

**DURFEE FOUNDATION**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**DURFEE FOUNDATION  
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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 statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, 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.

Board of Trustees  
Durfee Foundation

**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, 2017 and 2016, 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 11, 2018

**DURFEE FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,155,319	\$ 452,066
Investments	31,035,254	28,156,906
Contributions receivable, net	1,960,853	2,884,093
Prepaid expenses and other assets	35,988	22,362
Website, less accumulated amortization of \$34,373 in 2017 and \$10,110 in 2016	38,417	62,680
<b>TOTAL ASSETS</b>	<b>\$ 34,225,831</b>	<b>\$ 31,578,107</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 21,278	\$ 70,205
Grants payable	232,155	1,086,424
<b>TOTAL LIABILITIES</b>	<b>253,433</b>	<b>1,156,629</b>
<b>COMMITMENT</b>		
<b>NET ASSETS</b>		
Unrestricted net assets	32,011,545	27,537,385
Temporarily restricted net assets	1,960,853	2,884,093
<b>TOTAL NET ASSETS</b>	<b>33,972,398</b>	<b>30,421,478</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 34,225,831</b>	<b>\$ 31,578,107</b>

*See Accompanying Notes to Financial Statements.*

**DURFEE FOUNDATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Unrestricted	Temporarily Restricted	Total
<b><u>REVENUES</u></b>			
Interest and dividends	\$ 1,616,008	\$ -	\$ 1,616,008
Realized gains on investments	1,072,294	-	1,072,294
Unrealized gains on investments	2,884,061	-	2,884,061
Contributions	76,761	-	76,761
Return of excise taxes	4,385	-	4,385
Release from restriction	923,240	(923,240)	-
<b>TOTAL REVENUE</b>	<b>6,576,749</b>	<b>(923,240)</b>	<b>5,653,509</b>
<b><u>EXPENSES</u></b>			
Grants	1,003,874	-	1,003,874
Salaries	372,545	-	372,545
Grant related expenses	267,599	-	267,599
Office expense	104,029	-	104,029
Employee benefits	103,484	-	103,484
Professional services	55,526	-	55,526
Dues	44,200	-	44,200
Trustee stipend paid to officers and directors	35,000	-	35,000
Investment management fees	33,787	-	33,787
Payroll taxes	26,206	-	26,206
Website amortization	24,263	-	24,263
Travel, conferences and meetings	15,520	-	15,520
Insurance	9,881	-	9,881
Miscellaneous	6,675	-	6,675
<b>TOTAL EXPENSES</b>	<b>2,102,589</b>	<b>-</b>	<b>2,102,589</b>
<b>CHANGE IN NET ASSETS</b>	<b>4,474,160</b>	<b>(923,240)</b>	<b>3,550,920</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>27,537,385</b>	<b>2,884,093</b>	<b>30,421,478</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 32,011,545</b>	<b>\$ 1,960,853</b>	<b>\$ 33,972,398</b>

See Accompanying Notes to Financial Statements.

**DURFEE FOUNDATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Unrestricted	Temporarily Restricted	Total
<b><u>REVENUES</u></b>			
Interest and dividends	\$ 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)	-
<b>TOTAL REVENUE</b>	<b>2,946,824</b>	<b>(903,597)</b>	<b>2,043,227</b>
<b><u>EXPENSES</u></b>			
Grants	1,131,265	-	1,131,265
Salaries	356,302	-	356,302
Grant related expenses	202,765	-	202,765
Office expense	110,446	-	110,446
Employee benefits	92,534	-	92,534
Professional services	52,641	-	52,641
Travel, conferences and meetings	36,538	-	36,538
Trustee stipend paid to officers and directors	33,750	-	33,750
Investment management fees	30,511	-	30,511
Excise taxes	24,917	-	24,917
Payroll taxes	23,884	-	23,884
Dues	11,400	-	11,400
Miscellaneous	11,109	-	11,109
Other expenses	10,110	-	10,110
Insurance	9,102	-	9,102
<b>TOTAL EXPENSES</b>	<b>2,137,274</b>	<b>-</b>	<b>2,137,274</b>
<b>CHANGE IN NET ASSETS</b>	<b>809,550</b>	<b>(903,597)</b>	<b>(94,047)</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>26,727,835</b>	<b>3,787,690</b>	<b>30,515,525</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 27,537,385</b>	<b>\$ 2,884,093</b>	<b>\$ 30,421,478</b>

See Accompanying Notes to Financial Statements.

**DURFEE FOUNDATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,550,920	\$ (94,047)
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Amortization	24,263	10,110
Realized gains on investments	(1,072,294)	(148,260)
Unrealized gains on investments	(2,884,061)	(448,878)
Change in assets and liabilities:		
Contributions receivable	923,240	903,597
Prepaid expenses and other assets	(13,626)	13,676
Accounts payable and accrued expenses	(48,927)	18,645
Grants payable	(854,269)	(576,251)
	<u>(374,754)</u>	<u>(321,408)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditure for website	-	(72,790)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(2,651,673)	(2,076,303)
Sales of investments	3,729,680	2,514,412
	<u>1,078,007</u>	<u>438,109</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	703,253	43,911
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	452,066	408,155
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,155,319	\$ 452,066
<b>SUPPLEMENTAL CASH FLOWS INFORMATION:</b>		
Excise taxes paid (refund)	\$ (4,385)	\$ 24,917

See Accompanying Notes to Financial Statements.



**DURFEE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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. The Foundation does not accept contributions from the general public.

**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

Promises to give are recorded as contribution income and as receivables. Contributions are classified as unrestricted and temporarily restricted based on donor-imposed stipulations. Promises to give that are expected to be collected within one year are recorded at net realizable value. Promises to give 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, 2017 AND 2016**

**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 statements of activities.

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 1% level.

**DURFEE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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, 2017 and 2016, one contributor accounted for 100% of the contribution receivable.

Functional Expense Allocation Methodology

Management's estimate of the functional allocation of expenses shared between programs and management and general is based on a reasonable and consistent basis using factors such as direct payroll allocation, square footage, full time equivalents within each department, and total direct expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

Subsequent events have been evaluated through June 11, 2018, 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 February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02 *Leases* (Topic 842). This update increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal year beginning after December 15, 2020. Management will be evaluating the effects of this new standard.

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, 2017 AND 2016**

**3. INVESTMENTS AND FAIR VALUE MEASUREMENTS**

At December 31, 2017 and 2016, the fair value measurements for investments measured on a recurring basis are as follows:

	2017			
	Total	Level 1	Level 2	Level 3
Equity Funds:				
Diversified Emerging Mkts	\$ 1,137,110	\$ 1,137,110	\$ -	\$ -
Foreign Large Blend	4,346,359	4,346,359	-	-
Large Blend	1,201,228	1,201,228	-	-
Large Growth	9,753,013	9,753,013	-	-
Large Value	3,247,596	3,247,596	-	-
Small Growth	3,543,654	3,543,654	-	-
Money Market Fund	57,535	57,535	-	-
	<u>23,286,495</u>	<u>23,286,495</u>	-	-
Bond Funds:				
High Yield Bond	5,345	5,345	-	-
Intermediate-Term Bond	5,434,909	5,434,909	-	-
Multi-sector Bond	1,545,474	1,545,474	-	-
Short-Term Bond	763,031	763,031	-	-
	<u>7,748,759</u>	<u>7,748,759</u>	-	-
Total investments	<u>\$ 31,035,254</u>	<u>\$ 31,035,254</u>	<u>\$ -</u>	<u>\$ -</u>
	2016			
	Total	Level 1	Level 2	Level 3
Equity Funds:				
Diversified Emerging Mkts	\$ 646,909	\$ 646,909	\$ -	\$ -
Foreign Large Blend	3,569,998	3,569,998	-	-
Large Blend	986,344	986,344	-	-
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>	-	-
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>	-	-
Total investments	<u>\$ 28,156,906</u>	<u>\$ 28,156,906</u>	<u>\$ -</u>	<u>\$ -</u>

**DURFEE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**4. CONTRIBUTIONS RECEIVABLE**

Contributions receivable as of December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
BayTree Fund receivable	\$ 2,000,000	\$ 3,000,000
Less: Present value discount at 4%	(39,147)	(115,907)
	<u>\$ 1,960,853</u>	<u>\$ 2,884,093</u>

At December 31, 2017, future collections of the contributions receivable are expected as follows:

<u>Year Ending December 31</u>		
2018		\$ 1,000,000
2019		<u>1,000,000</u>
		<u>\$ 2,000,000</u>

In January 2018, the Foundation entered into an amendment agreement with BayTree Fund, a related party. The grant period end date was extended to November 30, 2020. An additional grant payment of \$1,000,000 will be made in January 2020.

**5. GRANTS PAYABLE**

At December 31, 2017 and 2016, grants payable are as follows:

	<u>2017</u>	<u>2016</u>
Earthwatch	\$ 132,155	\$ 284,440
Springboard Program	70,000	205,000
California Community Foundation (NSI)	25,000	-
Leadership Funders Group	5,000	-
Stanton Fellowships	-	308,984
Sabbatical awards	-	<u>288,000</u>
	<u>\$ 232,155</u>	<u>\$ 1,086,424</u>

At December 31, 2017, grants payable are expected to be paid in full during the year ending December 31, 2018.

**DURFEE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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, 2017 and 2016, rent expenses were \$78,284 and \$76,546, respectively. The remaining lease payment of \$78,503 will be paid in 2018. On March 15, 2018, the Foundation has obtained a letter of intent from the new landlord and is in the process of getting a new lease agreement.

**7. RETIREMENT PLAN**

The Foundation has a deferred contribution 403(b) retirement plan (the "Plan") 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, 2017 and 2016, the Foundation made plan contributions of \$47,957 and \$42,080, respectively.

**8. TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2017 and 2016, temporarily restricted net assets of \$1,960,853 and \$2,884,093, respectively, were available for general operating support. Balances were restricted due to time restriction on the contribution receivable.

During the years ended December 31, 2017 and 2016, \$923,240 and \$ 903,597 was released from time restriction, respectively.

**9. RELATED PARTY TRANSACTIONS**

The Foundation paid seven of the eight Trustees a quarterly trustee's fee of \$1,250.

**10. FUNCTIONAL ALLOCATION OF EXPENSES**

The functional allocation of expenses for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Program	\$ 1,837,884	\$ 1,886,284
Management and general	264,705	250,990
	\$ 2,102,589	\$ 2,137,274