

KERN COMMUNITY
FOUNDATION

Growing community.
Growing philanthropy.

**CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2019**

**KERN COMMUNITY FOUNDATION
AND AFFILIATES**

**CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2019**

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SHANNON M. WEBSTER

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
**Kern Community Foundation
and Affiliates**
Bakersfield, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **Kern Community Foundation and Affiliates**, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 our audits 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 **Kern Community Foundation and Affiliates** as of December 31, 2019 and 2018, and the changes in its net assets, cash flows, and its functional expenses for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Daniells Phillips Vaughan & Bock

Bakersfield, California

August 3, 2020

**KERN COMMUNITY FOUNDATION
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018**

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	\$ 6,210,585	\$ 5,120,224
Contributions receivable, less unamortized discounts, 2019 \$3,177; 2018 \$3,704 (Note 4)	14,833	33,206
Prepaid expenses	35,642	48,197
Total current assets	6,261,060	5,201,627
Investments (Notes 5 and 6)	21,059,309	15,690,626
Property and Equipment		
Office furniture and equipment	36,095	36,095
Less accumulated depreciation	35,232	34,080
	863	2,015
Other Assets		
Contributions receivable, less unamortized discounts, 2019 \$71,533; 2018 \$74,938 (Note 4)	111,364	113,870
Total assets	\$ 27,432,596	\$ 21,008,138
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 26,001	\$ 41,031
Accrued expenses	31,375	23,231
Grants payable and refundable advances	168,734	912,339
Funds held for other agencies	3,441,673	2,706,619
Total current liabilities	3,667,783	3,683,220
Commitments (Note 11)		
Net Assets		
With donor restrictions (Note 9)	950,000	950,000
Without donor restrictions	22,814,813	16,374,918
Total net assets	23,764,813	17,324,918
Total liabilities and net assets	\$ 27,432,596	\$ 21,008,138

See Notes to Consolidated Financial Statements.

**KERN COMMUNITY FOUNDATION
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2019 and 2018**

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and public support:			
Contributions:			
Cash	\$ 4,587,711	\$ -	\$ 4,587,711
Securities	1,178,607	-	1,178,607
In-kind (Note 8)	-	-	-
Grant revenue	630,578	-	630,578
Management fee income	357,498	-	357,498
Investment income	483,663	-	483,663
Realized and unrealized gain (loss) on investments (Note 5)	2,578,149	-	2,578,149
Total revenues and public support	9,816,206	-	9,816,206
Expenses:			
Program services	2,574,537	-	2,574,537
Management and general	697,909	-	697,909
Fundraising	103,865	-	103,865
Total expenses	3,376,311	-	3,376,311
Change in net assets	6,439,895	-	6,439,895
Net assets, beginning	16,374,918	950,000	17,324,918
Net assets, ending	\$ 22,814,813	\$ 950,000	\$ 23,764,813

See Notes to Consolidated Financial Statements.

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 1,679,519	\$ -	\$ 1,679,519
973,938	-	973,938
1,468	-	1,468
528,155	-	528,155
335,642	-	335,642
382,212	-	382,212
(930,978)	-	(930,978)
<u>2,969,956</u>	-	<u>2,969,956</u>
2,234,295	-	2,234,295
610,602	-	610,602
91,332	-	91,332
<u>2,936,229</u>	-	<u>2,936,229</u>
33,727	-	33,727
16,341,191	950,000	17,291,191
<u>\$ 16,374,918</u>	<u>\$ 950,000</u>	<u>\$ 17,324,918</u>

**KERN COMMUNITY FOUNDATION
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018**

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 6,439,895	\$ 33,727
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,152	1,225
Net realized and unrealized (gain) loss on investments	(2,578,149)	930,978
Provision for unamortized discounts	(3,932)	(2,087)
Donated assets	(1,178,607)	(973,938)
Changes in assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	24,811	(12,938)
Prepaid expenses	12,555	(1,502)
Increase (decrease) in:		
Accounts payable and accrued expenses	(6,886)	5,714
Grants payable and refundable advances	(743,605)	81,584
Funds held for other agencies	735,054	(218,881)
Net cash provided by (used in) operating activities	2,702,288	(156,118)
Cash Flows From Investing Activities		
Proceeds from sale of investments	1,669,951	1,629,266
Purchases of investments	(3,281,878)	(1,002,049)
Purchases of property and equipment	-	(1,126)
Net cash provided by (used in) investing activities	(1,611,927)	626,091
Net increase in cash and cash equivalents	1,090,361	469,973
Cash and cash equivalents:		
Beginning	5,120,224	4,650,251
Ending	\$ 6,210,585	\$ 5,120,224

See Notes to Consolidated Financial Statements.

**KERN COMMUNITY FOUNDATION
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2019 and 2018**

	2019			
	Program Services	Management and General	Fundraising	Total
Grants and philanthropic distributions	\$ 2,159,062	\$ -	\$ -	\$ 2,159,062
Management and administrative fees	-	385,156	-	385,156
Salaries and wages	177,714	133,285	44,429	355,428
Contract labor	51,915	38,936	12,979	103,830
Office supplies	32,972	24,729	8,243	65,944
Dues and subscriptions	26,501	19,876	6,625	53,002
Rent	24,817	18,613	6,204	49,634
Employee benefits	23,569	17,676	5,892	47,137
Meetings and conventions	21,406	16,054	5,352	42,812
Payroll taxes	13,080	9,810	3,269	26,159
Printing and marketing	11,779	8,834	2,945	23,558
Professional fees	9,763	7,322	2,440	19,525
Miscellaneous	5,917	4,437	1,478	11,832
Utilities	4,031	3,023	1,008	8,062
Insurance	3,968	2,976	991	7,935
Travel	2,381	1,785	595	4,761
Repairs and maintenance	2,268	1,700	567	4,535
Postage	1,329	997	332	2,658
Taxes and licenses	894	670	223	1,787
Technology	751	563	188	1,502
Depreciation	-	1,152	-	1,152
Telephone	420	315	105	840
Total expenses	<u>\$ 2,574,537</u>	<u>\$ 697,909</u>	<u>\$ 103,865</u>	<u>\$ 3,376,311</u>

See Notes to Consolidated Financial Statements.

2018

Program Services	Management and General	Fundraising	Total
\$ 1,868,960	\$ -	\$ -	\$ 1,868,960
-	335,389	-	335,389
173,427	130,070	43,357	346,854
18,258	13,693	4,564	36,515
13,165	9,873	3,291	26,329
21,668	16,251	5,417	43,336
25,430	19,072	6,357	50,859
22,769	17,077	5,692	45,538
32,137	24,102	8,034	64,273
13,944	10,458	3,486	27,888
14,316	10,737	3,579	28,632
13,172	9,879	3,293	26,344
856	634	214	1,704
3,735	2,801	934	7,470
5,069	3,801	1,267	10,137
1,558	1,168	389	3,115
2,583	1,937	646	5,166
1,211	908	303	2,422
729	546	182	1,457
914	685	228	1,827
-	1,225	-	1,225
394	296	99	789
<u>\$ 2,234,295</u>	<u>\$ 610,602</u>	<u>\$ 91,332</u>	<u>\$ 2,936,229</u>

KERN COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies

Nature of Activities and Reporting Entity: **Kern Community Foundation** ("KCF") was incorporated on March 31, 2000 under the laws of the State of California as a not-for-profit corporation. **Kern Real Estate Foundation** ("KREF") was incorporated on March 2, 2013 under the laws of the State of California as a not-for-profit corporation. The sole purpose of the KREF is to provide exclusive benefit and support to the KCF. **Kern Community Foundation Real Property, LLC** (the "Company") is a California single-member limited liability company formed on May 15, 2012 for the purpose of owning real property and is wholly owned by KREF. The above-mentioned entities are collectively referred to as "the Foundation" throughout the notes to the consolidated financial statements.

The Foundation is a vibrant nonprofit enterprise with a powerfully simple mission of growing community and growing philanthropy. The Foundation is known as a home for local philanthropists, as a results oriented grantmaker and as a trusted community leader. The Foundation is in business to serve as a charitable resource for local donors and corporations, and to generate capital that provides philanthropic solutions to help make Kern County a better place to live, to work and to visit. Since its establishment, the Foundation has grown to hold more than 164 charitable funds with assets of more than \$27.4 million, and has awarded approximately \$22.6 million in cumulative grants.

The Foundation partners with Greater Horizons, administered by the Greater Kansas City Community Foundation (GKCCF), for investment services for funds electing Foundation investment services. Through this partnership, the Foundation pools designated assets with those of GKCCF, which exceed \$3.7 billion held in more than 5,000 charitable funds. GKCCF charges a fee for this service, which is allocated directly back to each of the Foundation's participating funds. Fundholders may also elect to use their own personal financial advisor for investment services.

Funding for the Foundation comes from administrative fees assessed to each charitable fund held by the Foundation. Funding for the Foundation also comes from grants from private and community foundations, contributions from corporations, Foundation directors and individual donors.

A summary of significant accounting policies follows:

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of KCF, the Company and KREF. All material related party balances and transactions have been eliminated in consolidation.

Basis of Presentation: The financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the board of directors.

Net assets with donor restrictions: Net assets are subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

KERN COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of Operations: The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Foundation's ongoing activities and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring in nature.

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.

Restricted and Unrestricted Revenue and Support: All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unrestricted contributions are recognized as an increase in net assets without donor restrictions when received. However, support received with donor restrictions may be recorded, depending on the existence and/or nature of any donor restriction which is not subject to the variance power established by the Foundation's governing documents. When restrictions are satisfied, either by the passage of time or by the accomplishment of purpose, the net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statements of activities as net assets released from restrictions. When restrictions are satisfied in the same accounting period as the receipt of the contribution, the Foundation reports both the revenue and the related expense in the net assets without donor restrictions class.

The Foundation reports gifts of goods and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated Services, Goods and Facilities: It is the policy of the Foundation to record a value for contributed services when such services require a specialized skill or enhance a non-financial asset. There were no contributed services which required a specialized skill or enhance a non-financial asset for the years ended December 31, 2019 or 2018. Additionally, a substantial number of volunteers have donated significant hours to the Foundation's program services and fundraising campaigns during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Materials, facilities and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

Variance Power: The articles of incorporation of the Foundation include a variance provision giving the Board of Directors the power to modify any restriction or condition placed on gifts to the Foundation, 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 Foundation'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 in net assets without donor restrictions.

KERN COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash and Cash Equivalents: For purposes of reporting cash flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Foundation maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents.

Provision for Unamortized Discounts: The provision for unamortized discounts is computed based on a five-year U.S. Treasury bond rate, which was 1.69% and 2.51% at December 31, 2019 and 2018, respectively, applied to gross campaign contributions, including donor designations. The provision for unamortized discounts is reviewed and approved by the Foundation's Audit Committee and Governing Board.

Investments Valuation and Income Recognition: Financial statement presentation follows the guidance of Financial Accounting Standards Board (FASB) Accounting Standards Codification Not-for-Profit Entities section which states 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. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 6 for discussion of fair value measurements.

Property and Equipment: Property and equipment are stated at cost. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of 5 to 7 years.

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. The Foundation follows the practice of capitalizing all expenditures of 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.

Grants Payable and Refundable Advances: Grants payable and refundable advances are recorded when a specific grant has been authorized by the Board of Directors of the Foundation or when the grant award is communicated to the grantee. Refundable advances are funds received in advance from other foundations for re-granting by the Foundation in accordance with the timing and parameters specified by the donor foundations that have not yet been awarded.

Funds Held for Other Agencies: The Foundation receives and distributes assets under certain agency arrangements between the Foundation and the donor.

Income Taxes: KCF and KREF are not-for-profit corporations and have been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and related California Franchise Tax Board codes. The Company is a limited liability company; see Note 12 for further discussion.

KERN COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Foundation has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Advertising: The Foundation expenses advertising costs as they are incurred. Advertising expense totaled \$23,558 and \$28,632 for the years ended December 31, 2019 and 2018, respectively, which consisted primarily of printing of collateral materials.

Functional Allocation of Expenses: The costs of providing various fundraising and other activities are summarized on a functional basis in the statements of activities. Management allocates costs between program services, management and general, and fundraising based on management's estimate of hours spent on the programs and activities. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation.

Authoritative Pronouncement Adopted: In January 2016, the FASB issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Authoritative Pronouncements Not Yet Adopted: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The new standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Management is currently evaluating the impact the adoption of the new standard will have on the Foundation's financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The new standard is effective for fiscal years beginning after December 15, 2019. Management is currently evaluating the impact the adoption of the new standard will have on the Foundation's financial statements.

Subsequent Events: The Foundation has evaluated subsequent events through August 3, 2020, the date on which the financial statements were available to be issued. A significant subsequent event is discussed at Note 13.

**KERN COMMUNITY FOUNDATION
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Financial Assets and Liquidity Resources

The Foundation's policy is to maintain a portion of financial assets in short-term or money market funds available for grantmaking and general expenditures.

Grant liquidity is provided through balances maintained in a general checking account and money market funds. In the event of extraordinary grant requests, management instructs investment managers at Greater Kansas City Community Foundation of the need for additional cash.

Operating liquidity comes from fees, grants and donations, and distributions from administrative reserve funds. Fee income is assessed monthly, based on the average daily balance of funds administered by the Foundation. Donations and grants for the operating fund are placed in the general checking account or money market fund and used as needed.

The following table reflects the Foundation's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when if they represent funds held for other agencies and net assets with donor restrictions.

	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 6,210,585	\$ 5,120,224
Contributions receivable	14,833	33,206
Investments	21,059,309	15,690,626
Total financial assets available within one year	<u>27,284,727</u>	<u>20,844,056</u>
Less amounts not available to be used within one year:		
Funds held for other agencies	3,441,673	2,706,619
Net assets with donor restrictions	950,000	950,000
	<u>4,391,673</u>	<u>3,656,619</u>
Total financial assets and liquidity resources available within one year	<u>\$ 22,893,054</u>	<u>\$ 17,187,437</u>

Note 3. Cash and Cash Equivalents

Cash and cash equivalents held by the Foundation consist of the following at December 31, 2019 and 2018:

	2019	2018
Money market funds	\$ 5,627,339	\$ 3,797,860
Cash in bank, checking	542,939	1,298,831
Cash held by investment broker	39,807	23,033
Petty cash	500	500
	<u>\$ 6,210,585</u>	<u>\$ 5,120,224</u>

**KERN COMMUNITY FOUNDATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Contributions Receivable

Contributions receivable consist of the following at December 31, 2019 and 2018:

	2019	2018
Amount receivable within one year	\$ 18,010	\$ 36,910
Amount receivable in 1 to 5 years	58,523	57,524
Amount receivable after five years	124,374	131,284
Total contributions receivable	<u>200,907</u>	<u>225,718</u>
Less unamortized discounts	<u>74,710</u>	<u>78,642</u>
Contributions receivable, net of unamortized discounts	126,197	147,076
Less current portion	14,833	33,206
	<u>\$ 111,364</u>	<u>\$ 113,870</u>

Note 5. Investments

Investments consist of the following at December 31, 2019 and 2018:

	2019	2018
Equity funds	\$ 13,578,534	\$ 9,651,260
Fixed income funds	7,480,775	6,039,366
	<u>\$ 21,059,309</u>	<u>\$ 15,690,626</u>

Realized and unrealized gain (loss) on investments for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Realized gain	\$ 365,708	\$ 251,070
Unrealized gain (loss)	2,212,441	(1,182,048)
	<u>\$ 2,578,149</u>	<u>\$ (930,978)</u>

Note 6. Fair Value Measurements

The Fair Value Measurements topic of the Financial Accounting Standards Board Codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

KERN COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Equity funds: Valued at the net asset value ("NAV") of shares held by the Foundation at year end.

Fixed income funds: Valued at the closing price reported on the active market on which the individual bonds are traded.

All investments held by the Foundation at December 31, 2019 and 2018 are considered to be level 1 assets.

Note 7. Endowments

The Foundation has adopted the guidance on net classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the State Prudent Management of Institutional Funds Act (SPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and institution-designated endowment funds.

The Foundation's endowments consist of a fund established to provide scholarships. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation has interpreted SPMIFA 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 Foundation 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 donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

KERN COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purpose of the Foundation and the donor restricted endowment fund
- c. General economic conditions
- d. The possible effects of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the Foundation
- g. The investment policies of the Foundation

Spending policy: The Foundation's spending policy allocates total earnings from the portfolio between current spending and reinvestment for future earnings. The Foundation's policy is designed to preserve both the purchasing power of their endowments and of their endowment spending withdrawals. Lastly, the Foundation's endowment spending policy will be calculated at the end of each fiscal year or December 31, the average market value of endowment funds for twelve trailing quarters will be calculated for use in applying the average spending rate percentage to determine the endowment distribution for the following year.

Investment policy: The primary long-term investment objective is to seek competitive market returns so as to preserve and grow the capital of funds, provide cash flows for fund distributions and to preserve the purchasing power of the funds to meet charitable needs of the Foundation and those in the future. The investment program should be designated to participate in up markets but more importantly provide protection in down and sideways capital markets.

It is recognized that the return objectives may be difficult to achieve in the short term, but should be attainable over 10 or 15-year periods. Over shorter timeframes, the investment portfolio will seek to outperform a composite of market indices reflecting the investment portfolio's asset allocation policies.

Changes in endowment net assets for the years ended December 31, 2019 and 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment fund net assets, January 1, 2018	\$ 254,670	\$ 950,000	\$ 1,204,670
Contributions	-	-	-
Appropriations for endowment assets, for expenditures	(95,752)	-	(95,752)
Investment return	(21,330)	-	(21,330)
Endowment fund net assets, December 31, 2018	137,588	950,000	1,087,588
Contributions	-	-	-
Appropriations for endowment assets, for expenditures	(73,212)	-	(73,212)
Investment return	275,760	-	275,760
Endowment fund net assets, December 31, 2019	\$ 340,136	\$ 950,000	\$ 1,290,136

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Note 8. Non-Cash Contributions

For the year ended December 31, 2019, non-cash contributions received from private donors consisted of securities of \$1,178,607. For the year ended December 31, 2018, non-cash contributions received from private donors consisted of securities of \$973,938 and supplies of \$1,468.

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions of \$950,000 at December 31, 2019 and 2018, are restricted in perpetuity. Earnings on the principal are intended for the Oscar and Libbie Rudnick Scholarship Fund and operations for the Bakersfield Symphony, but can be used for other purposes as explained in Note 1 in the variance power paragraph.

Note 10. Major Contributors

For the year ended December 31, 2019, the Foundation received approximately 63% of its total contributions and grant revenues from two donors. For the year ended December 31, 2018, the Foundation received approximately 69% of its total contributions and grant revenues from two donors and one grantor.

Note 11. Commitments

The Foundation leases office space and equipment under various non-cancelable agreements through March 2024 that require minimum monthly lease payments. Future minimum payments are due as follows:

Years ending December 31,	
2020	\$ 49,074
2021	37,545
2022	2,958
2023	2,958
2024	739
	<u>\$ 93,274</u>

Rent expense for the years ended December 31, 2019 and 2018 was \$49,634 and \$50,859, respectively.

Note 12. Income Tax Matters

The Company, a wholly-owned subsidiary, was formed and incorporated in May 2012. As a single-member LLC, the Company is a disregarded entity for federal tax purposes. The accounts of the LLC are included in the federal return of KREF. For state tax purposes, the Company is subject to an annual minimum tax of \$800. Additionally, if their California total income is equal to or greater than \$250,000, they are subject to an LLC fee based on income. The Company's total revenue for the years ended December 31, 2019 and 2018 did not exceed \$250,000; therefore, there was no additional tax in excess of the minimum tax of \$800.

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The Internal Revenue Service ("IRS") and certain state taxing authorities are currently revisiting what, if any, products and services provided by nonprofit organizations are subject to unrelated business income tax ("UBIT"). There is currently very little guidance in the IRS Code on what activities should be subject to UBIT. The IRS has indicated that they are studying the issue and may issue additional guidance. As a result, at this time there is uncertainty regarding whether KCF and KREF should pay income tax on certain types of net taxable income from activities that may be considered by taxing authorities as unrelated to the purpose for which the KCF and KREF were granted non-taxable status.

KCF and KREF have not filed any tax returns in the past for potential taxable activities. The taxing authorities have the ability to assess taxes, penalties and interest for any years for which no tax return was filed. In the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities deemed to be unrelated to KCF's non-taxable status is not expected to have a material effect on the Foundation's financial position or results of operations.

Note 13. Subsequent Event

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Foundation operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Foundation, to date, the Foundation's operations have not been significantly impacted. The Foundation continues to monitor the situation. Additionally, no impairments were recorded as of the statement of financial position date as no triggering events or changes in circumstances had occurred as of year-end; however, due to significant uncertainty surrounding the situation, management's judgement regarding this could change in the future. In addition, while the Foundation's results of operations, cash flows, and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.