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

FINANCIAL STATEMENTS

Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

December 2, 2013

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

We have audited the accompanying financial statements of Klamath Community College Foundation, Inc. (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance 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, 2013

Assets		
Cash and cash equivalents	$	136,261
Investments		82,530
Prepaid expenses		791
Real property available for sale		32,760
Total assets	$	252,342
Liabilities and Net Assets		
Liabilities - deferred revenue	$	100
Net assets:		
Unrestricted		14,244
Temporarily restricted		97,115
Permanently restricted		140,883
Total net assets		252,242
Total liabilities and net assets	$	252,342

The accompanying notes are an integral part of this statement.

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions of cash and stock	$ 5,900	$ 32,278	$ 11,000	$ 49,178
Contributions of other property	700	-	-	700
Donated services	33,983	-	-	33,983
Investment earnings	2	2,915	13	2,930
Net unrealized gains on investments	-	5,121	-	5,121
Special events	14,665	9,010	-	23,675
Endowment administration	704	(704)	-	-
Net assets released from restrictions	38,142	(38,142)	-	-
Total revenues, gains and other support	94,096	10,478	11,013	115,587
Expenses and losses:				
Program services:				
Scholarships	38,142	-	-	38,142
Special events	11,478	-	-	11,478
Noncash college support	7,540	-	-	7,540
Total program services	57,160	-	-	57,160
Supporting services:				
General administration	4,225	35	-	4,260
Donated services	33,983	-	-	33,983
Total supporting services	38,208	35	-	38,243
Unrealized loss in fair value of property available for sale	-	5,780	-	5,780
Total expenses and losses	95,368	5,815	-	101,183
Change in net assets	(1,272)	4,663	11,013	14,404
Net assets, beginning of year	15,516	92,452	129,870	237,838
Net assets, end of year	$ 14,244	$ 97,115	$ 140,883	$ 252,242

The accompanying notes are an integral part of this statement.

KLAMATH COMMUNITY COLLEGE FOUNDATION, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2013

Cash flows from operating activities:	
Revenues collected:	
Public support	$ 53,738
Investment earnings	2,930
Expenses paid:	
Program services	(49,763)
Supporting services	(4,260)
Net cash provided by operating activities	2,645
Cash flows from investing activities:	
Investment earnings reinvested in investments	(2,362)
Net increase in cash and cash equivalents	283
Cash and cash equivalents, beginning of year	135,978
Cash and cash equivalents, end of year	$ 136,261
Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets	$ 14,404
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized loss in fair value of property available for sale	5,780
Donated services revenues	(33,983)
Donated services expenses	33,983
Contributions of stock	(19,238)
Contributions of other property	(700)
Noncash college support	7,540
Net unrealized gains on investments	(5,121)
Decrease in accounts receivable	23
Increase in prepaid expenses	(143)
Increase in deferred revenue	100
Total adjustments	(11,759)
Net cash provided by operating activities	$ 2,645

The accompanying notes are an integral part of this statement.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd)

Investment Policy/Spending Policy

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.
- 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd)

Investment Policy/Spending Policy (Contd)

- 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, 2013.

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. The Foundation has been classified as an organization that is not a private foundation under Section 509(a)(2).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd)

Income Taxes (Contd)

The Foundation's tax exempt status can be revoked by the Internal Revenue Service as a result of direct violations of laws and regulations governing 501(c)(3) organizations. It is the Foundation's policy, therefore, to maintain strict adherence to these laws and regulations in order to maintain its tax-exempt status and to engage only in activities related to their exempt purpose.

Income from activities not directly related to performance of the Foundation's tax-exempt purposes could be subject to taxation as unrelated business income. The Foundation has evaluated each of its sources of income and believes that none of them meet the Internal Revenue Service definition of unrelated business income; therefore, no entries have been made in these financial statements to recognize potential income tax liability. The Foundation's tax returns for years prior to the year ended June 30, 2010 are generally no longer subject to examination by taxing authorities.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following deposits with financial institutions at June 30, 2013:

Checking account	$ 35,852
Money market accounts	100,409
Total cash and cash equivalents	$ 136,261

The Foundation maintains a checking account at a financial institution insured by the Federal Deposit Insurance Corporation (FDIC). The balance in the checking account per the bank's records at June 30, 2013 was $36,009. At no time during the year did deposits in the checking account exceed FDIC coverage. Amounts held in money market funds are not federally insured.

3. INVESTMENTS

Investments are stated at fair value and consist of investments totaling $82,530 in equity and debt mutual funds and common stock at June 30, 2013.

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, equity and debt mutual funds and common stock.

3. INVESTMENTS (Contd)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment earnings	$ 2	$ 2,915	$ 13	$ 2,930
Net unrealized gains on investments	-	5,121	-	5,121
Total	$ 2	$ 8,036	$ 13	$ 8,051

The Foundation's investments are in two equity and debt mutual funds and one company's common stock. 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 $32,760 as of June 30, 2013. 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, 2013:

Scholarships	$ 60,468
Building fund	36,561
Other	86
Total	$ 97,115

Net assets of $38,142 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, 2013 consist of five endowments totaling $140,883.

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 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, 2013 consist of $82,530 in equity and debt mutual funds and common stock. The Foundation's investments in equity and debt mutual funds and common stock 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 $32,760 at June 30, 2013 is reported at estimated fair value based upon a Level 3 measurement. Changes during the 2012-13 year were as follows:

Property available for sale, beginning of year	$ 38,540
Unrealized loss in fair value	(5,780)
Property available for sale, end of year	$ 32,760

8. ACTIVITY BY ENDOWMENT

Funds and Endowments	Beginning Net Assets	Additions	Scholarships/ Contributions	Investment Earnings-(Losses)	Other Expenses	Ending Net Assets
General Fund	$ 15,516	$ 55,952	$ (7,540)	$ 2	$(49,686)	$ 14,244
Building Funds	42,333	-	-	(5,772)	-	36,561
General Scholarships	36,042	37,118	(34,216)	2,565	(34)	41,475
TransCanada Scholarships	-	11,156	-	1	(112)	11,045
Erin Andrews Endowment	21,075	1,014	(125)	42	(220)	21,786
Susan K. Channell Scholarship Fund	11,620	-	-	23	-	11,643
Masami Foods Scholarship Fund	78,238	-	(2,800)	3,062	-	78,500
Ron and Myrtle Mason Scholarship Fund	9,066	-	-	2,309	(114)	11,261
Soroptimist Scholarship Fund	23,862	3,000	(1,001)	39	(259)	25,641
Other Designated Funds	86	-	-	-	-	86
Total Designated Funds and Endowments	$237,838	$108,240	$ (45,682)	$ 2,271	$(50,425)	$252,242

9. SUBSEQUENT EVENTS

The Foundation evaluated subsequent events for potential required disclosure through December 2, 2013, which is the date the financial statements were available to be issued.