

KERN COMMUNITY | Growing community.  
FOUNDATION | Growing philanthropy.

**CONSOLIDATED FINANCIAL REPORT  
DECEMBER 31, 2015**

**KERN COMMUNITY FOUNDATION  
AND AFFILIATES**

**CONSOLIDATED FINANCIAL REPORT  
DECEMBER 31, 2015**

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Private Companies Practice Section

## 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, 2015 and 2014, and 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.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Kern Community Foundation and Affiliates** as of December 31, 2015 and 2014, 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 & Beck*

Bakersfield, California

May 17, 2016

**KERN COMMUNITY FOUNDATION  
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
December 31, 2015 and 2014**

	2015	2014
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 2,496,768	\$ 3,385,937
Contributions receivable, less unamortized discounts, 2015 \$3,531; 2014 \$3,136 (Note 3)	30,946	67,017
Prepaid expenses	12,555	15,828
<b>Total current assets</b>	<b>2,540,269</b>	<b>3,468,782</b>
Investments (Notes 4 and 5)	14,780,791	14,968,669
Property and Equipment		
Office furniture and equipment	74,538	77,780
Less accumulated depreciation	64,406	60,625
	<b>10,132</b>	<b>17,155</b>
Other Assets		
Contributions receivable, less unamortized discounts, 2015 \$84,135; 2014 \$86,892 (Note 3)	124,845	106,580
<b>Total assets</b>	<b>\$ 17,456,037</b>	<b>\$ 18,561,186</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 8,655	\$ 8,644
Accrued expenses	21,375	19,620
Grants payable and refundable advances	279,690	942,025
Funds held for other agencies	2,297,699	2,409,450
<b>Total current liabilities</b>	<b>2,607,419</b>	<b>3,379,739</b>
Grants Payable	-	250,000
Commitments (Note 10)		
Net Assets		
Permanently restricted (Note 6)	500,000	500,000
Unrestricted	14,348,618	14,431,447
<b>Total net assets</b>	<b>14,848,618</b>	<b>14,931,447</b>
<b>Total liabilities and net assets</b>	<b>\$ 17,456,037</b>	<b>\$ 18,561,186</b>

See Notes to Consolidated Financial Statements.

**KERN COMMUNITY FOUNDATION  
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF ACTIVITIES  
Years Ended December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
	<b>Unrestricted</b>	<b>Unrestricted</b>
Revenues and public support:		
Contributions and bequests	\$ 1,335,196	\$ 1,459,281
Contributions in-kind (Note 7)	199,367	191,789
Grant revenue	224,250	530,000
Management fee income	293,861	305,838
Investment income	262,556	239,880
Rental income	-	3,500
Realized and unrealized gain (loss) on investments (Note 4)	<b>(334,430)</b>	398,189
<b>Total revenues and public support</b>	<b>1,980,800</b>	<b>3,128,477</b>
Expenses:		
Program services	1,414,577	3,197,921
Management and general	564,617	586,043
Fundraising	84,435	89,722
<b>Total expenses</b>	<b>2,063,629</b>	<b>3,873,686</b>
<b>Change in net assets</b>	<b>(82,829)</b>	<b>(745,209)</b>
<b>Net assets, beginning</b>	<b>14,431,447</b>	<b>15,176,656</b>
<b>Net assets, ending</b>	<b>\$ 14,348,618</b>	<b>\$ 14,431,447</b>

See Notes to Consolidated Financial Statements.

**KERN COMMUNITY FOUNDATION  
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Change in net assets	\$ (82,829)	\$ (745,209)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	6,826	7,769
Net realized and unrealized (gain) loss on investments	334,430	(398,189)
Provision for unamortized discounts	(2,362)	(3,141)
Donated assets	(196,764)	(191,789)
Changes in assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	20,168	66,215
Prepaid expenses	3,273	(2,372)
Increase (decrease) in:		
Accounts payable and accrued expenses	1,766	(50,456)
Grants payable and refundable advances	(912,335)	1,103,100
Funds held for other agencies	(111,751)	(155,788)
<b>Net cash (used in) operating activities</b>	<b>(939,578)</b>	<b>(369,860)</b>
Cash Flows From Investing Activities		
Proceeds from sale of investments	4,297,045	8,408,082
Purchases of investments	(4,246,636)	(7,815,003)
<b>Net cash provided by investing activities</b>	<b>50,409</b>	<b>593,079</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(889,169)</b>	<b>223,219</b>
Cash and cash equivalents:		
Beginning	3,385,937	3,162,718
Ending	<b>\$ 2,496,768</b>	<b>\$ 3,385,937</b>

See Notes to Consolidated Financial Statements.

**KERN COMMUNITY FOUNDATION  
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES  
Years Ended December 31, 2015 and 2014**

	2015			
	Program Services	Management and General	Fundraising	Total
Grants and philanthropic distributions	\$ 1,076,828	\$ -	\$ -	\$ 1,076,828
Salaries and wages	162,996	122,247	40,749	325,992
Management and administrative fees	-	304,478	-	304,478
Professional fees	45,657	34,243	11,414	91,314
Rent	26,288	19,716	6,572	52,576
Meetings and conventions	16,990	12,743	4,248	33,981
Printing and marketing	12,897	9,672	3,224	25,793
Payroll taxes	12,868	9,651	3,217	25,736
Dues and subscriptions	12,838	9,628	3,209	25,675
Employee benefits	12,637	9,478	3,159	25,274
Technology	7,333	5,500	1,833	14,666
Contract labor	6,114	4,586	1,529	12,229
Insurance	5,594	4,196	1,399	11,189
Utilities	3,718	2,789	929	7,436
Depreciation	-	6,826	-	6,826
Travel	3,319	2,490	830	6,639
Office supplies	2,802	2,101	700	5,603
Repairs and maintenance	2,133	1,600	533	4,266
Telephone	1,023	767	256	2,046
Postage	993	744	248	1,985
Miscellaneous	807	605	201	1,613
Taxes and licenses	742	557	185	1,484
Total expenses	<u>\$ 1,414,577</u>	<u>\$ 564,617</u>	<u>\$ 84,435</u>	<u>\$ 2,063,629</u>

See Notes to Consolidated Financial Statements.

2014

Program Services	Management and General	Fundraising	Total
\$ 2,839,034	\$ -	\$ -	\$ 2,839,034
136,388	102,291	34,097	272,776
-	309,109	-	309,109
70,865	53,149	17,716	141,730
26,583	19,937	6,645	53,165
22,290	16,718	5,572	44,580
18,735	14,051	4,684	37,470
11,294	8,470	2,823	22,587
17,381	13,036	4,345	34,762
10,030	7,523	2,507	20,060
7,240	5,430	1,810	14,480
13,584	10,188	3,395	27,167
4,477	3,357	1,119	8,953
3,555	2,666	888	7,109
-	7,769	-	7,769
4,711	3,533	1,178	9,422
2,185	1,638	546	4,369
2,378	1,783	594	4,755
1,027	769	257	2,053
1,175	881	294	2,350
2,377	1,786	599	4,762
2,612	1,959	653	5,224
<u>\$ 3,197,921</u>	<u>\$ 586,043</u>	<u>\$ 89,722</u>	<u>\$ 3,873,686</u>

# KERN COMMUNITY FOUNDATION AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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 100 charitable funds with assets of more than \$17.5 million, and has awarded approximately \$14.4 million in cumulative grants.

The Foundation partners with Greater Horizons, administered by the Greater Kansas City Community Foundation (GKCCF), for financial management and investment accounting services for all funds under its stewardship. Through this partnership, the Foundation pools its assets with those of GKCCF, which exceed \$1 billion held in more than 3,000 charitable funds. GKCCF is compensated for these services, and provides fund accounting and enhanced donor services to the Foundation’s donors.

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.

Grants from the Foundation are guided by a belief that a healthy nonprofit sector is essential to the overall quality of life in the Kern County community. The Foundation awards donor-advised and competitive grants with the determination to improve people’s lives and the community with such vitality that people stay, engage and invest by choice and not circumstances. Evaluation of the impact of the Foundation’s grants is supported, in part, through the Foundation’s Nonprofit Outreach Program and its Nonprofit Search; an online tool that allows local charities to create profiles featuring their financials, leadership, management and programs all in a simple to use database. Donors use the Nonprofit Search to find, learn about and give directly to 501(c)(3) tax-exempt charitable organizations located in Kern County.

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.

*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.

# KERN COMMUNITY FOUNDATION AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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*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 unrestricted net assets when received. However, temporarily restricted or permanently restricted support may be recorded, depending on the existence and/or nature of any donor 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 temporarily restricted net assets are reclassified to unrestricted net assets and 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 unrestricted net assets class.

The Foundation reports gifts of goods and equipment as unrestricted support 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 restricted support. 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, 2015 or 2014. 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 unrestricted net assets.

*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 is 1.76% and 1.65% at December 31, 2015 and 2014, respectively, applied to gross campaign, including donor designations. The provision for unamortized discounts is reviewed and approved by the Foundation's Audit Committee and Governing Board.

# KERN COMMUNITY FOUNDATION AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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*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 5 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 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 11 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 \$25,793 and \$37,470 for the years ended December 31, 2015 and 2014, 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 statement 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.

**KERN COMMUNITY FOUNDATION  
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Subsequent events:* The Foundation has evaluated subsequent events through May 17, 2016, the date on which the financial statements were available to be issued. Management identified a subsequent event which is described in Note 12.

*Reclassifications:* Certain items in the 2014 financial statements have been reclassified to conform to the 2015 presentation, with no effect on the change in net assets.

**Note 2. Cash and Cash Equivalents**

Cash and cash equivalents held by the Foundation consist of the following at December 31, 2015 and 2014:

	2015	2014
Money market funds	\$ 2,420,005	\$ 3,178,587
Cash held by investment broker	43,915	168,133
Cash in bank, checking	32,348	38,717
Petty cash	500	500
	<u>\$ 2,496,768</u>	<u>\$ 3,385,937</u>

**Note 3. Contributions Receivable**

Contributions receivable consist of the following at December 31, 2015 and 2014:

	2015	2014
Amount receivable within one year	\$ 34,477	\$ 70,153
Amount receivable in 1 to 5 years	56,966	34,549
Amount receivable after five years	152,014	158,923
Total contributions receivable	243,457	263,625
Less unamortized discounts	87,666	90,028
Pledges receivable, net of unamortized discounts	155,791	173,597
Less current portion	30,946	67,017
	<u>\$ 124,845</u>	<u>\$ 106,580</u>

**Note 4. Investments**

Investments consist of the following at December 31, 2015 and 2014:

	2015	2014
Equity funds	\$ 9,716,339	\$ 9,256,360
Fixed income funds	5,064,452	4,535,254
Alternative investment funds	-	1,177,055
	<u>\$ 14,780,791</u>	<u>\$ 14,968,669</u>

**KERN COMMUNITY FOUNDATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Realized and unrealized gain (loss) on investments for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Realized gain	\$ 33,225	\$ 123,735
Unrealized gain (loss)	(367,655)	274,454
	<u>\$ (334,430)</u>	<u>\$ 398,189</u>

**Note 5. 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.

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.

*Alternative investment funds:* Valued at an amount determined by the investment manager.

**KERN COMMUNITY FOUNDATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents information about the Foundation's assets that are measured at fair value on a recurring basis at December 31, 2015 and 2014 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	2015			
	Total	Level 1	Level 2	Level 3
Equity funds	\$ 9,716,339	\$ 9,716,339	\$ -	\$ -
Fixed income funds	5,064,452	5,064,452	-	-
	<u>\$ 14,780,791</u>	<u>\$ 14,780,791</u>	<u>\$ -</u>	<u>\$ -</u>

  

	2014			
	Total	Level 1	Level 2	Level 3
Equity funds	\$ 9,256,360	\$ 9,256,360	\$ -	\$ -
Fixed income funds	4,535,254	4,535,254	-	-
Alternative investments	1,177,055	-	-	1,177,055
	<u>\$ 14,968,669</u>	<u>\$ 13,791,614</u>	<u>\$ -</u>	<u>\$ 1,177,055</u>

**Change in Fair Value and Related Gains and Losses**

The table below sets forth summaries of changes in the fair value of the Foundation's Level 3 assets for the years ended December 31, 2015 and 2014:

	Alternative Investment Funds
Balance, January 1, 2014	\$ 1,205,201
Unrealized gains relating to instruments still held at the reporting date	63,065
Transfers out of level	(91,211)
Balance, December 31, 2014	<u>1,177,055</u>
Unrealized gains	33,032
Transfers out of level	(1,210,087)
Balance, December 31, 2015	<u>\$ -</u>

# KERN COMMUNITY FOUNDATION AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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*Alternative Investments:* As of December 31, 2014, the Foundation was invested in multi-strategy hedge funds. These funds primarily use directional (long/short domestic and global equity), and absolute return strategies with the objective of protecting capital, providing returns uncorrelated to the broad United States equity market and earning attractive rates of return over time. The Foundation's hedge funds, as held by Greater Kansas City Community Foundation's alternative investment pool, have lock-up periods ranging from one to two years, and thereafter require between 65 and 95 days of advance notice prior to redemption. The Foundation had no alternative investments at December 31, 2015.

Additionally, as of December 31, 2014, the Foundation was invested in investment partnerships. Each partnership operated in accordance with terms of a limited partnership agreement and continues to operate year to year, unless dissolved in accordance with the agreements. The partnership's investment objectives vary, but generally seeks to maximize risk adjusted returns over the long term by employing a strategy under which the partnerships invest in multiple asset classes, including traditional assets (such as marketable equity, fixed income and other securities) and alternative assets (such as real estate, commodities, timber, absolute return/hedge funds, private equity and venture capital investments). The investment partnerships are priced at varying intervals, generally allowing exit at month end or quarter end. Advanced notice periods range from 0 to 60 days.

The Foundation's hedge funds and investment partnerships are included in alternative investments in the fair value hierarchy table.

### **Note 6. 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, 2015 and 2014 are as follows:

	Unrestricted	Permanently Restricted	Total
Endowment fund net assets, January 1, 2014	\$ 81,001	\$ 500,000	\$ 581,001
Contributions	60,000	-	60,000
Appropriations for endowment assets, for expenditures	(37,771)	-	(37,771)
Investment return	36,354	-	36,354
Endowment fund net assets, December 31, 2014	139,584	500,000	639,584
Appropriations for endowment assets, for expenditures	(111,029)	-	(111,029)
Investment return	3,517	-	3,517
Endowment fund net assets, December 31, 2015	<u>\$ 32,072</u>	<u>\$ 500,000</u>	<u>\$ 532,072</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 7. Contributions In-Kind**

Contributions in-kind received from private donors consist of the following for the years ended December 31, 2015 and 2014:

	2015	2014
Equity funds	\$ 196,764	\$ 191,789
Travel	1,306	-
Office supplies	1,297	-
	<u>\$ 199,367</u>	<u>\$ 191,789</u>

**Note 8. Permanently Restricted Net Assets**

Permanently restricted net assets of \$500,000 at December 31, 2015 and 2014 are restricted in perpetuity. Earnings on the principal are intended for the Oscar and Libbie Rudnick Scholarship Fund, but can be used for other purposes as explained in Note 1 in the variance power paragraph.

**Note 9. Major Contributors**

For the year ended December 31, 2015 the Foundation received approximately 62% of its total revenues and support from three donors and one grantor. For the year ended December 31, 2014 the Foundation received approximately 48% of its total revenues and support from one donor and one grantor.

**Note 10. Commitments**

The Foundation leases office space and equipment under various non-cancelable agreements through January 2019 that require minimum monthly lease payments. Future minimum payments are due as follows:

Years ending December 31,	
2016	\$ 55,825
2017	57,133
2018	46,567
2019	720
	<u>\$ 160,245</u>

Rent expense for the years ended December 31, 2015 and 2014 was \$52,576 and \$53,165, respectively.

# **KERN COMMUNITY FOUNDATION AND AFFILIATES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 11. 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 return of KREF.

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 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. KCF is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years before 2011.

### **Note 12. Subsequent Event**

On February 26, 2016 the Foundation received notification from a granting agency that they had been awarded a grant for \$961,000 with a grant period of March 1, 2016 through February 28, 2018.