

KERN COMMUNITY
FOUNDATION

Growing community.
Growing philanthropy.

**CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2020**

**KERN COMMUNITY FOUNDATION
AND AFFILIATES**

**CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2020**

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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, 2020 and 2019, 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, 2020 and 2019, 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
May 28, 2021

**KERN COMMUNITY FOUNDATION
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019**

	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	\$ 7,987,443	\$ 6,210,585
Contributions receivable, less unamortized discounts, 2020 \$3,499; 2019 \$3,177 (Note 4)	19,055	14,833
Grants receivable	320,065	-
Prepaid expenses	35,679	35,642
Total current assets	8,362,242	6,261,060
Investments (Notes 5 and 6)	24,014,294	21,059,309
Property and Equipment		
Office furniture and equipment	36,095	36,095
Less accumulated depreciation	35,532	35,232
	563	863
Other Assets		
Contributions receivable, less unamortized discounts, 2020 \$68,272; 2019 \$71,533 (Note 4)	83,742	111,364
Total assets	\$ 32,460,841	\$ 27,432,596
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 308,840	\$ 26,001
Accrued expenses	44,332	31,375
Grants payable and refundable advances	389,500	168,734
Funds held for other agencies	4,860,398	3,441,673
Total current liabilities	5,603,070	3,667,783
Commitments (Note 12)		
Net Assets		
With donor restrictions (Note 9)	950,000	950,000
Without donor restrictions	25,907,771	22,814,813
Total net assets	26,857,771	23,764,813
Total liabilities and net assets	\$ 32,460,841	\$ 27,432,596

See Notes to Consolidated Financial Statements.

**KERN COMMUNITY FOUNDATION
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**CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2020 and 2019**

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and public support:			
Contributions:			
Cash	\$ 3,113,635	\$ -	\$ 3,113,635
Securities (Note 8)	798,063	-	798,063
Grant revenue	884,005	-	884,005
Management fee income	402,387	-	402,387
Investment income	395,291	-	395,291
Realized and unrealized gain on investments (Note 5)	2,082,885	-	2,082,885
Total revenues and public support	7,676,266	-	7,676,266
Expenses:			
Program services	3,757,953	-	3,757,953
Management and general	713,920	-	713,920
Fundraising	111,435	-	111,435
Total expenses	4,583,308	-	4,583,308
Change in net assets	3,092,958	-	3,092,958
Net assets, beginning	22,814,813	950,000	23,764,813
Net assets, ending	\$ 25,907,771	\$ 950,000	\$ 26,857,771

See Notes to Consolidated Financial Statements.

2019		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 4,587,711	\$ -	\$ 4,587,711
1,178,607	-	1,178,607
630,578	-	630,578
357,498	-	357,498
483,663	-	483,663
<u>2,578,149</u>	-	<u>2,578,149</u>
<u>9,816,206</u>	-	<u>9,816,206</u>
2,574,537	-	2,574,537
697,909	-	697,909
103,865	-	103,865
<u>3,376,311</u>	-	<u>3,376,311</u>
6,439,895	-	6,439,895
16,374,918	950,000	17,324,918
<u>\$ 22,814,813</u>	<u>\$ 950,000</u>	<u>\$ 23,764,813</u>

**KERN COMMUNITY FOUNDATION
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019**

	2020	2019
Cash Flows From Operating Activities		
Change in net assets	\$ 3,092,958	\$ 6,439,895
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	300	1,152
Net realized and unrealized (gain) on investments	(2,082,885)	(2,578,149)
Provision for unamortized discounts	(2,939)	(3,932)
Donated securities	(798,063)	(1,178,607)
Changes in assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	26,339	24,811
Grants receivable	(320,065)	-
Prepaid expenses	(37)	12,555
Increase (decrease) in:		
Accounts payable and accrued expenses	295,796	(6,886)
Grants payable and refundable advances	220,766	(743,605)
Funds held for other agencies	1,418,725	735,054
Net cash provided by operating activities	1,850,895	2,702,288
Cash Flows From Investing Activities		
Proceeds from sale of investments	4,434,267	1,669,951
Purchases of investments	(4,508,304)	(3,281,878)
Net cash (used in) investing activities	(74,037)	(1,611,927)
Net increase in cash and cash equivalents	1,776,858	1,090,361
Cash and cash equivalents:		
Beginning	6,210,585	5,120,224
Ending	\$ 7,987,443	\$ 6,210,585

See Notes to Consolidated Financial Statements.

**KERN COMMUNITY FOUNDATION
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2020 and 2019**

	2020			
	Program Services	Management and General	Fundraising	Total
Grants and philanthropic distributions	\$ 2,622,824	\$ -	\$ -	\$ 2,622,824
Contract services	557,455	13,263	4,421	575,139
Management and administrative fees	-	434,705	-	434,705
Salaries and wages	178,342	133,757	44,586	356,685
Consulting	229,075	713	19,863	249,651
Meetings and conventions	33,533	25,150	8,384	67,067
Dues and subscriptions	28,371	21,278	7,093	56,742
Rent	24,985	18,739	6,247	49,971
Employee benefits	22,494	16,871	5,623	44,988
Printing and marketing	15,664	11,748	3,916	31,328
Payroll taxes	10,796	8,098	2,699	21,593
Professional fees	10,014	7,511	2,504	20,029
Office supplies	8,777	6,583	2,194	17,554
Insurance	4,314	3,235	1,078	8,627
Utilities	3,724	2,793	931	7,448
Repairs and maintenance	2,703	2,027	676	5,406
Miscellaneous	174	3,916	44	4,134
Travel	1,391	1,043	348	2,782
Postage	1,192	894	298	2,384
Taxes and licenses	801	601	200	1,602
Technology	754	567	188	1,509
Telephone	420	315	105	840
Depreciation	150	113	37	300
Total expenses	<u>\$ 3,757,953</u>	<u>\$ 713,920</u>	<u>\$ 111,435</u>	<u>\$ 4,583,308</u>

See Notes to Consolidated Financial Statements.

2019

Program Services	Management and General	Fundraising	Total
\$ 2,159,062	\$ -	\$ -	\$ 2,159,062
51,915	38,936	12,979	103,830
-	385,156	-	385,156
177,714	133,285	44,429	355,428
-	-	-	-
21,406	16,054	5,352	42,812
26,501	19,876	6,625	53,002
24,817	18,613	6,204	49,634
23,569	17,676	5,892	47,137
11,779	8,834	2,945	23,558
13,080	9,810	3,269	26,159
9,763	7,322	2,440	19,525
32,972	24,729	8,243	65,944
3,968	2,976	991	7,935
4,031	3,023	1,008	8,062
2,268	1,700	567	4,535
5,917	4,437	1,478	11,832
2,381	1,785	595	4,761
1,329	997	332	2,658
894	670	223	1,787
751	563	188	1,502
420	315	105	840
-	1,152	-	1,152
<u>\$ 2,574,537</u>	<u>\$ 697,909</u>	<u>\$ 103,865</u>	<u>\$ 3,376,311</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 175 charitable funds with assets of more than \$32.4 million, and has awarded approximately \$25.2 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.

Global Pandemic: 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.

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.

KERN COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

KERN COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2020 or 2019. 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.

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 0.65% and 1.69% at December 31, 2020 and 2019, 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.

KERN COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 13 for further discussion.

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 \$31,328 and \$23,558 for the years ended December 31, 2020 and 2019, 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 June 2018, the FASB issued Accounting Standards Update (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 assists 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. This ASU was adopted by the Foundation for the year ended December 31, 2020.

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.

KERN COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Foundation expects to adopt the guidance retrospectively at the beginning of the period of adoption, January 1, 2022, through a cumulative-effect adjustment, and will not apply the new standard to comparative periods presented.

The new standard provides a number of practical expedients. Upon adoption, the Foundation expects to elect the transition package of practical expedients permitted within the new standard, which among other things, allows the carryforward of the historical lease classification.

The Foundation is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statements of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU is effective for the Foundation beginning on January 1, 2022. The adoption of ASU 2020-07 is not expected to have a significant impact on the Foundation's consolidated financial statements.

Subsequent Events: The Foundation has evaluated subsequent events through May 28, 2021, the date on which the financial statements were available to be issued. There were no subsequent events identified by management which would require disclosure in the 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, 2020 and 2019, 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.

**KERN COMMUNITY FOUNDATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 7,987,443	\$ 6,210,585
Contributions receivable	19,055	14,833
Grants receivable	320,065	-
Investments	24,014,294	21,059,309
Total financial assets available within one year	<u>32,340,857</u>	<u>27,284,727</u>
Less amounts not available to be used within one year:		
Funds held for other agencies	4,860,398	3,441,673
Net assets with donor restrictions	950,000	950,000
	<u>5,810,398</u>	<u>4,391,673</u>
Total financial assets and liquidity resources available within one year	<u>\$ 26,530,459</u>	<u>\$ 22,893,054</u>

Note 3. Cash and Cash Equivalents

Cash and cash equivalents held by the Foundation consist of the following at December 31, 2020 and 2019:

	2020	2019
Money market funds	\$ 6,951,919	\$ 5,627,339
Cash in bank, checking	945,036	542,939
Cash held by investment broker	89,988	39,807
Petty cash	500	500
	<u>\$ 7,987,443</u>	<u>\$ 6,210,585</u>

Note 4. Contributions Receivable

Contributions receivable consist of the following at December 31, 2020 and 2019:

	2020	2019
Amount receivable within one year	\$ 22,554	\$ 18,010
Amount receivable in 1 to 5 years	50,193	58,523
Amount receivable after five years	101,821	124,374
Total contributions receivable	<u>174,568</u>	<u>200,907</u>
Less unamortized discounts	71,771	74,710
Contributions receivable, net of unamortized discounts	<u>102,797</u>	<u>126,197</u>
Less current portion	19,055	14,833
	<u>\$ 83,742</u>	<u>\$ 111,364</u>

**KERN COMMUNITY FOUNDATION
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Investments

Investments consist of the following at December 31, 2020 and 2019:

	2020	2019
Equity funds	\$ 2,355,213	\$ 2,268,975
Equity funds pooled with Greater Kansas City Community Foundation	13,184,551	11,309,559
Fixed income funds	441,598	471,216
Fixed income funds pooled with Greater Kansas City Community Foundation	8,032,932	7,009,559
	<u>\$ 24,014,294</u>	<u>\$ 21,059,309</u>

Realized and unrealized gain on investments for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Realized gain	\$ 1,339,111	\$ 365,708
Unrealized gain	743,774	2,212,441
	<u>\$ 2,082,885</u>	<u>\$ 2,578,149</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.

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.

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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.

The equity funds and fixed income funds at December 31, 2020 and 2019 are considered to be level 1 assets. The equity funds pooled with Greater Kansas City Community Foundation and the fixed income funds pooled with Greater Kansas City Community Foundation at December 31, 2020 and 2019 are considered to be level 2 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.

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

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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, 2020 and 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment fund net assets, January 1, 2019	\$ 137,588	\$ 950,000	\$ 1,087,588
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
Appropriations for endowment assets, for expenditures	(55,471)	-	(55,471)
Investment return	197,633	-	197,633
Endowment fund net assets, December 31, 2020	\$ 482,298	\$ 950,000	\$ 1,432,298

Note 8. Non-Cash Contributions

For the years ended December 31, 2020 and 2019, non-cash contributions received from private donors consisted of securities of \$798,063 and \$1,178,607, respectively.

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions of \$950,000 at December 31, 2020 and 2019, 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.

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Note 10. Major Contributors

For the year ended December 31, 2020, the Foundation received approximately 58% of its total contributions and grant revenues from two donors and one grantor. For the year ended December 31, 2019, the Foundation received approximately 63% of its total contributions and grant revenues from two donors.

Note 11. Retirement Plan

The Foundation sponsors a 401(k) profit sharing retirement plan, which covers substantially all full-time employees. The Foundation will match up to 3% of employee contributions to the retirement plan. Matching contributions for the years ended December 31, 2020 and 2019 were \$9,891 and \$8,349, respectively.

Note 12. 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,	
2021	\$ 37,545
2022	2,958
2023	2,958
2024	739
	<u>\$ 44,200</u>

Rent expense for the years ended December 31, 2020 and 2019 was \$49,971 and \$49,634, respectively.

Note 13. 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, 2020 and 2019 did not exceed \$250,000; therefore, there was no additional tax in excess of the minimum tax of \$800.

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.

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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.