

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

FINANCIAL STATEMENTS

**As of and For the Years Ended
November 30, 2009 and 2008**



Gursey | Schneider LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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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, 2009 and 2008, 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, 2009 and 2008, 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.

Gurseley | Schneider LLP

February 25, 2010
Los Angeles, California

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

Statements of Financial Position

November 30, 2009 and 2008

	<u>ASSETS</u>	
	<u>2009</u>	<u>2008</u>
CASH AND CASH EQUIVALENTS	\$ 661,258	\$ 16,277,350
INVESTMENTS	145,280,762	120,721,231
ACCRUED INTEREST AND DIVIDENDS	1,072,636	952,023
PREPAID TAXES AND OTHER ASSETS	<u>7,953</u>	<u>100,935</u>
<i>TOTAL ASSETS</i>	<u>\$ 147,022,609</u>	<u>\$ 138,051,539</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Grants payable, net	<u>\$ 6,009,484</u>	<u>\$ 8,453,252</u>
NET ASSETS - UNRESTRICTED	<u>141,013,125</u>	<u>129,598,287</u>
<i>TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS</i>	<u>\$ 147,022,609</u>	<u>\$ 138,051,539</u>

See Accompanying Notes to Financial Statements

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

Statements of Activities

Years Ended November 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
REVENUES AND GAINS:		
Interest	\$ 4,346,335	\$ 3,639,001
Dividends	1,930,971	3,215,053
Net realized and unrealized gain on investments	11,654,157	-
Other	10,124	5,062
	<u>17,941,587</u>	<u>6,859,116</u>
<i>TOTAL REVENUES AND GAINS</i>	<i>17,941,587</i>	<i>6,859,116</i>
EXPENSES AND LOSSES:		
Grants	5,380,852	6,832,860
Administrative fees	875,891	896,650
Federal excise tax	53,752	58,869
Rent	37,917	54,249
Custodian fees	35,099	47,202
Foreign taxes	9,155	10,627
Insurance	10,175	10,212
Other	123,908	161,924
Net realized and unrealized losses on investments	-	54,618,011
	<u>6,526,749</u>	<u>62,690,604</u>
<i>TOTAL EXPENSES AND LOSSES</i>	<i>6,526,749</i>	<i>62,690,604</i>
INCREASE (DECREASE) IN NET ASSETS	11,414,838	(55,831,488)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>129,598,287</u>	<u>185,429,775</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 141,013,125</u>	<u>\$ 129,598,287</u>

See Accompanying Notes to Financial Statements

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION
 Statements of Cash Flows
 Years Ended November 30, 2009 and 2008

	2009	2008
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Change in net assets	\$ 11,414,838	\$ (55,831,488)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized (gain) or loss on investments, net	(11,654,157)	54,618,011
Amortization of premium or discount on investments, net	(179,255)	(200,890)
Change in operating assets and liabilities:		
Increase in accrued interest and dividends	(120,613)	(173,495)
(Increase) decrease in prepaid taxes and other assets	92,982	(61,131)
Decrease in grants payable	(2,443,768)	(1,691,505)
NET CASH USED IN OPERATING ACTIVITIES	(2,889,973)	(3,340,498)
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Proceeds from sale, maturity and redemption of investments	32,427,721	36,944,548
Purchase of investments	(45,153,840)	(22,427,378)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(12,726,119)	14,517,170
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(15,616,092)	11,176,672
CASH AND CASH EQUIVALENTS, Beginning of year	16,277,350	5,100,678
CASH AND CASH EQUIVALENTS, End of year	\$ 661,258	\$ 16,277,350

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION

Cash paid for federal excise taxes	\$ -	\$ 120,000
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See Accompanying Notes to Financial Statements

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

Notes to Financial Statements

November 30, 2009 and 2008

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, 2009 and 2008, 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 — 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.

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

Notes to Financial Statements

November 30, 2009 and 2008

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Investments are stated at fair value. Unrealized gains and losses on investments resulting from fair value fluctuations are recorded in the statement of activities in the period that such fluctuations occur.

The estimated fair value of marketable securities and mutual funds is determined on the basis of quoted market prices. Limited partnerships that do not have readily determinable market prices (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 the end of the fiscal year. 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.

Fair Value of Financial Instruments — Fair value is defined as the price that the Foundation would receive 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 Foundation's own assumptions in determining fair value of investments)

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, 2009 and 2008 grants payable were discounted using rates ranging from 2.3 to 4.7%.

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

Notes to Financial Statements

November 30, 2009 and 2008

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

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, 2009 and 2008, the Foundation held \$455,905 and \$16,125,371, respectively, in one money market investment.

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.

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

Notes to Financial Statements
November 30, 2009 and 2008

NOTE 3 — INVESTMENTS

Investments comprised the following at November 30:

	2009	
	<u>Cost or Amortized Cost</u>	<u>Fair Value</u>
Equity securities	\$ 29,695,289	\$ 67,875,430
Corporate obligations	66,867,380	71,404,175
Obligations of foreign governments	2,343,685	2,684,851
Obligations of U.S. and state governments	505,204	506,795
Mutual funds	1,000,000	2,288,128
	<u>\$ 100,411,558</u>	144,759,379
Limited partnership interests		<u>521,383</u>
		<u>\$ 145,280,762</u>

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

Notes to Financial Statements

November 30, 2009 and 2008

NOTE 3 — INVESTMENTS — (CONTINUED)

	2008	
	Cost or Amortized Cost	Fair Value
Equity securities	\$ 31,652,279	\$ 63,100,746
Corporate obligations	57,187,919	54,748,073
Obligations of foreign governments	481,283	460,429
Mutual funds	1,000,000	1,769,001
	\$ 90,321,481	120,078,249
Limited partnership interests		642,982
		\$ 120,721,231

Net investment income (loss) was comprised of the following for the years ended November 30, 2009 and 2008:

	2009	2008
Interest	\$ 4,346,335	\$ 3,639,001
Dividends	1,930,971	3,215,053
Net realized and unrealized gains (losses)	11,654,157	(54,618,011)
Investment expenses:		
Custodian fees	(35,099)	(47,202)
	\$ 17,896,364	\$ (47,811,159)

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

Notes to Financial Statements

November 30, 2009 and 2008

NOTE 3 — INVESTMENTS — (CONTINUED)

The following is a summary of the inputs used as of November 30, 2009 in valuing the Foundation's investments carried at fair value:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Equity securities	\$ 67,875,430	\$ 67,875,430	\$ -
Corporate obligations	71,404,175	71,404,175	-
Obligations of foreign governments	2,684,851	2,684,851	-
Obligations of U.S. and state governments	506,795	506,795	-
Mutual funds	2,288,128	2,288,128	-
Limited partnership interests	<u>521,383</u>	<u>-</u>	<u>521,383</u>
TOTAL	<u><u>\$ 145,280,762</u></u>	<u><u>\$ 144,759,379</u></u>	<u><u>\$ 521,383</u></u>

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

Notes to Financial Statements
November 30, 2009 and 2008

NOTE 3 — INVESTMENTS — (CONTINUED)

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

	<u>Limited Partnership Interests</u>
Beginning balance	\$ 642,982
Total gains or losses (realized and unrealized) included in changes in net assets	(121,599)
Purchases, sales, issuances, and settlements (net)	<u>-</u>
Ending balance	<u>\$ 521,383</u>

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

Notes to Financial Statements

November 30, 2009 and 2008

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, 2009 are expected to be paid as follows:

Years ending November 30:

2010	\$	2,335,000
2011		2,135,000
2012		<u>2,060,000</u>
		6,530,000
Less unamortized discount		<u>(520,516)</u>
TOTAL GRANTS PAYABLE	\$	<u>6,009,484</u>

Cash payments made on unconditional grants were \$7,824,620 and \$8,524,362 during the years ended November 30, 2009 and 2008, 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 \$875,891 and \$896,650 for the years ended November 30, 2009 and 2008 respectively.

Additionally, trustees of the Foundation receive consulting fees for serving on the Board of Directors. Fees paid to the trustees were \$67,000 and \$68,000 for the years ended November 30, 2009 and 2008, respectively.

Certain trustees, officers, or managers of the Foundation also serve as directors of organizations receiving contributions. During the year ended November 30, 2009 and 2008, such organizations received approximately \$3.1 million and \$4.0 million, respectively, from the Foundation.

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

Notes to Financial Statements

November 30, 2009 and 2008

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 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 \$53,742 and \$58,869 for the years ended November 30, 2009 and 2008, respectively. Included in other assets is approximately \$5,138 and \$98,120 of prepaid federal excise taxes at November 30, 2009 and 2008 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.

THE KENNETH T. AND EILEEN L. NORRIS FOUNDATION

Notes to Financial Statements

November 30, 2009 and 2008

NOTE 7 – LEASE COMMITMENTS

The Company has a noncancelable lease for its office facility through July 31, 2013. Future minimum lease obligations under this lease as of November 30, 2009 are as follows:

<u>Year Ending November 30,</u>	<u>Amount</u>
2010	\$ 53,488
2011	55,001
2012	56,515
2013	<u>38,350</u>
	<u>\$ 203,354</u>

Rent expense for the years ended November 30, 2009 and 2008 was \$37,917 and \$54,249, respectively.

NOTE 8 – SUBSEQUENT EVENTS

For purposes of the financial statements, subsequent events were evaluated through February 17, 2010.