

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

FINANCIAL STATEMENTS

Year Ended June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

January 28, 2013

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, 2012, 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, 2012, 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, 2012

Assets

Cash and cash equivalents	\$ 135,978
Investments	55,809
Accounts receivable	23
Prepaid expenses	648
Other assets	6,840
Real property available for sale	<u>38,540</u>
Total assets	<u><u>\$ 237,838</u></u>

Liabilities and Net Assets

Liabilities	<u>\$ -</u>
Net assets:	
Unrestricted	15,516
Temporarily restricted	92,452
Permanently restricted	<u>129,870</u>
Total net assets	<u>237,838</u>
Total liabilities and net assets	<u><u>\$ 237,838</u></u>

The accompanying notes are an integral part of this statement.

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 901	\$ 24,553	\$ 1,000	\$ 26,454
Noncash contributions	6,840	-	-	6,840
Donated services	32,539	-	-	32,539
Investment earnings	6	3,222	29	3,257
Net unrealized gains on investments	-	2,485	-	2,485
Special events	11,633	15,411	-	27,044
Endowment administration	545	(545)	-	-
Net assets released from restrictions	31,943	(31,901)	(42)	-
Total revenues, gains and other support	84,407	13,225	987	98,619
Expenses and losses:				
Program services:				
Scholarships	31,943	-	-	31,943
Special events	7,663	-	-	7,663
Net realized losses on investments	-	4,654	-	4,654
Total program services	39,606	4,654	-	44,260
Supporting services:				
General administration	3,611	-	-	3,611
Donated services	32,539	-	-	32,539
Total supporting services	36,150	-	-	36,150
Unrealized loss in fair value of property available for sale	-	15,750	-	15,750
Total expenses and losses	75,756	20,404	-	96,160
Change in net assets	8,651	(7,179)	987	2,459
Net assets, beginning of year	6,865	99,631	128,883	235,379
Net assets, end of year	\$ 15,516	\$ 92,452	\$ 129,870	\$ 237,838

The accompanying notes are an integral part of this statement.

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2012

Cash flows from operating activities:	
Revenues collected:	
Public support	\$ 53,375
Investment earnings	3,257
Expenses paid:	
Program services	(40,254)
Supporting services	<u>(3,611)</u>
Net cash provided by operating activities	<u>12,767</u>
Cash flows from investing activities:	
Sale of investments	19,775
Purchase of investments	(19,789)
Investment earnings reinvested in investments	<u>(3,002)</u>
Net cash used in investing activities	<u>(3,016)</u>
Net increase in cash and cash equivalents	9,751
Cash and cash equivalents, beginning of year	<u>126,227</u>
Cash and cash equivalents, end of year	<u><u>\$ 135,978</u></u>
Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets	<u>\$ 2,459</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized loss in fair value of property available for sale	15,750
Donated services revenues	(32,539)
Donated services expenses	32,539
Noncash contributions	(6,840)
Net realized losses on investments	4,654
Net unrealized gains on investments	(2,485)
Decrease in accounts receivable	377
Increase in prepaid expenses	(648)
Decrease in deferred revenue	<u>(500)</u>
Total adjustments	<u>10,308</u>
Net cash provided by operating activities	<u><u>\$ 12,767</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, 2012

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 requirements 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, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd)

Investment Policy/Spending Policy

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

The investment policy of the Foundation is to provide for safety of principal through diversification in a portfolio of investments which may reflect varying rates of return. In addition, it is the intention of the Trustees to grow the corpus of the Foundation in real, inflation-adjusted terms after required spending and expenses of the Foundation. The assets of the Foundation will be managed for "total return" which includes both income received as well as capital appreciation. The overall rate of return objective for the portfolio is a reasonable inflation-adjusted rate consistent with the risk levels established by the Trustees and consistent with the objective of achieving real growth in Foundation assets.

The Foundation's investment objectives are as follows:

- The investments should achieve a return in excess of "market." The minimum average annual return objective for the Foundation portfolio is the Consumer Price Index plus 5.0%.
- The investments should experience no more risk (as defined by volatility and variability of return) than 115% of the "market."
- The investments should 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 have the authority to spend available funds based on the balance available for distribution based on terms of gift instrument or endowment policy.
- Board approval is required for appropriation of available funds.

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd)

Investment Policy/Spending Policy (Contd)

- 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 December 31 account figures.
- Distributions from a permanently endowed fund whose market value is less than the historical gift value will be suspended until such time the market value exceeds the historical gift value.
- The Foundation Board may appropriate (based on ORS 128.322) for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established. ORS 128.322 is within Oregon Revised Statutes 128.305 to 128.336 cited as the Uniform Prudent Management of Institutional Funds Act which establishes requirements for the management and expenditure of endowment funds.

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 December 31 of each year, unless otherwise waived by the Foundation.

Cash and Cash Equivalents

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

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, 2012.

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd)

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.

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.

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2012

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following deposits with financial institutions at June 30, 2012:

Checking account	\$ 36,098
Money market accounts	<u>99,880</u>
Total cash and cash equivalents	<u><u>\$ 135,978</u></u>

The Foundation maintains bank accounts at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). At no time during the year did deposits exceed FDIC coverage.

3. INVESTMENTS

Investments are stated at fair value and consist of investments totaling \$55,809 in equity and debt mutual funds at June 30, 2012.

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, and equity and debt mutual funds.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment earnings	\$ 6	\$ 3,222	\$ 29	\$ 3,257
Net unrealized gains on investments	-	2,485	-	2,485
Net realized losses on investments	<u>-</u>	<u>(4,654)</u>	<u>-</u>	<u>(4,654)</u>
Total	<u><u>\$ 6</u></u>	<u><u>\$ 1,053</u></u>	<u><u>\$ 29</u></u>	<u><u>\$ 1,088</u></u>

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 real market value per the Klamath County Assessor of \$38,540 as of June 30, 2012. The donor asks that any proceeds received from the sale of the real property are to be dedicated to the Foundation's building fund.

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2012

5. TEMPORARILY RESTRICTED NET ASSETS

Net assets include temporarily restricted funds. Temporarily restricted net assets consist of the following for periods after June 30, 2012:

Scholarships	\$ 50,033
Building fund	42,333
Other	<u>86</u>
Total	<u>\$ 92,452</u>

Net assets of \$31,943 were released from temporarily restricted net assets for scholarships 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, 2012 consist of four endowments totaling \$129,870. Net assets of \$42 were released from permanently restricted net assets to temporarily restricted net assets during the year.

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 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)

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2012

7. FAIR VALUE MEASUREMENTS (Contd)

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, 2012 consist of \$55,809 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 \$38,540 at June 30, 2012 is reported at estimated fair value based upon a Level 3 measurement. Changes during the 2011-12 year were as follows:

Property available for sale, beginning of year	\$ 54,290
Unrealized loss in fair value	<u>(15,750)</u>
Property available for sale, end of year	<u><u>\$ 38,540</u></u>

8. ACTIVITY BY ENDOWMENT

<u>Funds and Endowments</u>	<u>Beginning Net Assets</u>	<u>Additions</u>	<u>Scholarships</u>	<u>Investment Earnings- (Losses)</u>	<u>Other Expenses</u>	<u>Ending Net Assets</u>
General Fund	\$ 6,865	\$ 19,919	\$ -	\$ 6	\$(11,274)	\$ 15,516
Building Funds	58,074	-	-	(15,741)	-	42,333
General Scholarships	23,613	37,664	(25,262)	27	-	36,042
Erin Andrews Endowment	22,646	300	(1,713)	55	(213)	21,075
Susan K. Channell Scholarship Fund	11,791	-	(200)	29	-	11,620
Masami Foods Scholarship Fund	79,599	-	(3,180)	1,819	-	78,238
Ron and Myrtle Mason Scholarship Fund	10,062	-	-	(905)	(91)	9,066
Soroptimist Scholarship Fund	22,643	3,000	(1,588)	48	(241)	23,862
Other Designated Funds	<u>86</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86</u>
Total Designated Funds and Endowments	<u><u>\$ 235,379</u></u>	<u><u>\$ 60,883</u></u>	<u><u>\$(31,943)</u></u>	<u><u>\$(14,662)</u></u>	<u><u>\$(11,819)</u></u>	<u><u>\$ 237,838</u></u>

9. SUBSEQUENT EVENTS

The Foundation evaluated subsequent events for potential required disclosure through January 28, 2013, which is the date the financial statement were available to be issued.