

DURFEE FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

**DURFEE FOUNDATION
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DECEMBER 31, 2016 AND 2015**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Durfee Foundation
Santa Monica, California

We have audited the accompanying financial statements of Durfee Foundation ("Foundation"), a Nevada non-profit public benefit corporation, which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of activities and change 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.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the Foundation'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 Foundation'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 above present fairly, in all material respects, the financial position of Durfee Foundation as of December 31, 2016 and 2015, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Pasadena, California
June 12, 2017

**DURFEE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015**

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 452,066	\$ 408,155
Investments	28,156,906	27,997,877
Contributions receivable, net	2,884,093	3,787,690
Prepaid expenses and other assets	22,362	36,038
Website, less accumulated amortization of \$10,110	62,680	-
	\$ 31,578,107	\$ 32,229,760
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 70,205	\$ 51,560
Grants payable	1,086,424	1,662,675
	1,156,629	1,714,235
COMMITMENT		
NET ASSETS		
Unrestricted net assets	27,537,385	26,727,835
Temporarily restricted net assets	2,884,093	3,787,690
	30,421,478	30,515,525
	\$ 31,578,107	\$ 32,229,760

See Accompanying Notes to Financial Statements.

DURFEE FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Total
<u>REVENUES</u>			
Dividends and interest	\$ 1,333,186	\$ -	\$ 1,333,186
Realized gains on investments	148,260	-	148,260
Unrealized gains on investments	448,878	-	448,878
Contributions	112,903	-	112,903
Release from restriction	903,597	(903,597)	-
TOTAL REVENUE	2,946,824	(903,597)	2,043,227
<u>EXPENSES</u>			
Grants	1,131,265	-	1,131,265
Salaries	356,302	-	356,302
Grant related expenses	202,765	-	202,765
Employee benefits	88,997	-	88,997
Office expense	90,573	-	90,573
Professional services	56,178	-	56,178
Investment management fees	30,511	-	30,511
Trustee stipend paid to officers and directors	33,750	-	33,750
Other expenses	63,314	-	63,314
Excise taxes	24,917	-	24,917
Payroll taxes	23,884	-	23,884
Dues	11,400	-	11,400
Insurance	9,102	-	9,102
Travel, conferences and meetings	12,993	-	12,993
Miscellaneous	1,323	-	1,323
TOTAL EXPENSES	2,137,274	-	2,137,274
(DECREASE) INCREASE IN NET ASSETS	809,550	(903,597)	(94,047)
NET ASSETS - BEGINNING OF YEAR	26,727,835	3,787,690	30,515,525
NET ASSETS - END OF YEAR	\$ 27,537,385	\$ 2,884,093	\$ 30,421,478

See Accompanying Notes to Financial Statements.

DURFEE FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Dividends and interest	\$ 1,607,675	\$ -	\$ 1,607,675
Realized gains on investments	130,366	-	130,366
Unrealized losses on investments	(1,683,553)	-	(1,683,553)
Contributions	983,500	3,787,690	4,771,190
	<u>1,037,988</u>	<u>3,787,690</u>	<u>4,825,678</u>
TOTAL REVENUE			
<u>EXPENSES</u>			
Grants	2,765,733	-	2,765,733
Salaries	354,336	-	354,336
Grant related expenses	160,634	-	160,634
Employee benefits	93,375	-	93,375
Office expense	89,770	-	89,770
Professional services	56,204	-	56,204
Investment management fees	53,184	-	53,184
Trustee stipend paid to officers and directors	32,500	-	32,500
Other expenses	31,235	-	31,235
Excise taxes	28,888	-	28,888
Payroll taxes	23,784	-	23,784
Dues	18,480	-	18,480
Insurance	8,864	-	8,864
Travel, conference and meetings	7,196	-	7,196
Miscellaneous	708	-	708
	<u>3,724,891</u>	<u>-</u>	<u>3,724,891</u>
TOTAL EXPENSES			
INCREASE (DECREASE) IN NET ASSETS	(2,686,903)	3,787,690	1,100,787
NET ASSETS - BEGINNING OF YEAR	<u>29,414,738</u>	<u>-</u>	<u>29,414,738</u>
NET ASSETS - END OF YEAR	<u>\$ 26,727,835</u>	<u>\$ 3,787,690</u>	<u>\$ 30,515,525</u>

See Accompanying Notes to Financial Statements.

**DURFEE FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (94,047)	\$ 1,100,787
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Amortization	10,110	-
Realized gains on investments	(148,260)	(130,366)
Unrealized (gains) losses on investments	(448,878)	1,683,553
Change in assets and liabilities:		
Contributions receivable	903,597	(3,787,690)
Prepaid expenses and other assets	13,676	(7,044)
Accounts payable and accrued expenses	18,645	4,820
Grants payable	(576,251)	1,072,912
	<u>(321,408)</u>	<u>(63,028)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure for website	<u>(72,790)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,076,303)	(3,200,329)
Sales of investments	2,514,412	3,140,276
	<u>438,109</u>	<u>(60,053)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	43,911	(123,081)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>408,155</u>	<u>531,236</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 452,066</u>	<u>\$ 408,155</u>
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Excise taxes paid	<u>\$ 40,158</u>	<u>\$ 20,000</u>

See Accompanying Notes to Financial Statements.

**DURFEE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

1. THE ORGANIZATION

The Durfee Foundation (the "Foundation"), located in Santa Monica, California, was created in 1960 for general philanthropic purposes. Over the years, the Foundation has developed a special emphasis to encourage individuals and organizations in pursuing their particular vision. Grants are awarded at the discretion of the Board of Trustees based on guidelines set forth in the bylaws primarily for research, education, and cultural enhancement principally in the Los Angeles region.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting to conform to generally accepted accounting principles in the United States of America as applicable to non-profit organizations. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein have been classified and are reported as follows:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations; donor-restricted contributions whose restrictions are met in the same reporting period; and net assets designated by the Board of Trustees for specific purposes.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or by the expiration of stipulated time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes. Currently, the Foundation has no permanently restricted net assets.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Contributions Receivable

Promises to give are recorded as contribution income and as receivables. Contributions are classified as unrestricted and temporarily restricted based on donor-imposed stipulations. Pledges that are expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are initially recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible pledges is estimated by management based on such factors as prior collections history, type of contribution and the nature of the fundraising activity.

**DURFEE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are stated at fair value. The estimated fair value of investments is based on quoted market prices and net asset value. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the statement of activities and changes in net assets.

Fair Value

Financial Accounting Standards Board Accounting Standards Codification 820, *Fair Value Measurement and Disclosure* establish a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring fair value. This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 – Quoted market prices are available in active market for identical assets or liabilities as of the reporting date.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level II input could result in the Level II measurement becoming a Level III measurement.

Level 3 – Pricing inputs are unobservable and shall be used to measure fair value to the extent that observable inputs are not available. The inputs into the determination of fair value are based upon the best information available and require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Website

Website is recorded at cost. Amortization is calculated using the straight-line method over the estimated useful life of 3 years.

Grants Payable

Grants payable and related expenses are initially measured at fair value using present value techniques, if greater than one year or at net realizable value if less than one year.

Income Taxes

The Foundation is a Nevada nonprofit public benefit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Foundation is classified as a private foundation as described in Section 509(a) and is not exempt from excise taxes on the net investment income of private foundations under Section 4940 of the Code. Historically, the Foundation has paid excise taxes at the 2% level.

**DURFEE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

Amounts on deposit with banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to statutory limits. Amounts maintained at brokerages are insured up to statutory limits by the Securities Investor Protection Corporation (SIPC). Mutual fund holdings are uninsured.

As of December 31, 2016 and 2015, one contributor accounted for 100% of the contribution receivable, respectively. For the year ended December 31, 2015, one contributor accounted for 100% of contribution income.

Functional Expense Allocation Methodology

The cost allocation methods used to allocate the Foundation's expenses to the appropriate functional classification as program and management and general, which are properly supported by the Foundation's books and records. The cost allocation methods used are rational, systematic, and consistently applied.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through June 12, 2017, the date that these financial statements were available to be issued. There were no subsequent events that would require adjustments to or disclosures in these financial statements.

New Accounting Pronouncements

In August 2016, FASB issued ASU 2016-14 Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This standard was issued to improve the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for fiscal year beginning after December 15, 2017, with early adoption permitted. Management will be evaluating the effects of this new standard.

**DURFEE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

At December 31, 2016 and 2015, the fair value measurements for investments measured on a recurring basis are as follows:

	2016			
	Total	Level 1	Level 2	Level 3
Equity Funds:				
Diversified Emerging Mkts	\$ 646,909	\$ 646,909	\$ -	\$ -
Foreign Large Blend	986,344	986,344	-	-
Large Blend	3,569,998	3,569,998	-	-
Large Growth	8,437,820	8,437,820	-	-
Large Value	4,670,855	4,670,855	-	-
Small Growth	3,138,685	3,138,685	-	-
Money Market Fund	63,280	63,280	-	-
	<u>21,513,891</u>	<u>21,513,891</u>	<u>-</u>	<u>-</u>
Bond Funds:				
High Yield Bond	9,081	9,081	-	-
Intermediate-Term Bond	4,611,316	4,611,316	-	-
Multi-sector Bond	1,372,901	1,372,901	-	-
Short-Term Bond	649,717	649,717	-	-
	<u>6,643,015</u>	<u>6,643,015</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 28,156,906</u>	<u>\$ 28,156,906</u>	<u>\$ -</u>	<u>\$ -</u>
	2015			
	Total	Level 1	Level 2	Level 3
Equity Funds:				
Foreign Large Blend	\$ 3,600,152	\$ 3,600,152	-	-
Large Blend	1,516,150	1,516,150	-	-
Large Growth	7,621,183	7,621,183	-	-
Large Value	4,699,961	4,699,961	-	-
Small Growth	2,994,470	2,994,470	-	-
	<u>20,431,916</u>	<u>20,431,916</u>	<u>-</u>	<u>-</u>
Bond Fund				
High Yield Bond	355,485	355,485	-	-
Intermediate-Term Bond	4,916,069	4,916,069	-	-
Multi-sector Bond	1,548,354	1,548,354	-	-
Short-Term Bond	746,053	746,053	-	-
	<u>7,565,961</u>	<u>7,565,961</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 27,997,877</u>	<u>\$ 27,997,877</u>	<u>\$ -</u>	<u>\$ -</u>

**DURFEE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
BayTree Fund receivable	\$ 3,000,000	\$ 4,000,000
Less: Present value discount at 4%	<u>(115,907)</u>	<u>(212,310)</u>
	<u>\$ 2,884,093</u>	<u>\$ 3,787,690</u>

As of December 31, 2016, future collections of the contributions receivable are expected as follows:

<u>Year Ending December 31</u>		
2017	\$	1,000,000
2018		1,000,000
2019		<u>1,000,000</u>
	\$	<u>3,000,000</u>

5. GRANTS PAYABLE

At December 31, 2016 and 2015, grants payable are as follows:

	<u>2016</u>	<u>2015</u>
Stanton Fellowships	\$ 308,984	\$ 600,000
Sabbatical awards	288,000	288,000
Earthwatch	284,440	64,675
Springboard Program	205,000	460,000
Food Forward	-	100,000
1 in 6	-	100,000
Talent Philanthropy Project	<u>-</u>	<u>50,000</u>
	<u>\$ 1,086,424</u>	<u>\$ 1,662,675</u>

At December 31, 2016, grants payable are expected to be paid in full during the year ending December 31, 2017.

**DURFEE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

6. LEASE COMMITMENT

The Foundation occupies its office facility under a non-cancelable operating lease agreement, under which the Foundation pays a monthly base rent, plus real property taxes and its share of increases in operating expenses. In April 2013, the lease was amended and extended through December 31, 2018, at a monthly base rent of \$5,812 with annual increases of three percent. For the years ended December 31, 2016 and 2015, rent expenses were \$76,546 and \$74,402, respectively.

Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	
2017	\$ 76,217
2018	<u>78,503</u>
	<u>\$ 154,720</u>

7. RETIREMENT PLAN

The Foundation has a deferred contribution 403(b) retirement plan (the "Plan"), administered by the Vanguard Group, available for all employees. The Foundation, on a one-to-one matching basis, contributed up to the maximum allowed by the Internal Revenue Service for all employees with over one year of service. For the years ended December 31, 2016 and 2015, the Foundation made plan contributions of \$42,080 and \$40,772, respectively.

8. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016 and 2015, temporarily restricted net assets of \$2,884,093 and \$3,787,690 were available for general operating support, respectively. Balances were restricted due to time restriction on the contribution receivable.

During the year ended December 31, 2016 \$ 903,597 was released from time restriction.

9. FUNCTIONAL ALLOCATION OF EXPENSES

The functional allocation of expenses for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Program	\$ 1,886,284	\$ 3,402,671
Management and general	<u>250,990</u>	<u>322,220</u>
	<u>\$ 2,137,274</u>	<u>\$ 3,724,891</u>