

DURFEE FOUNDATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

DURFEE FOUNDATION
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

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WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY
AND ACCOUNTING NETWORK

**AUDIT
AND
ASSURANCE**

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Durfee Foundation

Opinion

We have audited the financial statements of Durfee Foundation (the Foundation), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2021 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Board of Trustees
Durfee Foundation

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 13, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

November 12, 2022
Los Angeles, California

DURFEE FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2021

With Summarized Totals at December 31, 2020

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 372,692 | \$ 75,560 |
| Investments | 64,380,407 | 60,712,335 |
| Liquidating Investment Distribution Receivable | - | 252,983 |
| Prepaid Expenses and Other Assets | 100,368 | 123,921 |
| TOTAL ASSETS | <u>\$ 64,853,467</u> | <u>\$ 61,164,799</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES: | | |
| Accounts Payable and Accrued Expenses | \$ 124,338 | \$ 132,218 |
| Grants Payable | 881,268 | 434,697 |
| Deferred Excise Taxes | 151,154 | 119,184 |
| TOTAL LIABILITIES | 1,156,760 | 686,099 |
| NET ASSETS: | | |
| Without Donor Restrictions | <u>63,696,707</u> | <u>60,478,700</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 64,853,467</u> | <u>\$ 61,164,799</u> |

The Accompanying Notes are an Integral Part of These Financial Statements

DURFEE FOUNDATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2021

With Summarized Totals for the Year Ended December 31, 2020

| | <u>2021</u> | <u>2020</u> |
|---------------------------------|----------------------|----------------------|
| REVENUE: | | |
| Investment Return (Net) | \$ 7,560,026 | \$ 9,301,463 |
| EXPENSES: | | |
| Program Services | 4,053,966 | 2,301,388 |
| Management and General | <u>288,053</u> | <u>229,959</u> |
| TOTAL EXPENSES | <u>4,342,019</u> | <u>2,531,347</u> |
| CHANGE IN NET ASSETS | 3,218,007 | 6,770,116 |
| Net Assets - Beginning of Year | <u>60,478,700</u> | <u>53,708,584</u> |
| NET ASSETS - END OF YEAR | <u>\$ 63,696,707</u> | <u>\$ 60,478,700</u> |

The Accompanying Notes are an Integral Part of These Financial Statements

DURFEE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021

With Summarized Totals for the Year Ended December 31, 2020

| | 2021 | | | 2020 Total |
|---|---------------------------------------|---------------------------|---------------------|---------------------|
| | Program Services - Grant Making | Management and General | Total | |
| Grants | \$ 3,164,630 | \$ - | \$ 3,164,630 | \$ 1,517,634 |
| Salaries | 445,140 | 116,436 | 561,576 | 488,116 |
| Grant Related Expenses | 156,452 | - | 156,452 | 147,259 |
| Employee Benefits | 102,727 | 26,489 | 129,216 | 117,364 |
| Office Expense | 71,431 | 21,751 | 93,182 | 87,211 |
| Professional Services | 36,520 | 50,912 | 87,432 | 60,176 |
| Travel, Conferences, and Meetings | 3,522 | 43,412 | 46,934 | 16,601 |
| Trustee Stipend | 26,000 | 14,000 | 40,000 | 41,251 |
| Payroll Taxes | 29,066 | 7,495 | 36,561 | 32,476 |
| Miscellaneous | 13,745 | 6,338 | 20,083 | 14,333 |
| Insurance | 4,733 | 1,220 | 5,953 | 8,926 |
| TOTAL 2021 FUNCTIONAL EXPENSES | \$ 4,053,966 | \$ 288,053 | \$ 4,342,019 | |
| TOTAL 2020 FUNCTIONAL EXPENSES | \$ 2,301,388 | \$ 229,959 | | \$ 2,531,347 |

The Accompanying Notes are an Integral Part of These Financial Statements

DURFEE FOUNDATION

STATEMENT OF CASH FLOWS

Year Ended December 31, 2021

With Summarized Totals for the Year Ended December 31, 2020

| | <u>2021</u> | <u>2020</u> |
|--|--------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in Net Assets | \$ 3,218,007 | \$ 6,770,116 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities: | | |
| Reinvested Interest and Dividends | (902,324) | (921,903) |
| Net Realized and Unrealized Gains on Investments | (6,753,994) | (8,478,902) |
| Deferred Excise Taxes | 31,970 | 32,155 |
| Decrease in: | | |
| Prepaid Expenses and Other Assets | 23,553 | 7,983 |
| Increase (Decrease) in: | | |
| Accounts Payable and Accrued Liabilities | (7,880) | (2,388) |
| Grants Payable | 446,571 | (400,809) |
| NET CASH USED IN OPERATING ACTIVITIES | <u>(3,944,097)</u> | <u>(2,993,748)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds on Sale of Investments | 16,128,888 | 21,290,651 |
| Purchases of Investments | <u>(11,887,659)</u> | <u>(18,675,054)</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>4,241,229</u> | <u>2,615,597</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 297,132 | (378,151) |
| Cash and Cash Equivalents - Beginning of Year | <u>75,560</u> | <u>453,711</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u><u>\$ 372,692</u></u> | <u><u>\$ 75,560</u></u> |

The Accompanying Notes are an Integral Part of These Financial Statements

DURFEE FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

NOTE 1 - ORGANIZATION

The Durfee Foundation (the Foundation) located in Los Angeles, 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) NET ASSETS

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions.** Net assets available for use in general operations and not subject to donor-imposed restrictions.
- **Net Assets With Donor Restrictions.** Net assets subject to donor-imposed restrictions. None of the Foundation's assets were subject to donor-imposed restrictions at December 31, 2021.

(c) 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 reported amounts of assets, liabilities, revenues and expenses as of the date and for the period presented. Actual results could differ from those estimates.

(d) CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Foundation considers cash on hand, deposits in bank accounts, money market accounts and certificates of deposit with an original maturity of three months or less to be cash and cash equivalents. The carrying value of cash and cash equivalents at December 31, 2021 approximates its fair value.

DURFEE FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) CASH AND CASH EQUIVALENTS (continued)

The Foundation maintains its cash and cash equivalents in bank deposit and other investment accounts, which may, at times, exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

(e) INVESTMENTS

Investments in equity and debt securities with readily determinable market values are reported at fair value. The fair value of these investments is determined based on the closing price on the last business day of the fiscal year. Investments in partnerships and private equity are valued using net asset value (NAV) per share of units held by the Foundation or its equivalent.

Sales and purchases of securities are recorded on trade date, which results in receivables and payables on trades that have not yet settled at the financial statement date. Interest income is recorded as earned on an accrual basis, and dividend income is recorded based upon the ex-dividend date. Realized gains and losses are calculated based upon the underlying cost of the securities traded. Unrealized gains and losses are included in investment return (net) in the statement of activities and represent the change in the difference between the cost and current market quotations of investments held at the end of the fiscal year.

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 long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Investments are made according to the investment policies, guidelines, and objectives adopted by the Foundation's Board of Trustees. These guidelines provide for investments in equities, fixed income, and other securities with performance measured against appropriate indices. The investments are generally managed by an outside investment manager contracted by the Foundation. Market values of such investments are periodically reviewed by the Board of Trustees.

DURFEE FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) GRANTS

Unconditional grants are expensed when approved by the Foundation's Board of Trustees. Conditional grants - that is, those with a measurable performance or other barrier and a right of return or release - are not recognized until the conditions on which they depend have been met by the grantee. Payment of grants may not necessarily occur in the year of authorization. The Foundation's grants payable of \$881,268 at December 31, 2021 is expected to be paid in its entirety within one year.

The Foundation has no outstanding conditional grants at December 31, 2021.

The Foundation is required to distribute annually, to qualifying charitable organizations, an amount equal to 5% of the average fair market value of the Foundation's assets (the minimum distribution). If the Foundation does not distribute the required minimum distribution, a one-year grace period is granted to distribute the undistributed income. If undistributed income is not distributed by the close of the following tax year, a minimum 30% penalty under Internal Revenue Code (IRC) S4942(a) will apply. The Foundation met the IRC grant distribution requirement for the year ended December 31, 2021.

(g) INCOME TAXES

The Foundation is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). For the year ended December 31, 2021, the Foundation is subject to a 1.39% federal excise tax on net investment income. Deferred excise taxes arise from the net unrealized appreciation in the fair value of investments and are calculated using the using the 1.39% federal excise tax rate.

Excise taxes, netted against investment return in the statement of activities, consists of the following for the year ended December 31, 2021:

| | |
|-----------------------------|--------------------------|
| Current Excise Tax Expense | \$ 73,177 |
| Deferred Excise Tax Expense | <u>31,970</u> |
| TOTAL EXCISE TAXES | <u>\$ 105,147</u> |

In accordance with the Financial Accounting Standards Board's (FASB) Accounting Standards Codification Topic No. 740, *Uncertainty in Income Taxes*, the Foundation recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. During the year ended December 31, 2021, the Foundation performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the financial statements or which might have an effect on its tax-exempt status.

DURFEE FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Foundation's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit, such as full-time equivalent of personnel costs.

(i) NEW ACCOUNTING PRONOUNCEMENT

In February 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and provide additional information about the amounts recorded in the financial statements. For the Foundation, the ASU will be effective for the year ending December 31, 2022.

(j) COMPARATIVE TOTALS

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements of the Foundation for the year ended December 31, 2020 from which the summarized information was derived.

(k) SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2021, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through November 12, 2022, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

DURFEE FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Foundation has implemented the fair value accounting standard for those assets that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset and include situations where there is little, if any, market activity for the asset. The Foundation does not have any investments in Level 2 or Level 3 of the fair value hierarchy.

The following table presents information about the Foundation's assets that are measured at fair value on a recurring basis at December 31, 2021, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

| | Fair Value Measurements Using | | | |
|--|----------------------------------|---|---|--|
| | Total at December 31, 2021 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash and Cash Equivalents | \$ 350,474 | \$ 350,474 | \$ - | \$ - |
| Mutual Funds: | | | | |
| Bonds | 3,171,599 | 3,171,599 | - | - |
| Equities | 3,229,193 | 3,229,193 | - | - |
| TOTAL INVESTMENTS IN THE FAIR VALUE HIERARCHY | 6,751,266 | <u>\$ 6,751,266</u> | <u>\$ -</u> | <u>\$ -</u> |
| Investments Measured at NAV | <u>57,629,141</u> | | | |
| TOTAL INVESTMENTS AT FAIR VALUE | | <u>\$ 64,380,407</u> | | |

The fair value of the mutual funds within Level 1 was obtained based on quoted market prices at the closing of the last business day of the fiscal year.

DURFEE FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

Investments valued using NAV are comprised of various private equity funds and partnerships. These investments (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Investments are valued using the NAV provided by the fund managers or general partners. It is probable that these investments will be sold at an amount different from their fair value at December 31, 2021.

The following table summarizes the redemption frequency, notice period and unfunded commitments for the Foundation's investments using NAV as practical expedient as of December 31, 2021:

| | Fair Value | Number of Funds | Unfunded Commitments | Remaining Life | Redemption Terms |
|----------------|----------------------|--------------------|-------------------------|----------------|---|
| Equities | \$ 43,259,531 | 1 | \$ - | N/A | Monthly with 16 business days' notice |
| Fixed Income | 6,377,242 | 1 | - | N/A | Monthly up to 15 business days' notice |
| Private Equity | 5,833,119 | 11 | 3,615,714 | Up to 13 Years | Not permitted |
| Private Credit | 2,159,249 | 2 | 3,585,550 | Up to 8 Years | Not permitted |
| TOTAL | \$ 57,629,141 | 15 | \$ 7,201,264 | | |

NOTE 4 - OPERATING LEASE

The Foundation leases its office facilities under an operating lease which expires in October 2023, with one five-year renewal option. The following is a schedule by year of minimum future payments related to this lease:

Years Ending December 31

| | |
|--------------|--------------------------|
| 2022 | \$ 71,983 |
| 2023 | <u>61,504</u> |
| TOTAL | \$ <u>133,487</u> |

Rent expense totaled \$73,275 for the year ended December 31, 2021.

DURFEE FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

NOTE 5 - RETIREMENT PLAN

The Foundation has a deferred contribution 403(b) retirement 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 year ended December 31, 2021, the Foundation made plan contributions of \$74,500.

NOTE 6 - CONFLICT OF INTEREST

The Foundation's Board of Trustees has adopted a conflict of interest policy and re-affirms its belief that its mission is fostered by having on the Board persons active in the community, including those who serve on the boards of organizations who are or may become grant recipients. The conflict of interest policy is intended to assure grantees of the Foundation that decisions of the Foundation are made objectively with full knowledge of the involvement, if any, of the Board and staff and their immediate family members with grant-seeking agencies. Board members with an affiliation with the grantees were not involved in the grant-making decision process. Certain members of the Board are compensated for their service.

NOTE 7 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by the Foundation at December 31, 2021 and the amounts of those financial assets that could be made available for general expenditures within one year of the date of the statement of financial position are summarized in the following table:

| | |
|--|----------------------|
| Financial Assets at December 31, 2021: | |
| Cash and Cash Equivalents | \$ 372,692 |
| Investments | <u>64,380,407</u> |
| TOTAL FINANCIAL ASSETS | |
| AT DECEMBER 31, 2021 | 64,753,099 |
| Less Amounts Not Available to Be Used Within One Year: | |
| Illiquid Investments | <u>(7,992,368)</u> |
| FINANCIAL ASSETS AVAILABLE TO | |
| MEET GENERAL EXPENDITURES | |
| WITHIN ONE YEAR | <u>\$ 56,760,731</u> |

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.