

KERN COMMUNITY
FOUNDATION

Growing community.
Growing philanthropy.

**CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2021**

**KERN COMMUNITY FOUNDATION
AND AFFILIATES**

**CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2021**

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SHANNON M. WEBSTER

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of **Kern Community Foundation and Affiliates**, which comprise the consolidated statements of financial position as of and for the years ended December 31, 2021 and 2020, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of **Kern Community Foundation and Affiliates**, as of December 31, 2021 and 2020, and the respective changes in its net assets and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Kern Community Foundation and Affiliates** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Kern Community Foundation and Affiliates'** ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Kern Community Foundation and Affiliates'** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Daniells Phillips Vaughan & Bock

Bakersfield, California
June 10, 2022

**KERN COMMUNITY FOUNDATION
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020**

	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	\$ 10,606,106	\$ 7,987,443
Contributions receivable, less unamortized discounts, 2021 \$3,666; 2020 \$3,499 (Note 4)	21,644	19,055
Grants receivable	-	320,065
Prepaid expenses	39,440	35,679
Total current assets	10,667,190	8,362,242
Investments (Notes 5 and 6)	28,417,636	24,014,294
Property and Equipment		
Office furniture and equipment	32,199	36,095
Less accumulated depreciation	29,825	35,532
	2,374	563
Other Assets		
Contributions receivable, less unamortized discounts, 2021 \$66,649; 2020 \$68,272 (Note 4)	126,829	83,742
Total assets	\$ 39,214,029	\$ 32,460,841
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 50,232	\$ 308,840
Accrued expenses	26,734	44,332
Grants payable and refundable advances	239,181	389,500
Funds held for other agencies	7,761,484	4,860,398
Total current liabilities	8,077,631	5,603,070
Commitments (Note 12)		
Net Assets		
With donor restrictions (Notes 7 and 9)	950,000	950,000
Without donor restrictions	30,186,398	25,907,771
Total net assets	31,136,398	26,857,771
Total liabilities and net assets	\$ 39,214,029	\$ 32,460,841

See Notes to Consolidated Financial Statements.

**KERN COMMUNITY FOUNDATION
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2021 and 2020**

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and public support:			
Contributions:			
Cash	\$ 3,469,384	\$ -	\$ 3,469,384
Securities (Note 8)	155,980	-	155,980
Grant revenue	1,033,766	-	1,033,766
Management fee income	497,396	-	497,396
Investment income	386,127	-	386,127
Realized and unrealized gain on investments (Note 5)	2,202,592	-	2,202,592
Total revenues and public support	7,745,245	-	7,745,245
Expenses:			
Program services	2,599,827	-	2,599,827
Management and general	773,204	-	773,204
Fundraising	93,587	-	93,587
Total expenses	3,466,618	-	3,466,618
Change in net assets	4,278,627	-	4,278,627
Net assets, beginning	25,907,771	950,000	26,857,771
Net assets, ending	\$ 30,186,398	\$ 950,000	\$ 31,136,398

See Notes to Consolidated Financial Statements.

2020		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 3,113,635	\$ -	\$ 3,113,635
798,063	-	798,063
884,005	-	884,005
402,387	-	402,387
395,291	-	395,291
2,082,885	-	2,082,885
<u>7,676,266</u>	<u>-</u>	<u>7,676,266</u>
3,757,953	-	3,757,953
713,920	-	713,920
111,435	-	111,435
<u>4,583,308</u>	<u>-</u>	<u>4,583,308</u>
3,092,958	-	3,092,958
22,814,813	950,000	23,764,813
<u>\$ 25,907,771</u>	<u>\$ 950,000</u>	<u>\$ 26,857,771</u>

**KERN COMMUNITY FOUNDATION
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**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020**

	2021	2020
Cash Flows From Operating Activities		
Change in net assets	\$ 4,278,627	\$ 3,092,958
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	247	300
Net realized and unrealized (gain) on investments	(2,202,592)	(2,082,885)
Provision for unamortized discounts	(1,456)	(2,939)
Donated securities	(155,980)	(798,063)
Changes in assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	(44,220)	26,339
Grants receivable	320,065	(320,065)
Prepaid expenses	(3,761)	(37)
Increase (decrease) in:		
Accounts payable and accrued expenses	(276,206)	295,796
Grants payable and refundable advances	(150,319)	220,766
Funds held for other agencies	2,901,086	1,418,725
Net cash provided by operating activities	4,665,491	1,850,895
Cash Flows From Investing Activities		
Proceeds from sale of investments	3,611,119	4,434,267
Purchases of investments	(5,655,889)	(4,508,304)
Purchase of property and equipment	(2,058)	-
Net cash (used in) investing activities	(2,046,828)	(74,037)
Net increase in cash and cash equivalents	2,618,663	1,776,858
Cash and cash equivalents:		
Beginning	7,987,443	6,210,585
Ending	\$ 10,606,106	\$ 7,987,443

See Notes to Consolidated Financial Statements.

**KERN COMMUNITY FOUNDATION
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2021 and 2020**

	2021			
	Program Services	Management and General	Fundraising	Total
Grants and philanthropic distributions	\$ 1,978,518	\$ -	\$ -	\$ 1,978,518
Management and administrative fees	-	492,448	-	492,448
Salaries and wages	162,998	122,249	40,750	325,997
Consulting	261,648	11,736	3,912	277,296
Contract services	42,307	31,730	10,577	84,614
Dues and subscriptions	28,558	21,418	7,139	57,115
Rent	28,407	21,305	7,102	56,814
Employee benefits	19,471	14,603	4,868	38,942
Printing and marketing	13,505	10,129	3,376	27,010
Payroll taxes	13,341	10,006	3,336	26,683
Office supplies	11,987	8,990	2,997	23,974
Meetings and conventions	11,564	8,673	2,891	23,128
Professional fees	10,455	7,841	2,614	20,910
Insurance	6,031	4,523	1,508	12,062
Utilities	3,343	2,507	836	6,686
Repairs and maintenance	2,488	1,866	622	4,976
Miscellaneous	1,798	627	210	2,635
Postage	1,158	868	289	2,315
Technology	882	661	219	1,762
Taxes and licenses	734	550	183	1,467
Telephone	420	315	105	840
Depreciation	124	92	31	247
Travel	90	67	22	179
Total expenses	<u>\$ 2,599,827</u>	<u>\$ 773,204</u>	<u>\$ 93,587</u>	<u>\$ 3,466,618</u>

See Notes to Consolidated Financial Statements.

2020

Program Services	Management and General	Fundraising	Total
\$ 2,622,824	\$ -	\$ -	\$ 2,622,824
-	434,705	-	434,705
178,342	133,757	44,586	356,685
229,075	713	19,863	249,651
557,455	13,263	4,421	575,139
28,371	21,278	7,093	56,742
24,985	18,739	6,247	49,971
22,494	16,871	5,623	44,988
15,664	11,748	3,916	31,328
10,796	8,098	2,699	21,593
8,777	6,583	2,194	17,554
33,533	25,150	8,384	67,067
10,014	7,511	2,504	20,029
4,314	3,235	1,078	8,627
3,724	2,793	931	7,448
2,703	2,027	676	5,406
174	3,916	44	4,134
1,192	894	298	2,384
754	567	188	1,509
801	601	200	1,602
420	315	105	840
150	113	37	300
1,391	1,043	348	2,782
<u>\$ 3,757,953</u>	<u>\$ 713,920</u>	<u>\$ 111,435</u>	<u>\$ 4,583,308</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 \$39.2 million, and has awarded approximately \$27.2 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 \$4.3 billion held in more than 5,600 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 accounting principles generally accepted in the United States of America ("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, 2021 or 2020. 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 as these services do not meet the requirements for recognition. 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 1.26% and 0.65% at December 31, 2021 and 2020, 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 \$27,010 and \$31,328 for the years ended December 31, 2021 and 2020, 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 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 June 10, 2022, 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, 2021 and 2020, 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
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 10,606,106	\$ 7,987,443
Contributions receivable	21,644	19,055
Grants receivable	-	320,065
Investments	28,417,636	24,014,294
Total financial assets available within one year	<u>39,045,386</u>	<u>32,340,857</u>
Less amounts not available to be used within one year:		
Funds held for other agencies	7,761,484	4,860,398
Net assets with donor restrictions	950,000	950,000
	<u>8,711,484</u>	<u>5,810,398</u>
Total financial assets and liquidity resources available within one year	<u>\$ 30,333,902</u>	<u>\$ 26,530,459</u>

Note 3. Cash and Cash Equivalents

Cash and cash equivalents held by the Foundation consist of the following at December 31, 2021 and 2020:

	2021	2020
Money market funds	\$ 6,747,631	\$ 6,951,919
Cash in bank, checking	3,765,778	945,036
Cash held by investment broker	92,197	89,988
Petty cash	500	500
	<u>\$ 10,606,106</u>	<u>\$ 7,987,443</u>

Note 4. Contributions Receivable

Contributions receivable consist of the following at December 31, 2021 and 2020:

	2021	2020
Amount receivable within one year	\$ 25,310	\$ 22,554
Amount receivable in 1 to 5 years	82,924	50,193
Amount receivable after five years	110,554	101,821
Total contributions receivable	<u>218,788</u>	<u>174,568</u>
Less unamortized discounts	70,315	71,771
Contributions receivable, net of unamortized discounts	<u>148,473</u>	<u>102,797</u>
Less current portion	21,644	19,055
	<u>\$ 126,829</u>	<u>\$ 83,742</u>

**KERN COMMUNITY FOUNDATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Investments

Investments consist of the following at December 31, 2021 and 2020:

	2021	2020
Equity funds	\$ 2,562,971	\$ 2,355,213
Equity funds pooled with Greater Kansas City Community Foundation	15,407,915	13,184,551
Fixed income funds	485,046	441,598
Fixed income funds pooled with Greater Kansas City Community Foundation	9,910,416	8,032,932
Commodity funds	51,288	-
	<u>\$ 28,417,636</u>	<u>\$ 24,014,294</u>

Realized and unrealized gain on investments for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Realized gain	\$ 955,356	\$ 1,339,111
Unrealized gain	1,247,236	743,774
	<u>\$ 2,202,592</u>	<u>\$ 2,082,885</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 and commodity 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, fixed income funds and commodity funds at December 31, 2021 and 2020 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, 2021 and 2020 are considered to be level 2 assets.

The Foundation invests in a professionally managed portfolio that contains common shares and bonds of publicly traded companies, U.S. Government obligations, mutual funds, and money market funds. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

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.

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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, 2021 and 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment fund net assets, January 1, 2020	\$ 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
Appropriations for endowment assets, for expenditures	(58,622)	-	(58,622)
Investment return	277,785	-	277,785
Endowment fund net assets, December 31, 2021	\$ 701,461	\$ 950,000	\$ 1,651,461

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Note 8. Non-Cash Contributions

For the years ended December 31, 2021 and 2020, non-cash contributions received from private donors consisted of securities of \$155,980 and \$798,063, respectively.

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions of \$950,000 at December 31, 2021 and 2020, 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, 2021, the Foundation received approximately 44% of its total contributions and grant revenues from two donors. 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.

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, 2021 and 2020 were \$8,403 and \$9,891, respectively.

Note 12. Commitments

The Foundation leases office space and equipment under two non-cancelable agreements which expire in March 2024 and October 2026 and require minimum monthly lease payments. Future minimum payments are due as follows:

Years ending December 31,	
2022	\$ 60,018
2023	61,551
2024	60,859
2025	61,656
2026	47,106
	<u>\$ 291,190</u>

Rent expense for the years ended December 31, 2021 and 2020 was \$56,814 and \$49,971, respectively.

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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, 2021 and 2020 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.

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.