

KLAMATH - LAKE COUNTIES FOOD BANK

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016



**Klamath - Lake Counties Food Bank
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For the Years Ended June 30, 2017**

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**Klamath - Lake Counties Food Bank
Board of Directors
For the Years Ended June 30, 2017**

<u>Director</u>	<u>Term Expires</u>
John Pellissier / President 9233 Old Fort Rd. Klamath Falls, OR 97601	July 2018
Rob Siems PO Box 339 Klamath Falls, OR 97601	July 2018
Nancy Kandra / Vice President PO Box 572 Merrill, OR 97633	July 2017
Shirley Voight 17217 S. Poe Valley Rd Klamath Falls, OR 97603	July 2018
Brooke Kliewer / Secretary 927 Old Midland Rd. Klamath Falls, OR 97603	July 2019
Dan Gellner 735 Commercial St., #5000 Klamath Falls, OR 97601	July 2019
Nicky Robinson 5664 Mickshelly Circle Klamath Falls, OR 97603	July 2018



Independent Auditors' Report

Board of Directors
Klamath - Lake Counties Food Bank

We have audited the accompanying financial statements of Klamath - Lake Counties Food Bank (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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 - Lake Counties Food Bank as of June 30, 2017 and 2016, and the changes in their net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Molator, Scroggin, Peterson & Co LLP

Certified Public Accountants

Klamath Falls, OR

January 17, 2018

Klamath - Lake Counties Food Bank
Statements of Financial Position
June 30, 2017 and 2016

	Assets	
	2017	2016
Current Assets		
Cash and cash equivalents	\$ 343,451	\$ 314,640
Grocery store gift cards	949	710
Unconditional promises to give, net	1,000	31,245
Inventory	61,929	99,787
Prepaid expenses	20,877	9,470
Total Current Assets	428,206	455,852
Property and Equipment		
Building and improvements	536,103	536,103
Office equipment	41,761	38,490
Equipment	268,586	200,288
Less accumulated depreciation	(403,602)	(371,591)
Net Property and Equipment	442,848	403,290
Other Assets		
Beneficial interest in assets held by the Klamath Community Foundation	12,934	11,638
Total Assets	\$ 883,988	\$ 870,780
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 26,420	\$ 9,889
Accrued liabilities	53,594	43,301
Total Current Liabilities	80,014	53,190
Net Assets		
Unrestricted	792,076	776,907
Temporarily restricted	11,523	40,308
Permanently restricted	375	375
Total Net Assets	803,974	817,590
Total Liabilities and Net Assets	\$ 883,988	\$ 870,780

The accompanying notes are an integral part of these financial statements.

**Klamath - Lake Counties Food Bank
Statement of Activities
For the Year Ended June 30, 2017**

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue and Other Support				
Share contributions	\$ 19,999	\$ -	\$ -	\$ 19,999
Donations - cash	185,580	4,260	-	189,840
Allocations by United Way	35,474	-	-	35,474
Food drives	12,865	-	-	12,865
Initiatives	123,441	-	-	123,441
FEMA	-	3,969	-	3,969
Grants	6,603	81,163	-	87,766
In-kind income - food donations	1,672,128	-	-	1,672,128
Oregon Hunger Response Fund	46,886	-	-	46,886
USDA Reimbursements	15,113	-	-	15,113
Interest income	206	-	-	206
Change in beneficial interest	1,035	-	-	1,035
Miscellaneous income	2,522	-	-	2,522
Net assets released from restrictions	118,177	(118,177)	-	-
Total Revenue and Other Support	<u>2,240,029</u>	<u>(28,785)</u>	<u>-</u>	<u>2,211,244</u>
Expenses				
Program services				
Food distribution	2,084,819	-	-	2,084,819
Supporting services				
Management and general	65,331	-	-	65,331
Fund-raising	74,710	-	-	74,710
Total Expenses	<u>2,224,860</u>	<u>-</u>	<u>-</u>	<u>2,224,860</u>
Increase (decrease) in net assets	15,169	(28,785)	-	(13,616)
Net Assets, Beginning	776,907	40,308	375	817,590
Net Assets, Ending	<u>\$ 792,076</u>	<u>\$ 11,523</u>	<u>\$ 375</u>	<u>\$ 803,974</u>

The accompanying notes are an integral part of these financial statements.

**Klamath - Lake Counties Food Bank
Statement of Activities
For the Year Ended June 30, 2016**

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue and Other Support				
Share contributions	\$ 19,988	\$ -	\$ -	\$ 19,988
Donations - cash	193,516	4,200	-	197,716
Allocations by United Way	27,685	-	-	27,685
Food drives	13,916	-	-	13,916
Initiatives	87,075	-	-	87,075
Grants	12,067	37,367	-	49,434
In-kind income - food donations	1,663,701	-	-	1,663,701
Oregon Hunger Respons Fund	68,008	-	-	68,008
USDA Reimbursements	7,240	-	-	7,240
Interest income	231	-	-	231
Change in beneficial interest	461	-	-	461
Miscellaneous income	763	-	-	763
Net assets released from restrictions	11,588	(11,588)	-	-
Total Revenue and Other Support	<u>2,106,239</u>	<u>29,979</u>	<u>-</u>	<u>2,136,218</u>
Expenses				
Program services				
Food distribution	2,076,688	-	-	2,076,688
Supporting services				
Management and general	69,279	-	-	69,279
Fund-raising	71,768	-	-	71,768
Total Expenses	<u>2,217,735</u>	<u>-</u>	<u>-</u>	<u>2,217,735</u>
Increase (decrease) in net assets	(111,496)	29,979	-	(81,517)
Net Assets, Beginning	888,403	10,329	375	899,107
Net Assets, Ending	<u>\$ 776,907</u>	<u>\$ 40,308</u>	<u>\$ 375</u>	<u>\$ 817,590</u>

The accompanying notes are an integral part of these financial statements.

Klamath - Lake Counties Food Bank
Statement of Functional Expenses
For the Year Ended June 30, 2017

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 192,605	\$ 28,846	\$ 34,503	\$ 255,954
Payroll taxes	18,446	2,763	3,304	24,513
Employee benefits	21,115	3,162	3,783	28,060
Total Salaries and Related				
Payroll Expenses	232,166	34,771	41,590	308,527
Accounting	-	22,573	-	22,573
Advertising	-	-	28,201	28,201
Awards	-	-	1,567	1,567
Agency accounts paid	19,999	-	-	19,999
Fees	-	1,483	-	1,483
Food purchases	26,363	-	-	26,363
Fuel	3,054	-	-	3,054
In-kind food	1,709,984	-	-	1,709,984
Insurance	8,086	3,259	724	12,069
Meals	2,016	800	148	2,964
Miscellaneous	4,051	-	-	4,051
Occupancy	18,106	373	187	18,666
Postage	18	18	328	364
Repairs	12,801	400	133	13,334
Supplies	8,781	141	470	9,392
Telephone	3,759	248	124	4,131
Travel	1,495	625	598	2,718
Wishes Come True	3,409	-	-	3,409
Total Expenses Before				
Depreciation	2,054,088	64,691	74,070	2,192,849
Depreciation	30,731	640	640	32,011
Total Expenses	<u>\$ 2,084,819</u>	<u>\$ 65,331</u>	<u>\$ 74,710</u>	<u>\$ 2,224,860</u>

The accompanying notes are an integral part of these financial statements.

Klamath - Lake Counties Food Bank
Statement of Functional Expenses
For the Year Ended June 30, 2016

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 204,457	\$ 30,650	\$ 36,850	\$ 271,957
Payroll taxes	20,114	3,015	3,625	26,754
Employee benefits	18,593	2,787	3,351	24,731
Total Salaries and Related Payroll Expenses	243,164	36,452	43,826	323,442
Accounting	-	23,334	-	23,334
Advertising	-	-	22,332	22,332
Awards	-	-	445	445
Agency accounts paid	19,988	-	-	19,988
Fees	-	2,145	-	2,145
Food purchases	50,414	-	-	50,414
Fuel	3,028	-	-	3,028
In-kind food	1,653,492	-	-	1,653,492
Insurance	7,611	3,067	682	11,360
Meals	3,501	1,390	257	5,148
Miscellaneous	3,685	-	-	3,685
Occupancy	19,621	405	202	20,228
Postage	108	108	1,945	2,161
Repairs	23,450	733	244	24,427
Supplies	10,003	160	535	10,698
Telephone	4,950	326	163	5,439
Travel	1,189	497	475	2,161
Wishes Come True	700	-	-	700
Total Expenses Before Depreciation	2,044,904	68,617	71,106	2,184,627
Depreciation	31,784	662	662	33,108
Total Expenses	<u>\$ 2,076,688</u>	<u>\$ 69,279</u>	<u>\$ 71,768</u>	<u>\$ 2,217,735</u>

The accompanying notes are an integral part of these financial statements.

Klamath - Lake Counties Food Bank
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
(Decrease) Increase in Net Assets	\$ (13,616)	\$ (81,517)
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	32,011	33,108
(Increase) decrease in operating assets		
Grocery store gift cards	(239)	(250)
Receivables	30,245	(7,360)
Inventory	37,858	(10,209)
Prepaid expenses	(11,407)	(203)
Net change in beneficial interest in assets held by the Klamath Community Foundation	(1,296)	(261)
Increase (decrease) in liabilities		
Accounts payable	16,532	(568)
Accrued liabilities	10,293	11,726
	<u>100,381</u>	<u>(55,534)</u>
Cash Flows From Investing Activities		
Purchase of fixed assets	<u>(71,570)</u>	<u>(13,976)</u>
	<u>(71,570)</u>	<u>(13,976)</u>
Net Increase (Decrease) in Cash	28,811	(69,510)
Cash - Beginning of Year	<u>314,640</u>	<u>384,150</u>
Cash - End of Year	<u>\$ 343,451</u>	<u>\$ 314,640</u>

The accompanying notes are an integral part of these financial statements.

Klamath - Lake Counties Food Bank
Notes to the Financial Statements
June 30, 2017

Note 1 – Summary of Significant Accounting Policies

Background

Klamath-Lake Counties Food Bank (the Organization) is a not-for-profit, private corporation designed to solicit, store, and distribute food to those with emergency food needs in the Klamath and Lake County regions of Oregon and the northernmost parts of Siskiyou County in California. The Organization was incorporated July 2, 1984. The Organization solicits food from the food industry, conducts general food drives from the public, purchases food with federal, state, and private funds, and receives commodities from the United States Department of Agriculture (USDA) and the Oregon Food Bank, Inc. (OFB).

Basis of Presentation

As a Not-for-Profit Organization, the Organization 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.

Restricted and Unrestricted Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Fair Value of Financial Instruments

The following methods and assumptions were used by the Organization in estimating the fair value of its financial instruments. The carrying amount reported in the balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, accounts receivable, unconditional promises to give, beneficial interest in assets held by the Klamath Community Foundation, accounts payable, and accrued expenses.

Fair Value Hierarchy

All financial assets and liabilities are required to be categorized according to the following:

- Level 1 - using quoted prices in active markets for identical assets
- Level 2 - using significant other observable inputs
- Level 3 - using significant other unobservable inputs

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Donations of commodities are recorded as support at their estimated fair value, based on information provided by Feeding America and the OFB, which information has been reported on by another independent firm of certified public accountants. The organization has estimated the average fair value of commodities donated by the public to be \$1.25 per pound at June 30, 2017 and \$1.25 per pound at June 30, 2016. Certain commodities received from the OFB have been recorded based on the OFB's estimation of their value. Certain other commodities received from the federal government are recorded at the estimated fair value provided by the USDA. Federal Emergency Management Agency (FEMA) foods and any other food purchased by the Organization are valued at cost.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization maintains the majority of its funds with one bank. All deposits were covered by FDIC insurance for the years ended June 30, 2017 and 2016.

Klamath - Lake Counties Food Bank
Notes to the Financial Statements
June 30, 2017

Note 1 – Summary of Significant Accounting Policies *(continued)*

Accounts Receivable

Management believes that all share fees, grants and contributions receivable as of June 30, 2017 and 2016 were fully collectible; therefore, no allowance for doubtful accounts was recorded. The Organization does not charge share fees to the agencies receiving food.

Where needed, the Organization will allocate restricted grants, in the form of credit memos, to agencies, using FEMA and private funds to cover the share fees. No formal grant procedure other than board approval is required. Agency receivables with credit balances have been included as a current liability in “Agency deposits” in the accompanying statement of financial position. The Organization does not require collateral from its customers and does not charge interest.

Inventory

Inventory, determined by the first-in, first-out method, consists of donated goods, commodities received from the OFB and government agencies, and purchased food. The portion of the donated goods inventory related to community donations is stated at \$1.25 and \$1.25 per pound, the estimated fair value of the donation for both the years ended June 30, 2017 and 2016 respectively. The value of items received from the OFB as supplemental items are valued by the OFB. The value of commodities, donated through the USDA, is stated at the estimated fair value provided by the USDA. Purchased food inventory is stated at cost.

Property and Depreciation

Property and equipment is stated at cost or, if donated, at the approximate fair value at the date of donation. The Organization has elected to capitalize equipment with a cost greater than \$500. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range as follows:

	<u>Years</u>
Office Equipment	5-7
Machinery and Equipment	5-10
Building and Improvements	10-39

Donated Assets

Donated food, marketable securities, and other noncash donations are recorded as contributions at estimated fair value at the date of donation. All food (purchased and donated) is recorded as an expense when it is distributed. Differences appear as changes to inventory on the statement of cash flows. Donated fixed assets affect the statement of cash flows as gains in operating assets.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. It is the Organization’s policy to expend all eligible restricted funds first.

U.S. Government Programs

The Organization is considered a Regional Food Bank (RFB). As such it has entered into a contract with the OFB, the State Coordinating Agency (SCA). The Organization has also entered into contracts with Local Member Agencies (LMA) for the distribution of food and commodities to the LMA’s clients.

The Organization submits reimbursement requests to the OFB covering their storage and distribution expenses. Reimbursement for these expenses, up to the allocated amount of funds available, represents grants of federal funds to sub-recipients. Direct costs of storage and distribution for the USDA commodities incurred by the Organization are reimbursed by the State of Oregon using funds provided by the USDA through The Emergency Food Assistance Program (TEFAP), and the Commodity Supplemental Food Program (CSFP).

Continued funding levels of the emergency food assistance programs are subject to annual renewal by the Congress of the United States.

Klamath - Lake Counties Food Bank
Notes to the Financial Statements
June 30, 2017

Note 1 – Summary of Significant Accounting Policies *(continued)*

Contributed Services

During the years ended June 30, 2017 and 2016, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization at both the Organization's location as well as at LMA sites, but these services do not meet the criteria for recognition as contributed services.

The Organization received 1,763 hours directly in 2017 and 1,642 hours directly in 2016. The LMAs received 18,274 hours directly in 2017 and over 20,794 hours directly in 2016.

Expense Allocation

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

Tax-Exempt Status

The Organization is a tax-exempt organization as defined by Internal Revenue Code Section 501(c)(3) for federal tax purposes and has been classified as an organization that is not a private foundation under Section 509(a)(2). It is also tax-exempt for state purposes and reports annually to the Oregon Department of Justice, Charitable Trust Section. There was no unrelated business income for 2017 or 2016. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization's federal Exempt Organization returns (Form 990) for the years ended since June 30, 2014 are subject to examination by the IRS, generally for three years after they are filed.

Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expense for the year ended June 30, 2017 was \$28,201 and for the year ended June 30, 2016 was \$22,332.

Note 2 – Promises to Give

Unconditional promises to give consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
United Way	\$ 1,000	\$ 1,016
Oregon Food Bank - OHRF/GFFP	0	18,229
KMSB Foundation	0	12,000
	<u>\$ 1,000</u>	<u>\$ 31,245</u>

Although donor designations to the United Way may vary, differences between the amount allocated and collected from the United Way have historically been insignificant. Accordingly, no provision is made for uncollectible amounts. Uncollectible amounts for other unconditional promises to give are also expected to be insignificant.

There were conditional promises to give of \$1,000 at June 30, 2017 and \$1,016 at June 30, 2016, from the United Way. These promises are conditioned upon the United Way achieving its community goal during the campaigns to be held in the fall of 2017 and 2016, respectively. As such, these amounts are not recognized as income or receivables until the conditions have been satisfied.

Klamath - Lake Counties Food Bank
Notes to the Financial Statements
June 30, 2017

Note 3 – Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
Private Donation - for food purchases with Gift Cards	\$ 949	\$ 710
KMSB Foundation - the purchase of a new refrigerated truck	-	12,000
Oregon Hunger Relief Fund – for program which include salaries of support personnel etc.	-	18,229
Wishes Come True Donation - for the purchase of items or services for the Wishes Come True events	10,574	9,369
	<u>\$ 11,523</u>	<u>\$ 40,308</u>

All funds listed above are temporarily restricted to be used for the purposes noted above.

Permanently restricted net assets consist of amounts that were received from donors restricting their use to the creation of a permanent endowment. These consist of the following:

	<u>2017</u>	<u>2016</u>
Endowment Funds	<u>\$ 375</u>	<u>\$ 375</u>

Note 4 – Concentration of Credit Risk

The Organization received approximately 72% of its food donations in 2017 and 56% in 2016 from the OFB with an estimated fair value totaling \$1,210,834, and \$928,241, respectively.

Also, the Organization received approximately 15% of its cash donations in 2017 and 12% in 2016 from the OFB with amounts of \$64,800 and \$64,450, respectively.

Note 5 – Related Party

Related parties consist of members of the board of directors and management who are associated with or otherwise do business with the Organization. The Organization had transactions with two businesses associated with new board members during the years ended June 30, 2017 and 2016. This included computer services from an entity associated with one board member totaling \$4,053 during the year ended June 30, 2017. Additionally, the Organization receives advertising services from a business associated with a second board member totaling \$6,315 and \$4,544 for the years ended June 30, 2017 and 2016, respectively.

Note 6 – Endowment Fund - Beneficial Interest in Assets Transferred

The Organization's endowment consists of funds from donors that had a restriction on their use but allowed for the use of their income or growth to fund the ongoing operations. Additionally, the Organization's Board approved a transfer of \$10,000 from unrestricted funds to start the endowment. As required by generally accepted accounting principles, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions

Klamath - Lake Counties Food Bank
Notes to the Financial Statements
June 30, 2017

Note 6 – Endowment Fund – Beneficial Interest in Assets Transferred *(continued)*

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund that is not classified in permanently restricted net assets is classified as either unrestricted net assets or temporarily restricted net assets based on the following. It is classified as unrestricted net assets to the extent of the original board contribution. Any remaining amount in the fund which consists of the growth is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

The Organization has a spending policy of appropriating for distribution each year between 4-5% of its endowment fund as needed for operations. In establishing this policy, the Organization considered the long-term expected investment return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its general endowment fund to grow and allow it to keep up with expected inflation. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as provide additional real growth through investment return.

To achieve that objective, the Organization has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. This was done by establishing an endowment fund with the Klamath Community Foundation. The Klamath Community Foundation invests these assets in a well-diversified asset mix which includes debt and equity securities, and other investment assets, that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions at the desired rate. Accordingly, the Organization expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund, investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

The transfers to the Klamath Community Foundation were made with the understanding that the Organization would receive annual distributions of these funds in the 4-5% per year range based on the determination of the Klamath Community Foundation's board. Additionally, the Organization can request return of any additional funds with a majority vote of the Organization's board of directors and advance notice to and approval of the board of directors of the Klamath Community Foundation. At the time of the transfer, the Organization granted variance power to Klamath Community Foundation. That power gives the Klamath Community Foundation the right to distribute the investment income to another not-for-profit with similar objectives and purposes selected by the Klamath Community Foundation in its sole discretion, after consulting with and seeking the advice of such members of the board of directors of the Organization.

Klamath - Lake Counties Food Bank
Notes to the Financial Statements
June 30, 2017

Note 6 – Endowment Fund – Beneficial Interest in Assets Transferred *(continued)*

Changes in endowment net assets as of June 30, 2017 and 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, June 30, 2015	\$ 11,002	\$ -	\$ 375	\$ 11,377
Contributions received	-	-	-	-
Change in value of beneficial interest	261	-	-	261
Amounts appropriated for expenditure	-	-	-	-
Endowment net assets, June 30, 2016	\$ 11,263	\$ -	\$ 375	\$ 11,638
Contributions received	300	-	-	300
Change in value of beneficial interest	996	-	-	996
Amounts appropriated for expenditure	-	-	-	-
Endowment net assets, June 30, 2017	<u>\$ 12,559</u>	<u>\$ -</u>	<u>\$ 375</u>	<u>\$ 12,934</u>

Note 7 – Fair Value Measurements

Fair value of assets measured on a recurring basis at June 30, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Beneficial interest in assets held by the Klamath Community Foundation	\$ 12,934	\$ 11,638

The table below presents information about the changes in the beneficial interest in assets held by the Klamath Community Foundation for the years ended June 30, 2017 and 2016, which is measured at the fair value of the Organizations interest in the amount that has been advanced to the Klamath Community Foundation. The Klamath Community Foundation reports this value to the Organization on a quarterly basis.

	<u>2017</u>	<u>2016</u>
Endowment net assets, beginning of year	\$ 11,638	\$ 11,377
Contributions received	300	585
Interest & dividends received	1,113	-
Realized gain (loss) on investment	-	-
Investment expense & fees	(117)	(109)
Unrealized gain (loss) on investment	-	(215)
Endowment net assets, end of year	<u>\$ 12,934</u>	<u>\$ 11,638</u>

Klamath - Lake Counties Food Bank
Notes to the Financial Statements
June 30, 2017

Note 8 – Subsequent Events

The Organization has evaluated subsequent events through January 17, 2018, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosures in these financial statements.

