THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

(A Charitable Trust)

FINANCIAL STATEMENTS

November 30, 2018 and 2017

Gursey | Schneider LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

C O N T E N T S

Gursey | Schneider LLP

CERTIFIED
PUBLIC ACCOUNTANTS
& ADVISORS

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Independent Auditor's Report

To the Board of Directors
The Kenneth T. and Eileen L. Norris Foundation
Long Beach, California

We have audited the accompanying financial statements of The Kenneth T. and Eileen L. Norris Foundation (a charitable trust) which comprise the statements of financial position as of November 30, 2018 and 2017, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to 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 the 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 on the previous page present fairly, in all material respects, the financial position of The Kenneth T. and Eileen L. Norris Foundation as of November 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gursey | Schneider LLP

February 22, 2019
Los Angeles, California

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION
(A Charitable Trust)
Statements of Financial Position
November 30, 2018 and 2017

ASSETS

		2018		2017
ASSETS:				
Cash and cash equivalents	$	4,623,717	$	500,312
Investments, at fair value		220,776,149		222,611,459
Accrued interest and dividends		823,442		765,043
Prepaid expenses and other assets		2,826		2,826
TOTAL ASSETS	$	226,226,134	$	223,879,640

LIABILITIES AND NET ASSETS

		2018		2017
LIABILITIES:				
Grants payable, net	$	6,575,178	$	8,061,696
Federal and state taxes payable		21,907		62,502
Deferred tax liability		2,808,801		2,853,534
TOTAL LIABILITIES		9,405,886		10,977,732
NET ASSETS - UNRESTRICTED		216,820,248		212,901,908
TOTAL LIABILITIES AND NET ASSETS	$	226,226,134	$	223,879,640

See Accompanying Notes to Financial Statements

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION
(A Charitable Trust)
Statements of Activities and Changes in Net Assets
Years Ended November 30, 2018 and 2017

	2018	2017
REVENUES AND GAINS:		
Interest	$ 1,334,981	$ 1,277,069
Dividends	4,191,646	3,992,970
Net realized and unrealized gains on investments	8,000,775	37,274,232
All other	-	2,509
TOTAL REVENUES AND GAINS	13,527,402	42,546,780
EXPENSES:		
Grants	7,852,482	7,284,447
Administrative fees	1,250,000	1,145,000
Federal excise taxes	255,962	838,153
Rent	49,880	43,196
Insurance	5,116	5,139
All other	195,622	123,795
TOTAL EXPENSES	9,609,062	9,439,730
CHANGES IN NET ASSETS	3,918,340	33,107,050
UNRESTRICTED NET ASSETS:		
BEGINNING OF YEAR, AS REPORTED	212,901,908	179,794,858
END OF YEAR	$ 216,820,248	$ 212,901,908

See Accompanying Notes to Financial Statements

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION
(A Charitable Trust)
Statements of Cash Flows
Years Ended November 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 3,918,340	$ 33,107,050
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Realized and unrealized gains on investments, net	(8,000,775)	(37,274,232)
Amortization of premium or discount on investments, net	(85,920)	95,242
Deferred tax expense	(44,733)	722,961
Change in operating assets and liabilities:		
(Increase) in accrued interest and dividends	(58,399)	(74,376)
Decrease in prepaid taxes	-	6,106
(Decrease) in grants payable	(1,486,518)	(1,374,653)
(Decrease) increase in taxes payable	(40,595)	62,492
NET CASH USED IN OPERATING ACTIVITIES	(5,798,600)	(4,729,410)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale, maturity and redemption of investments	19,692,389	3,728,047
Purchase of investments	(9,770,384)	(98,731)
NET CASH PROVIDED BY INVESTING ACTIVITIES	9,922,005	3,629,316
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,123,405	(1,100,094)
CASH AND CASH EQUIVALENTS, Beginning of Year	500,312	1,600,406
CASH AND CASH EQUIVALENTS, End of Year	$ 4,623,717	$ 500,312
CASH PAID DURING THE YEAR FOR:		
Federal excise taxes paid	$ 278,798	$ 55,965

See Accompanying Notes to Financial Statements

NOTE 1 — ORGANIZATION AND NATURE OF ACTIVITIES

The Kenneth T. and Eileen L. Norris Foundation (the "Foundation"), a charitable trust, was created in September 1963 by gift of property from Kenneth T. and Eileen L. Norris. The Foundation is a private foundation as defined in Section 509(a) of the Internal Revenue Code, and, accordingly, the Foundation and its trustees are subject to the provisions of the Internal Revenue Code of 1986 and the laws of the State of California. The terms of the trust indenture provide that, either directly or indirectly, the assets and income are to be applied exclusively for charitable purposes.

Grants are awarded to tax-exempt organizations that fall into one of the Foundation's five funding areas:

1. Medicine
2. Education / Science
3. Youth
4. Community
5. Cultural (the Arts)

Additionally, the Trustees of the Foundation have limited ability to make discretionary contributions to other qualified tax-exempt organizations that may not otherwise qualify under these five funding areas.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Net Assets – The statements of financial position and statements of activities report total assets, liabilities, net assets and changes in net assets in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *"Financial Statements of Not-for-Profit Organizations."* Accordingly, net assets of the Foundation and changes therein present balances and transactions according to the existence or absence of donor-imposed restrictions and are classified as follows:

- Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations and that may be expended for any purpose in performing the objectives of the Foundation.

- Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time.

- Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that are to be maintained permanently by the Foundation. The income from these assets is available for either general operations or specific programs as specified by the donor.

For the years ended November 30, 2018 and 2017, all activities of the Foundation are classified as unrestricted due to the lack of donor-imposed restrictions.

NOTE 2 —SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Cash and Cash Equivalents — For purposes of reporting cash flows, cash and cash equivalents include cash and investments in U.S. Treasury bills and money market investments with original maturities of 90 days or less at the date of acquisition.

Investments — Investments are stated at fair value with unrealized gains and losses on investments resulting from fair value fluctuations recorded in the statements of activities in the period that such fluctuations occur. Purchases and sales of investments are recorded on the trade date. Dividend income is recorded based on the record date. Interest income is recorded as earned on an accrual basis. Bond premiums and discounts are amortized to the first call date using a method that approximates the effective interest method. Realized gains and losses are recorded upon disposition of securities. Investment income and realized and unrealized gains and losses are recognized as unrestricted net assets, unless their use is temporarily or permanently restricted by donors to a specified purpose or future period.

Grants — Grants made by the Foundation are recognized as an expense in the period in which they are approved, provided the grant is not subject to future contingencies. If these grants are paid over a period exceeding one year, they are recorded at the net present value of future cash payments, using an applicable risk- free rate of return which approximates the U.S. Treasury bill rate. Grants that are conditioned upon future events are expensed when those conditions are substantially met. At November 30, 2018 and 2017 grants payable were discounted using the risk-free rates ranging from 0.8% to 2.8%.

Income Taxes — The Foundation recognizes the impact of tax positions in the financial statements if the positions are more likely than not to be sustained on audit, based on the technical merits of the position. The Foundation has no unrecognized tax benefits, tax penalties or interest. The Organization’s federal income tax and informational returns for tax years ending November 30, 2015 and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, the Organization’s most significant jurisdiction, remain subject to examination by the California Franchise Tax Board for years 2014 and subsequent.

The Foundation does not anticipate that there will be any material changes in the unrecognized tax positions over the next twelve months.

Concentrations of Credit Risk — The Foundation maintains its corporate cash accounts at one bank. Except for money market accounts, accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. Amounts held in money market accounts are not insured. At November 30, 2018 and 2017, the Foundation held $4,538,462 and $434,269, respectively, in money market investments.

Risks and Uncertainties — Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term. Such changes could materially affect the amounts reported in the statements of financial position and statements of activities.

NOTE 2 —SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Recently Issued Accounting Pronouncements — On August 18, 2016, FASB issued new rules for nonprofit organizations under ASU 2016-*14 "Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities" ("NFP").* This ASU changes the financial reporting format for nonprofit organization financial statements to simplify the way in which NFPs quantify and qualify their financial performance, their liquidity and cash flows, and their classification of net assets. Five changes included in ASU 2016-14 are:

(1) The existing three-class system of classifying net assets as unrestricted, temporarily restricted and permanently restricted will be replaced with a simpler two-class structure. Going forward, NFPs will differentiate net assets solely between those net assets with donor restriction and net assets without donor restrictions. NFPs will still be required to disclose the nature and amounts of donor-imposed restrictions.

(2) The presentation of required disclosure of underwater endowment funds will change. When the fair market value of a donor-restricted endowment is less than the original gift amount or the amount the NFP is required to maintain by the donor or by law, NFPs will be required to also report the amount of the deficiency and their governing boards' policies or decisions to reduce or spend from these funds.

(3) NFPs will be required to disclose in financial statement notes qualitative information regarding how they will manage available liquid resources to meet cash needs for general expenses for the year following the balance sheet date. In addition, NFPs will be required to provide on the face of financial statements or in disclosure notes detailed quantitative information regarding their availability of financial assets at the balance sheet date to meet cash needs for the next year.

(4) Expenses by both their natural classification and their functional classification will be presented either on the face of the statement of activities, as a separate statement or in the notes to the financial statements. In addition to this change in the presentation of expenses, the method used to allocate costs among program and supporting activities functions is required to be disclosed.

(5) Finally, NFP's may continue to present the statement of cash flows using either the direct or indirect method of reporting. However, under the new reporting standard, NFPs employing the direct method to report cash flow will no longer be required to provide a reconciliation of net income to the cash amounts presented under the indirect method.

ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Management is currently evaluating the impact this change in accounting standards will have on the Foundation's financial statements and related disclosures.

Use of Estimates — The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the 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.

NOTE 2 —SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Subsequent Events – Subsequent events have been evaluated through February 22, 2019, the date the financial statements were available to be issued, and management has determined that no additional disclosures are required.

NOTE 3 — INVESTMENTS

The Foundation's investments are reported at fair value. Fair value is defined as the price that would be received upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. A three-tiered hierarchy is employed to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect assumptions market participants would use in pricing the asset developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1 - Quoted prices in active markets for identical investments
Level 2 - Other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
Level 3 - Significant unobservable inputs (including the entity's own assumptions in determining fair value of investments)

The Foundation uses Net Asset Value ("NAV") per share or its equivalent to value private investments in limited partnerships. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. Valuations provided by fund administrators consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the exit price. The Foundation reviews valuations and assumptions provided by fund administrators for reasonableness and believe that the carrying amounts of these investments are reasonable estimates of fair value.

NOTE 3 — INVESTMENTS — (CONTINUED)

As of November 30, 2018 and 2017, the Foundation's investments consisted of:

	2018		2017	
	Cost or Amortized Cost	Fair Value	Cost or Amortized Cost	Fair Value
Equity securities	$ 38,170,412	$ 175,852,968	$ 41,258,987	$ 179,553,560
Mortgage backed securities	232,094	228,359	412,578	400,199
Corporate obligations	31,006,039	30,450,143	26,160,000	26,576,084
Obligations of U.S. and state governments	7,929,856	7,869,141	9,047,073	9,260,422
Mutual funds	3,809,835	6,364,339	3,809,835	6,809,882
Subtotal - investment securities	81,148,236	220,764,950	80,688,473	222,600,147
Limited partnership interests	11,284	11,199	11,303	11,312
	$ 81,159,520	$ 220,776,149	$ 80,699,776	$ 222,611,459

As of November 30, 2018 and 2017, the Foundation's investments were classified by level within the valuation hierarchy as follows:

	2018			2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Equity securities	$ 175,852,968	$ -	$ 175,852,968	$ 179,553,560	$ -	$ 179,553,560
Mortgage backed securities	-	228,359	228,359	-	400,199	400,199
Corporate bonds	-	30,450,143	30,450,143	-	26,576,084	26,576,084
U.S. and state obligations	7,869,141	-	7,869,141	9,260,422	-	9,260,422
Mutual funds	6,364,339	-	6,364,339	6,809,882	-	6,809,882
Subtotal	$ 190,086,448	$ 30,678,502	220,764,950	$ 195,623,864	$ 26,976,283	222,600,147
Investments measured at NAV practical expedient						
Limited partnership interests, measured at NAV			11,199			11,312
TOTAL			$ 220,776,149			$ 222,611,459

There were no investments classified in the Level 3 fair value hierarchy.

NOTE 4 — GRANTS PAYABLE

Grants payable include unconditional grants approved by the Foundation during the current or previous years that will be paid in future years. Grants payable at November 30, 2018 are expected to be paid as follows:

Years Ending November 30,		Amount
2019	$	1,900,000
2020		1,850,000
2021		1,650,000
2022		1,500,000
		6,900,000
Less discount to reflect grants payable at present value		(324,822)
Grants payable, net	$	6,575,178

Cash payments made on unconditional grants were $9,339,000 and $8,659,100 during the years ended November 30, 2018 and 2017, respectively.

NOTE 5 — RELATED PARTY TRANSACTIONS

Certain trustees of the Foundation are also officers of KTN Enterprises, Inc. ("KTNE"). KTNE provides all investment management, administrative and accounting services to the Foundation. The Foundation is charged an administrative fee for these services based on an approximate percentage of total invested assets under KTNE's management. These annual administrative fees were $1,250,000 and $1,145,000 for the years ended November 30, 2018 and 2017 respectively.

Additionally, trustees of the Foundation receive consulting fees for serving on the Board of Directors. Fees paid to the trustees were $55,250 and $25,000 for the years ended November 30, 2018 and 2017, respectively.

Certain trustees, officers, or managers of the Foundation also serve as directors of organizations receiving contributions. During the year ended November 30, 2018 and 2017, such organizations received approximately $165,000 and $269,000, respectively, from the Foundation.

NOTE 6 — FEDERAL INCOME AND EXCISE TAXES

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code"). As a qualified Section 501(c)(3) organization, it is exempt from income taxes on the basis that it qualifies for exemption under Section 501(a) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded for unrelated business income as there was no net income from any such trade or business for the years ended November 30, 2018 and 2017.

Since the Foundation has been classified as a private foundation, it is subject to federal excise tax on investment income, generally imposed at the rate of 2% on a private foundation. The excise tax may be reduced by 1% based on a formula provided under the Internal Revenue Code. The Foundation recognized excise taxes at the rate of 2% during the years ended November 30, 2018 and 2017. The Foundation provides for deferred federal excise taxes and deferred tax liability on unrealized gains on investments at a rate of 2%, which is an estimate of the effective rate expected to be paid at the time the gains are realized, if ever.

Federal income tax regulations also require the Foundation to distribute, before the close of the following year, five percent of the market value of its aggregate non-charitable assets, reduced by federal excise taxes, or are subject to 15% excise tax on undistributed income. The Foundation makes timely qualified distributions in order to satisfy the minimum distribution requirements of the code.

The components of the Foundation's federal excise tax expense in the statement of activities for the years ended November 30, 2018 and 2017 are as follows:

	2018	2017
Federal excise taxes		
Current	$ 300,695	$ 115,192
Deferred	(44,733)	722,961
Total	$ 255,962	$ 838,153

NOTE 7 – LEASE COMMITMENTS

The Company has a non-cancelable lease for its current office space through July 31, 2021. Rent expense for the years ended November 30, 2018 and 2017 was $49,880 and $43,196, respectively.

The future aggregate rental payments under the lease are summarized as follows:

Years Ending November 30,	Amount
2019	$ 55,001
2020	56,515
2021	38,350
	$ 149,866