permanently restricted net assets at June 30, 2011 consist of four endowments totaling \$128,883.

7. FAIR VALUE MEASUREMENTS

The Foundation follows the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. In accordance with FASB ASC 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to satisfy a liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a framework for measuring fair value and a three level hierarchy for fair value

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011

7. FAIR VALUE MEASUREMENTS (Contd)

measurements based upon observable and unobservable input valuation techniques. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect significant market assumptions including those made by the reporting entity. The three level hierarchy is summarized as follows:

- Level 1 - Quoted prices in active markets for identical securities
- Level 2 - Other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.)
- Level 3 - Significant unobservable inputs (including the reporting entity's own assumptions in determining the fair value of investments)

Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Foundation's investments at June 30, 2011 consist of \$54,962 in equity and debt mutual funds. The Foundation's investments in equity and debt mutual funds are reported at fair value using quoted market prices in active markets for identical securities. This measurement is a Level 1 input which is considered to be the most objective standard for fair value measurement.

Real property available for sale of \$54,290 at June 30, 2011 is reported at estimated fair value based upon a Level 3 measurement. Changes during the 2010-11 year were as follows:

Property available for sale, beginning of year	\$ 70,500
Unrealized loss in fair value	<u>(16,210)</u>
Property available for sale, end of year	<u>\$ 54,290</u>

8. ACTIVITY BY ENDOWMENT

<u>Funds and Endowments</u>	<u>Beginning</u> <u>Net Assets</u>	<u>Additions</u>	<u>Scholarships</u> <u>and Contributions</u>	<u>Investment</u> <u>Earnings/<Losses></u>	<u>Other</u> <u>Expenses</u>	<u>Ending</u> <u>Net Assets</u>
General Fund	\$ 5,272	\$ 18,354	\$ (3,681)	\$ 6	\$ (13,086)	\$ 6,865
Building Funds	74,259	25	-	(16,210)	-	58,074
General Scholarships	37,957	26,124	(40,640)	172	-	23,613
Erin Andrews Endowment	22,257	475	-	139	(225)	22,646
Susan K. Channell Scholarship Fund	11,857	-	(150)	84	-	11,791
Masami Foods Scholarship Fund	78,887	-	(3,886)	4,598	-	79,599
Ron and Myrtle Mason Scholarship Fund	8,118	-	(300)	2,345	(101)	10,062
Soroptimist Scholarship Fund	21,734	3,000	(2,000)	130	(221)	22,643
Other Designated Funds	2,500	10,000	(12,416)	2	-	86
Total Designated Funds and Endowments	<u>\$262,841</u>	<u>\$ 57,978</u>	<u>\$ (63,073)</u>	<u>\$ (8,734)</u>	<u>\$ (13,633)</u>	<u>\$235,379</u>

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011

9. SUBSEQUENT EVENTS

The Foundation evaluated subsequent events for potential required disclosure through February 9, 2012, which is the date the financial statements were available to be issued.

On October 17, 2011, the Foundation adopted a revised Policy and Practices Manual in addition to an Investment Policy Statement (IPS).

Some of the changes to the Policy and Practices Manual included the addition of an "Emeritus Membership" status, an update of the "Fund Disbursement Policy", and a modification to the "Life Insurance" section. After adopting the Policy and Practices Manual and the IPS, the Foundation subsequently voted to suspend sections of the IPS pertaining to "Investment Objectives", "Asset Allocation", and "Portfolio Rebalancing" through June 30, 2012 due to the current limited dollar amount of investments held by the Foundation.