

# **THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION**

## **FINANCIAL STATEMENTS**

**As of and For the Years Ended  
November 30, 2008 and 2007**



**Gurseley | Schneider** LLP  
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

## CONTENTS

	<b>Page</b>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2008 AND 2007:</b>	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
<b>NOTES TO FINANCIAL STATEMENTS</b>	5 - 11



PARTNERS

David E. Blumenthal, CPA, ABV

Roseanna L. Purzycki, CPA

David J. Swan, CPA, ABV

Stephan H. Wasserman, CPA, ABV

Robert O. Watts, CPA

Tracy Farryl Katz, ESQ., CPA

Nazfar B. Afshar, CPA

PRINCIPAL

Marie Ambrosino

DIRECTOR

Rosemarie Reed, CPA

FOUNDERS

Donald L. Gurseys (1936-2007)

Stanley B. Schneiders, CPA



1888

Century Park East

Suite 900

Los Angeles

CA

90067-1735

310 552 0960 ph

310 557 3468 fx

**Independent Auditors' Report**

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

We have audited the accompanying statements of financial position of The Kenneth T. and Eileen L. Norris Foundation (the "Foundation") as of November 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of November 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Gurseys | Schneiders LLP*

February 18, 2009  
Los Angeles, California

**THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION**  
 Statements of Financial Position  
 November 30, 2008 and 2007

	<b><u>ASSETS</u></b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
<b>CASH AND CASH EQUIVALENTS</b>	\$ 16,277,350	\$ 5,100,678
<b>INVESTMENTS</b>	120,721,231	189,655,522
<b>ACCRUED INTEREST AND DIVIDENDS</b>	952,023	778,528
<b>PREPAID TAXES AND OTHER ASSETS</b>	<u>100,935</u>	<u>39,804</u>
<b><i>TOTAL ASSETS</i></b>	<b><u>\$ 138,051,539</u></b>	<b><u>\$ 195,574,532</u></b>

<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>LIABILITIES</b>		
Grants payable, net	<u>\$ 8,453,252</u>	<u>\$ 10,144,757</u>
<b>NET ASSETS - UNRESTRICTED</b>	<u>129,598,287</u>	<u>185,429,775</u>
<b><i>TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS</i></b>	<b><u>\$ 138,051,539</u></b>	<b><u>\$ 195,574,532</u></b>

See Accompanying Notes to Financial Statements

**THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION**  
 Statements of Activities  
 Years Ended November 30, 2008 and 2007

	<b>2008</b>	<b>2007</b>
<b>REVENUES AND GAINS:</b>		
Interest	\$ 3,639,001	\$ 3,422,424
Dividends	3,215,053	2,798,336
Net realized and unrealized gain on investments	-	15,808,961
Other	5,062	5,233
 <b>TOTAL REVENUES AND GAINS</b>	 6,859,116	 22,034,954
<b>EXPENSES AND LOSSES:</b>		
Grants	6,832,860	17,260,673
Administrative fees	896,650	989,091
Federal excise tax	58,869	150,431
Rent	54,249	51,880
Custodian fees	47,202	48,890
Foreign taxes	10,627	26,322
Insurance	10,212	10,202
Other	161,924	138,616
Net realized and unrealized losses on investments	54,618,011	-
 <b>TOTAL EXPENSES AND LOSSES</b>	 62,690,604	 18,676,105
 <b>INCREASE (DECREASE) IN NET ASSETS</b>	 (55,831,488)	 3,358,849
 <b>UNRESTRICTED NET ASSETS, BEGINNING OF YEAR</b>	 185,429,775	 182,070,926
 <b>UNRESTRICTED NET ASSETS, END OF YEAR</b>	 \$ 129,598,287	 \$ 185,429,775

See Accompanying Notes to Financial Statements

**THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION**

Statements of Cash Flows

Years Ended November 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Increase (decrease) in net assets	\$ (55,831,488)	\$ 3,358,849
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Realized and unrealized (gain) or loss on investments, net	54,618,011	(15,808,961)
Amortization of premium or discount on investments, net	(200,890)	27,422
Change in operating assets and liabilities:		
(Increase) decrease in accrued interest and dividends	(173,495)	172,616
Increase in prepaid taxes and other assets	(61,131)	(12,263)
Increase (decrease) in grants payable	<u>(1,691,505)</u>	<u>9,345,427</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>(3,340,498)</u>	<u>(2,916,910)</u>
<b>CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:</b>		
Proceeds from sale, maturity and redemption of investments	36,944,548	30,081,126
Purchase of investments	<u>(22,427,378)</u>	<u>(22,293,241)</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>14,517,170</u>	<u>7,787,885</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	11,176,672	4,870,975
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<u>5,100,678</u>	<u>229,703</u>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<u>\$ 16,277,350</u>	<u>\$ 5,100,678</u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION**

Cash paid for federal excise taxes	<u>\$ 120,000</u>	<u>\$ 164,000</u>
------------------------------------	-------------------	-------------------

See Accompanying Notes to Financial Statements

## THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

Notes to Financial Statements  
November 30, 2008 and 2007

### 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.

The Foundation supports programs that advance better health and intellectual enlightenment through education, cultivation of the arts, individual responsibility, freedom and dignity. Grants are awarded to tax-exempt organizations that fall into one of the Foundation's five funding areas:

- Medicine
- Education/Science
- Youth
- Community
- 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 – SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** — The accompanying financial statements have been prepared on the accrual basis of accounting. For the years ended November 30, 2008 and 2007, all activities of the Foundation are classified as unrestricted due to the lack of donor-imposed restrictions.

**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** – The Foundation records its investments in marketable securities with readily determinable fair values and all investments in debt securities at fair value. Unrealized gain and losses resulting from market fluctuations are included in the change in net assets in the period that such fluctuations occur.

**THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION**

Notes to Financial Statements  
November 30, 2008 and 2007

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)**

The fair value of marketable securities and mutual funds is determined on the basis of quoted market values. Limited partnerships that do not have readily determinable market values (which comprise less than 1% of total assets) are valued based on the available partner capital account balance as reported by the partnerships to the Foundation, adjusted for capital contributions and distributions from the partnerships through November 30, 2008. The Foundation reviews and evaluates the values provided by the general partners and agrees with the valuation methods and assumptions used in determining the fair value of these limited partnership interests. Management believes this approximates the fair value of underlying assets in the limited partnerships.

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, 2008 and 2007 grants payable were discounted using rates ranging from 3.4% to 4.7%.

**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.

**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 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.

**Reclassifications** - Certain reclassifications have been made to the 2007 financial statements to conform with the 2008 presentation.



**THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION**  
Notes to Financial Statements  
November 30, 2008 and 2007

**NOTE 3 – INVESTMENTS — (CONTINUED)**

	<u>2007</u>	
	COST OR <u>AMORTIZED COST</u>	<u>FAIR VALUE</u>
Equity securities	\$ 63,240,338	\$ 136,677,703
Corporate obligations	46,333,008	47,972,090
Obligations of foreign governments	727,077	804,019
Mutual funds	<u>1,000,000</u>	<u>3,340,821</u>
	<u>\$ 111,300,423</u>	188,794,633
Limited partnerships		<u>860,889</u>
		<u>\$ 189,655,522</u>

**THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION**

Notes to Financial Statements  
November 30, 2008 and 2007

**NOTE 3 – INVESTMENTS — (CONTINUED)**

Net investment income (loss) was comprised of the following for the years ended November 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Interest	\$ 3,639,001	\$ 3,422,424
Dividends	3,215,053	2,798,336
Net realized and unrealized gains (losses) on investments	(54,618,011)	15,808,961
Investment expenses:		
Custodian fees	<u>(47,202)</u>	<u>(48,890)</u>
	<u>\$ (47,811,159)</u>	<u>21,980,831</u>

**THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION**

Notes to Financial Statements  
November 30, 2008 and 2007

**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, 2008 are expected to be paid as follows:

Years ending November 30:

2009	2,860,000
2010	2,285,000
2011	2,135,000
2012	<u>2,060,000</u>
	9,340,000
Less unamortized discount	<u>(886,748)</u>
<b>TOTAL GRANTS PAYABLE</b>	<b><u>\$ 8,453,252</u></b>

Cash payments made on unconditional grants were \$8,524,362 and \$7,915,246 during the years ended November 30, 2008 and 2007, 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 \$896,650 and \$989,091 for the years ended November 30, 2008 and 2007, respectively.

Additionally, trustees of the Foundation receive consulting fees for serving on the Board of Directors. Fees paid to the trustees were \$68,000 and \$72,000 for the years ended November 30, 2008 and 2007, respectively.

**THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION**

Notes to Financial Statements  
November 30, 2008 and 2007

**NOTE 5 – RELATED PARTY TRANSACTIONS**

Certain directors, officers, or managers of the Foundation also serve as directors of organizations receiving contributions. During the years ended November 30, 2008 and 2007, such organizations received approximately \$4.0 million and \$1.5 million, respectively, from the Foundation.

**NOTE 6 – FEDERAL EXCISE TAXES**

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the “Code”) but is subject to a federal excise tax at the rate of two percent on its “net investment income” as defined by the Code. The excise tax may be reduced to one percent should the amount of qualified distributions during the year exceed a threshold amount, which is determined based on a formula provided by the Code. The Foundation did not exceed this amount.

Federal income tax regulations require the Foundation to distribute, before the close of the following year, five percent of the market value of its aggregate noncharitable assets, reduced by federal excise taxes, or be 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 current portion of excise tax expense is \$58,869 and \$150,431 for the years ended November 30, 2008 and 2007, respectively. Included in other assets is approximately \$98,120 and \$37,000 of prepaid federal excise taxes at November 30, 2008 and 2007 respectively.

The Foundation does not provide for deferred federal excise taxes on its unrealized gains and losses on investments; such amounts are not deemed material to the accompanying financial statements.

**NOTE 7 – CONCENTRATIONS OF RISK FOR CASH HELD AT BANKS**

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, 2008 and 2007, the Foundation held \$16,125,371 and \$5,098,710, respectively, in one money market investment.