

Kern Community Foundation

Financial Statements

December 31, 2007 and 2006

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Independent Auditors' Report

To The Board of Directors,
Kern Community Foundation
Bakersfield, California

We have audited the accompanying statement of financial position of Kern Community Foundation (a California nonprofit public benefit corporation) as of December 31, 2007 and 2006, and the related statements of activities and change in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Kern Community Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Kern Community Foundation as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Bakersfield, California
May 7, 2008

Kern Community Foundation

*Statements of Financial Position
December 31, 2007 and 2006*

<i>ASSETS</i>	<u>2007</u>	<u>2006</u>
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 20,487	\$ 105,937
Investment funds	14,398,048	11,861,181
Accounts receivable	0	10,000
Prepaid expenses	3,671	3,104
	<u>14,422,206</u>	<u>11,980,222</u>
 <i>Property and Equipment</i> , net of accumulated depreciation	 <u>27,157</u>	 <u>30,419</u>
	<u>\$ 14,449,363</u>	<u>\$ 12,010,641</u>
 <i>LIABILITIES AND NET ASSETS</i>		
<i>Current Liabilities:</i>		
Accounts payable	\$ 15,111	\$ 14,444
Grants payable and refundable advances	416,000	167,500
Funds held for agencies/other	6,230,221	4,654,386
	<u>6,661,332</u>	<u>4,836,330</u>
 <i>Net Assets:</i>		
Unrestricted	 <u>7,788,031</u>	 <u>7,174,311</u>
	<u>\$ 14,449,363</u>	<u>\$ 12,010,641</u>

See Notes to Financial Statements.

Kern Community Foundation

*Statements of Activities and Changes in Net Assets
Years Ended December 31, 2007 and 2006*

	<u>2007</u>	<u>2006</u>
<i>Changes in unrestricted net assets:</i>		
Contributions and bequests raised	\$ 1,726,294	\$ 3,782,674
Management fees	188,076	75,473
Investment income	246,771	161,394
Unrealized gains on investments	548,757	403,279
	<u>2,709,898</u>	<u>4,422,820</u>
<i>Expenses:</i>		
Operating and administrative expenses	194,291	169,583
Program expenses	100,510	87,712
Investment management expense	213,482	84,463
Grants and philanthropic distributions	1,587,895	862,807
	<u>2,096,178</u>	<u>1,204,565</u>
<i>Increase in net assets</i>	613,720	3,218,255
<i>Net assets, beginning of year</i>	<u>7,174,311</u>	<u>3,956,056</u>
<i>Net assets, end of year</i>	<u>\$ 7,788,031</u>	<u>\$ 7,174,311</u>

See Notes to Financial Statements.

Kern Community Foundation

Statements of Cash Flow
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<i>Cash flows from operating activities:</i>		
Increase in net assets	\$ 613,720	\$ 3,218,255
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>		
Depreciation	9,634	8,823
Decrease in accounts receivable	10,000	0
Increase in prepaid expense	(567)	(224)
Increase in accounts payable and accrued expenses	667	557
Increase in funds held for agencies/others	1,575,835	1,169,719
Increase in grants payable and refundable advances	248,500	58,770
Net unrealized gains on investments	(474,976)	(403,279)
Net cash provided by operations	<u>1,982,813</u>	<u>4,052,621</u>
<i>Cash flows used in investing activities:</i>		
Net purchases of investments	(2,061,891)	(3,953,695)
Purchase of property and equipment	(6,372)	0
Net cash used in investing activities	<u>(2,068,263)</u>	<u>(3,953,695)</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(85,450)	98,926
<i>Cash and cash equivalents at beginning of year</i>	<u>105,937</u>	<u>7,011</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 20,487</u></u>	<u><u>\$ 105,937</u></u>

See Notes to Financial Statements.

Kern Community Foundation

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of services provided:

Kern Community Foundation (the Organization) is a nonprofit public benefit corporation which was incorporated for charitable purposes in the State of California under the Nonprofit Public Benefit Corporation Law. Prior to December 14, 2005, the Organization was known as Kern County Community Foundation.

The Organization's primary purpose is to provide a conduit for philanthropy which is intended to benefit the county of Kern and such other areas. Consistent with the Organization's organizational philosophy that philanthropy is both the art and the science of recognizing and encouraging the human values within a community, the Organization becomes the enabling vehicle by providing charitable tax deductions for contributions received in connection with highly individualized giving programs. The Organization provides investment management oversight for all funds under its stewardship and assures that these funds receive diversified and comprehensive investment management provided by a consortium of the largest banking and brokerage companies in the United States, contracted through the California Community Foundation and affiliates based in Los Angeles, California, a community foundation which manages over one billion dollars of assets, including those held on behalf of the Organization.

Funding the Organization comes from grants from private philanthropic foundations, from the California Community Foundation, from members of the community, from contributions from Board members, from funds held and managed for agencies and others, and other activities. However, the majority of funding has been from donor contributions which designate or direct one or more areas of focus, where the donor specifies whether income or principal or both shall be used for making grants and philanthropic distributions to the areas of focus. Also, operating funds were derived from competitively priced investment management fees related to some of the funds under management.

Method of accounting:

Assets and liabilities, and revenue and expenses are recognized on the accrual basis of accounting.

Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Notes to Financial Statements

Cash and cash equivalents:

For purposes of reporting cash flows, all money market accounts and highly liquid investments with a maturity of three months or less at the time of purchase are considered to be cash equivalents.

Account receivable:

Account receivable is stated at the amount management expects to collect from outstanding balances. Based on management's assessment of receivables, it has concluded that an allowance is not necessary. Accounts receivable consisted of a grant from the California Community Foundation in lieu of additional management fees.

Variance power:

The articles of incorporation of the Organization include a variance provision giving the Board of Directors the power to modify any restriction or condition placed on gift to the Organization, including those with donor-imposed restrictions, if, in its sole judgment, the Board determines that the restriction becomes, in effect, incapable of fulfillment or inconsistent with the charitable needs of the community. The Organization's governing documents further provide that absent contrary directions given in the transferring instrument regarding the use of the principal, all or part of the principal of any fund may be used subject to certain conditions, including approval of the Board of Directors and Trustee holding each fund. Accordingly, such contributions are reported as unrestricted net assets.

Basis of presentation:

Financial statement presentation follows the guidance of Statement of Financial Accounting Standards (SFAS) No. 117 Financial Statements of Not-For-Profit Organizations. According to this guidance, the Organization is required to report information regarding its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. During the years ended December 31, 2007 and 2006 all net assets were unrestricted.

The Organization also follows SFAS No. 136, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others. SFAS No. 136 establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to an entity that is specified by the donor. SFAS No. 136 specifically requires that if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself or its affiliate as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability (Note 4)

Investments:

Investments in all debt securities and equity securities with readily determinable market values are recorded at fair market value, in accordance with SFAS No.124, Accounting for Certain Investment Held by Not-for-Profit Organizations. Investments are made according to the Investment Objectives and Policies adopted by the California Community Foundation's Board of Governors, and in turn adopted by the Board of Directors of the Kern Community Foundation. These guidelines provide for investment in equities and

Notes to Financial Statements

fixed income securities with performance measured against appropriate indices. Securities are held in custodial investment accounts administered by certain financial institution.

Outside parties are contracted by the California Community Foundation for the purpose of investment management and consulting. The California Community Foundation maintains master investment accounts for all the Organization's accounts, including those that are donor-designated and/or directed accounts and Board-designated endowments. Realized and unrealized gains and losses from securities in the master investment accounts are allocated quarterly to the individual accounts based on the relationship of the market value of each account to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts. Because of this "pooling" of investments with the California Community Foundation, the Organization does not disclose the carrying amounts of each major type of security, such as equity securities, U.S. Treasury securities, debt securities, oil and gas properties, and real estate.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Donated services:

It is the policy of the Organization to record a value for contributed services when such services require a special skill or enhance a non-financial asset. No amounts have been reflected in the financial statements for donated volunteer time, since no objective basis is available to measure the value of such services; however, volunteers and Board members have donated time in the accomplishment of program objectives.

Property and equipment:

Donated property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. If the donor does not stipulate how long those donated assets are to be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Purchased assets are recorded at cost. The Organization reclassifies temporarily restricted net assets to unrestricted assets at that time. Depreciation is computed on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Office equipment	5
Furnishings	7

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. The Organization follows the practice of capitalizing all expenditures for equipment and furnishings in excess of \$500. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Notes to Financial Statements

Contributions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unrestricted contributions are recognized as an increase in unrestricted net assets when received. However, temporarily restricted, or permanently restricted support may be recorded, depending on the existence and/or nature of any donor restrictions which are not subject to the variance power established by the Organization's governing documents. When restrictions are satisfied, either by the passage of time or by the accomplishment of purpose, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the activity statement as net assets released from restrictions. When restrictions are satisfied in the same accounting period as the receipt of the contribution, the Organization reports both the revenue and the related expense in the unrestricted net assets class.

Income taxes:

The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code of the State of California. Since the Organization is exempt from income tax liability, no provision is made for current or deferred income tax expense. Annual income returns filed with Federal and state governments use the same accounting methods as those used for financial reporting.

Reclassifications:

Certain reclassifications have been made to the 2006 financial statements in order to conform to the 2007 presentation.

Note 2. Property and Equipment

Property and equipment at December 31, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Office equipment	\$ 40,436	\$ 34,064
Furnishings	14,675	14,675
	55,111	48,739
Less accumulated depreciation	(27,954)	(18,320)
	<u>\$ 27,157</u>	<u>\$ 30,419</u>

Note 3. Grants Payable and Refundable Advances

Grants payable are recorded when a specific grant has been authorized by the Board of Directors of the Organization or when the grant award is communicated to the grantee. Grants that are expected to be paid in future periods are recorded at net present value. Refundable advances are funds received in advance from other foundations for re-granting by the Organization in accordance with the timing and parameters specified by the donor foundations, but where the grants have not yet been awarded.

Notes to Financial Statements

Note 4. Funds Held for Agencies/Others

The Organization receives and distributes assets under certain agency arrangements. The balances at December 31, 2007 and 2006 were \$6,230,221 and \$4,654,386, respectively. The balances are identified as a "Funds held for agencies/others" liability in the statements of financial position.

Note 5. Designated Net Assets

The following have been designated by donors or the Board of Directors as permanent endowments, subject to the variance power as described in the Organization's Article of Incorporation (see Note 1), as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Program services:		
Board designated permanent endowments	\$ 4,586,176	\$ 3,860,462

Note 6. Concentrations

Contributions:

For the year ended December 31, 2007, there were no contributions received that were greater than 10% of the Organization's total contribution revenues. For the year ended December 31, 2006, approximately 70%, or \$2,654,675, of the Organization's total contribution revenues was from a grant from the SCE Kern River No. 3 Hydroelectric Project Fund. .

Note 7. Related Party Transactions

John G. Pryor, CPCU, former Member of the Board, resignation effective January 10, 2007, has an ownership interest in KIA Insurance Associates, which sold \$5,011 and \$4,455 of insurance coverage to the Organization for the years ended December 31, 2007 and 2006, respectively.

Note 8. Commitments

Grants:

The Directors of the Weingart Foundation approved a three year \$486,000 conditional Grant to the Organization on November 17, 2005. Following is a schedule of payments, subject to certain conditions being met, to be received in the future:

<u>Year Ending December 31,</u>	
2008	<u>\$ 162,000</u>

Each payment consists of \$112,000 to be re-granted, which includes \$12,000 annually for payment for operating expenses of the Organization, and \$50,000 as part of the endowment program.