

**THE KENNETH T. AND EILEEN L. NORRIS
FOUNDATION**
(A Charitable Trust)

FINANCIAL STATEMENTS

November 30, 2021 and 2020



Gurseley | 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, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses, 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.



The Kenneth T. and Eileen L. Norris Foundation
Independent Auditor's Report
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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, 2021 and 2020, 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 1, 2022
Los Angeles, California

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

(A Charitable Trust)

Statements of Financial Position

November 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
ASSETS:		
Cash and cash equivalents	\$ 4,801,073	\$ 4,075,061
Investments, at fair value	310,482,017	270,424,574
Accrued interest and dividends	489,175	529,454
Prepaid federal excise taxes	14,120	-
Prepaid expenses and other assets	<u>2,826</u>	<u>2,826</u>
TOTAL ASSETS	<u>\$ 315,789,211</u>	<u>\$ 275,031,915</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Grants payable, net	\$ 2,407,753	\$ 3,348,480
Federal and state taxes payable	-	52,530
Deferred tax liability	<u>2,885,699</u>	<u>2,610,866</u>
TOTAL LIABILITIES	5,293,452	6,011,876
NET ASSETS		
Without donor restrictions	<u>310,495,759</u>	<u>269,020,039</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 315,789,211</u>	<u>\$ 275,031,915</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
REVENUES AND GAINS:		
Investment income, net	<u>\$ 53,667,327</u>	<u>\$ 39,145,881</u>
EXPENSES:		
Program services	11,006,565	8,794,995
General and administrative	444,120	430,307
Federal excise tax expense	<u>740,922</u>	<u>598,802</u>
TOTAL EXPENSES	<u>12,191,607</u>	<u>9,824,104</u>
CHANGES IN NET ASSETS	41,475,720	29,321,777
NET ASSETS - WITHOUT DONOR RESTRICTIONS:		
BEGINNING OF YEAR	<u>269,020,039</u>	<u>239,698,262</u>
END OF YEAR	<u><u>\$ 310,495,759</u></u>	<u><u>\$ 269,020,039</u></u>

See Accompanying Notes to Financial Statements

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION
(A Charitable Trust)
Statements of Functional Expenses
Years Ended November 30, 2021 and 2020

	Year Ended November 30, 2021			Year Ended November 30, 2020		
	Programs	General and Administrative	Total	Programs	General and Administrative	Total
Grants	\$ 9,878,073	\$ -	\$ 9,878,073	\$ 7,727,172	\$ -	\$ 7,727,172
Compensation and benefits	887,741	314,695	1,202,436	831,791	291,687	1,123,478
Occupancy	46,968	25,290	72,258	56,803	33,361	90,164
Professional fees	78,801	42,431	121,232	80,761	47,431	128,192
Conferences and travel expenses	10,426	5,614	16,040	10,422	6,121	16,543
Office and administration	104,556	56,090	160,646	88,046	51,707	139,753
	<u>\$ 11,006,565</u>	<u>\$ 444,120</u>	<u>\$ 11,450,685</u>	<u>\$ 8,794,995</u>	<u>\$ 430,307</u>	<u>\$ 9,225,302</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 41,475,720	\$ 29,321,777
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Realized and unrealized gains on investments, net	(48,072,314)	(33,798,242)
Amortization of premium or discount on investments, net	24,167	144,185
Deferred tax expense (benefit)	274,833	403,478
Change in operating assets and liabilities:		
(Increase) decrease in accrued interest and dividends	40,279	144,445
(Increase) decrease in prepaid taxes	(14,120)	157,891
(Decrease) in grants payable, net	(940,727)	(2,338,220)
Increase (decrease) in taxes payable	<u>(52,530)</u>	<u>52,530</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(7,264,692)</u>	<u>(5,912,156)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale, maturity and redemption of investments	40,468,447	15,535,225
Purchase of investments	<u>(32,477,743)</u>	<u>(16,215,555)</u>
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>7,990,704</u>	<u>(680,330)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	726,012	(6,592,486)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>4,075,061</u>	<u>10,667,547</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 4,801,073</u>	<u>\$ 4,075,061</u>
<u>CASH PAID DURING THE YEAR FOR:</u>		
Federal excise taxes paid (received)	<u>\$ 532,739</u>	<u>\$ (15,097)</u>

See Accompanying Notes to Financial Statements

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

(A Charitable Trust)

Notes to Financial Statements

November 30, 2021 and 2020

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.

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 and changes in net assets 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:

- *Net Assets – Without Donor Restrictions* – Net assets not subject to donor-imposed stipulations and that may be expended for any purpose in performing the objectives of the Foundation.
- *Net Assets – With Donor Restrictions* – Net assets that are subject to donor-imposed restrictions that limit the use of their contributions. Donor restrictions may result in temporarily restricted net assets, where the use of contributions is limited by donor-imposed stipulations that either expire by the passage of time or when used for specified purposes. Donor restrictions may also result in permanently restricted net assets, where the donor stipulations neither expire by the passage of time nor can be fulfilled or otherwise removed by the Foundation's actions.

For the years ended November 30, 2021 and 2020, all activities of the Foundation are classified as unrestricted due to the lack of donor-imposed restrictions.

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.

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

(A Charitable Trust)

Notes to Financial Statements

November 30, 2021 and 2020

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. The carrying value of cash and cash equivalents approximates its fair value.

Concentrations of Credit Risk – The Foundation maintains its corporate cash accounts at one bank. Except for money market accounts, the Federal Deposit Insurance Corporation insure accounts up to \$250,000. Amounts of cash held in money market accounts are not insured. At November 30, 2021, and 2020, the Foundation held \$4,612,998 and \$4,006,559, respectively, in money market investments.

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. Dividend income is recorded upon the ex-dividend date. 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.

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.

Grants – Grants made by the Foundation are recognized as an expense in the period in which they are approved by the board of trustees, 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, 2021 and 2020 grants payable were discounted using the risk-free rates ranging from 0.35% to 2.83%.

Functional Expenses – The costs of providing the various programs and activities have been summarized on a functional basis. Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with program and supporting service are allocated based on estimates determined by management. The Foundation uses employee salaries based on job functions as a measure to allocate indirect costs for compensation and benefits among program or supporting services, and space occupancy as a basis to allocate occupancy and general overhead related indirect costs.

Income 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 continued, 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, 2021, and 2020.

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

(A Charitable Trust)

Notes to Financial Statements

November 30, 2021 and 2020

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

Since the Foundation has been classified as a private foundation, it is subject to federal excise tax on investment income. The Foundation recognized excise taxes at the rate of 2.0% during the year ended November 30, 2020. On December 20, 2019, the Further Consolidated Appropriations Act, 2020 was signed into law. The bill created a flat net investment income (“NII”) excise tax rate of 1.39% for private foundations. The new NII law went into effect for private foundations with tax years beginning after December 20, 2019. The Foundation recognized excise taxes at the rate of 1.39% during the year ended November 30, 2021.

The Foundation provides for deferred federal excise taxes and deferred tax liability on unrealized gains on investments at this rate of 1.39%, 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 30% excise tax on undistributed income. The Foundation makes timely qualified distributions in order to satisfy the minimum distribution requirements of the code.

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 Foundation’s federal income tax and informational returns for tax years ending November 30, 2018 and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, the Foundation’s most significant jurisdiction, remain subject to examination by the California Franchise Tax Board for years 2017 and subsequent.

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

Recently Issued Accounting Pronouncements – In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases” (Topic 842). This ASU requires a lessee to recognize a right-of-use asset and a lease liability under most operating leases in its balance sheet. For non-public entities, the standard is effective for fiscal years beginning after December 15, 2021, and interim periods beginning the following year. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and provides for certain practical expedients during the period of adoption. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. Management is currently evaluating the impact this change in accounting standards will have on the Foundation’s financial statements and related disclosures.

Subsequent Events – Subsequent events have been evaluated through February 1, 2022, the date the financial statements were available to be issued, and management has determined that no additional disclosures are required.

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

(A Charitable Trust)

Notes to Financial Statements

November 30, 2021 and 2020

NOTE 3 – LIQUIDITY

Financial assets consist of the Foundation's cash, cash equivalents, investments, and related receivables. The following schedule summarizes the Foundation's financial assets available to meet cash needs for financial obligations due within one year of November 30, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 4,801,073	\$ 4,075,061
Investments	310,482,017	270,424,574
Accrued interest and dividends	<u>489,175</u>	<u>529,454</u>
	<u>\$ 315,772,265</u>	<u>\$ 275,029,089</u>

The Foundation has an investment policy authorized by the board of directors that provides guidance and oversight for the management of cash and cash equivalents and investments. The policy provides that the Foundation maintain an adequate level of cash to meet on-going operational requirements. In addition, the policy sets forth the structure for investment of excess cash based on the financial needs of the Foundation, the time horizon of those needs and Foundation's investment philosophy.

An outbreak of the novel strain of coronavirus (COVID-19) surfaced in the United States and throughout the world, causing business disruption and significant market fluctuations, which may negatively impact the Foundation's investment portfolio. The scope and duration of this impact cannot be reasonably estimated at this time. The Foundation is closely monitoring its investment portfolio.

NOTE 4 – 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 KENNETH T. AND EILEEN L. NORRIS FOUNDATION

(A Charitable Trust)

Notes to Financial Statements

November 30, 2021 and 2020

NOTE 4 – INVESTMENTS – (CONTINUED)

As of November 30, 2021 and 2020, the Foundation's investments consisted of:

	2021		2020	
	Cost or Amortized Cost	Fair Value	Cost or Amortized Cost	Fair Value
Equity securities	\$ 24,787,560	\$ 191,415,323	\$ 28,641,950	\$ 184,610,563
Corporate obligations	8,840,960	9,062,425	17,137,167	17,713,955
Exchange-traded funds	63,223,292	98,404,424	30,823,243	57,065,711
U.S. and state governments obligations	5,416,382	5,755,863	5,420,802	5,934,371
Mutual funds	1,098,730	5,843,982	1,098,730	5,099,974
Subtotal - investment securities	<u>\$ 103,366,924</u>	<u>\$ 310,482,017</u>	83,121,892	270,424,574
Limited partnership interests			<u>2,628</u>	<u>-</u>
			<u>\$ 83,124,520</u>	<u>\$ 270,424,574</u>

As of November 30, 2021 and 2020, the Foundation's investments were classified by level within the valuation hierarchy as follows:

	2021			2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Equity securities	\$ 191,415,323	\$ -	\$ 191,415,323	\$ 184,610,563	\$ -	\$ 184,610,563
Corporate bonds	-	9,062,425	9,062,425	-	17,713,955	17,713,955
Exchange-traded funds	98,404,424	-	98,404,424	57,065,711	-	57,065,711
U.S. and state obligations	5,755,863	-	5,755,863	5,934,371	-	5,934,371
Mutual funds	5,843,982	-	5,843,982	5,099,974	-	5,099,974
Subtotal	<u>\$ 301,419,592</u>	<u>\$ 9,062,425</u>	<u>\$ 310,482,017</u>	<u>\$ 252,710,619</u>	<u>\$ 17,713,955</u>	<u>\$ 270,424,574</u>

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

The following is a summary of investment income for the years ended of November 30, 2021 and 2020:

	2021	2020
Interest	\$ 559,941	\$ 864,747
Dividends	5,204,823	4,616,404
Net realized and unrealized gains	48,072,314	33,798,242
Investment expenses:		
Advisory fees	<u>(169,751)</u>	<u>(133,512)</u>
Investment income, net of fees	<u>\$ 53,667,327</u>	<u>\$ 39,145,881</u>

Advisory fees included above consist of both fees paid to outside investment advisors and direct internal salary allocation related to the direct conduct and supervision of the strategic and tactical activities of generating investment return.

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

(A Charitable Trust)

Notes to Financial Statements

November 30, 2021 and 2020

NOTE 5 – 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, 2021 are expected to be paid as follows:

<u>Years Ending November 30,</u>	
2022	\$ 2,150,000
2023	200,000
2024	<u>100,000</u>
	2,450,000
Less discount to reflect grants payable at present value	<u>(42,247)</u>
Grants payable, net	<u>\$ 2,407,753</u>

Cash payments made on unconditional grants were \$10,818,800 and \$10,063,800 during the years ended November 30, 2021 and 2020, respectively.

NOTE 6 – FEDERAL INCOME AND EXCISE TAXES

The components of the Foundation's federal excise tax expense in the statement of activities for the years ended November 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
<u>Federal excise taxes</u>		
Current	\$ 466,089	\$ 195,324
Deferred	<u>274,833</u>	<u>403,478</u>
	<u>\$ 740,922</u>	<u>\$ 598,802</u>

NOTE 7 – LEASE COMMITMENTS

The Company has a non-cancelable lease for its current office space through July 31, 2026. Rent expense for the years ended November 30, 2021 and 2020 was \$47,569 and \$59,286, respectively.

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

<u>Years Ending November 30,</u>	
2022	\$ 21,572
2023	44,531
2024	55,001
2025	56,515
2026	<u>38,350</u>
	<u>\$ 215,969</u>

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

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Notes to Financial Statements

November 30, 2021 and 2020

NOTE 8 – 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 \$1,511,200 and \$1,390,000 for the years ended November 30, 2021, and 2020, respectively and included in the corresponding expense categories on the statement of functional expenses.

Additionally, trustees of the Foundation receive consulting fees for serving on the Board of Directors. Fees paid to the trustees were \$60,000 and \$60,000 for the years ended November 30, 2021, and 2020, respectively.

Certain trustees, officers, or managers of the Foundation also serve as directors of organizations receiving contributions. During the year ended November 30, 2021, and 2020, such organizations received approximately \$2,085,000 and \$135,000, respectively, from the Foundation.