

**LAUREL FOUNDATION**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

**LAUREL FOUNDATION**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
LaureL Foundation

### **Report on the Financial Statements**

We have audited the accompanying financial statements of LaureL Foundation, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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 auditor's 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 auditor considers internal control relevant to the entity'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 entity'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 LaureL Foundation as of December 31, 2018, 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.

### **Report on Summarized Comparative Information**

We have previously audited LaureL Foundation's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 8, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Green Hasson & Janks LLP*

August 1, 2019  
Los Angeles, California

**LAUREL FOUNDATION**

**STATEMENT OF FINANCIAL POSITION**

**December 31, 2018**

**With Summarized Totals at December 31, 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 22,590	\$ 26,562
Investments	3,106,964	3,239,317
Interest and Dividends Receivable	<u>13,001</u>	<u>10,956</u>
<b><i>TOTAL ASSETS</i></b>	<b><u>\$ 3,142,555</u></b>	<b><u>\$ 3,276,835</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Grants Payable	\$ 1,149,473	\$ 2,514,106
Accrued Expenses	8,333	8,333
Federal Excise Tax Payable	9,241	798
Deferred Excise Tax Liability	<u>5,610</u>	<u>13,494</u>
<b><i>TOTAL LIABILITIES</i></b>	<b>1,172,657</b>	<b>2,536,731</b>
<b>NET ASSETS:</b>		
Without Donor Restrictions	<u>1,969,898</u>	<u>740,104</u>
<b><i>TOTAL LIABILITIES AND NET ASSETS</i></b>	<b><u>\$ 3,142,555</u></b>	<b><u>\$ 3,276,835</u></b>

The Accompanying Notes are an Integral Part of These Financial Statements

# LAUREL FOUNDATION

## STATEMENT OF ACTIVITIES

Year Ended December 31, 2018

With Summarized Totals for the Year Ended December 31, 2017

	<u>2018</u>	<u>2017</u>
<b>REVENUE AND GAINS (LOSSES):</b>		
Investment Return (Net)	\$ (297,022)	\$ 573,258
Contributions - Donated Securities	2,999,984	3,000,063
Other Income	-	292
	<hr/>	<hr/>
<b><i>TOTAL REVENUE AND GAINS (LOSSES)</i></b>	2,702,962	3,573,613
<b>EXPENSES:</b>		
Program Services	1,438,367	2,139,941
Management and General	34,801	29,835
	<hr/>	<hr/>
<b><i>TOTAL EXPENSES</i></b>	1,473,168	2,169,776
<b><i>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</i></b>	1,229,794	1,403,837
Net Assets (Deficit) Without Donor Restrictions - Beginning of Year	<hr/> 740,104	<hr/> (663,733)
<b><i>NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF YEAR</i></b>	<hr/> <b>\$ 1,969,898</b>	<hr/> <b>\$ 740,104</b>

The Accompanying Notes are an Integral Part of These Financial Statements

# LAUREL FOUNDATION

## STATEMENT OF CASH FLOWS

Year Ended December 31, 2018

With Summarized Totals for the Year Ended December 31, 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets Without Donor Restrictions	\$ 1,229,794	\$ 1,403,837
Adjustments to Reconcile Change in Net Assets Without Donor Restrictions to Net Cash Provided by Operating Activities:		
Net Realized Gains on Sale of Investments	(132,919)	(201,343)
Unrealized (Gains) Losses on Investments	433,180	(241,133)
Deferred Excise Tax Benefit	(7,884)	(7,406)
Contributions - Donated Securities	(2,999,984)	(3,000,063)
Net Proceeds on Sale of Donated Securities	3,063,368	4,497,729
Realized Gains on Sale of Donated Securities	(6,483)	(177,558)
(Increase) Decrease in:		
Interest and Dividends Receivable	(2,045)	(2,577)
Prepaid Expenses	-	5,003
Increase (Decrease) in:		
Grants Payable	(1,364,633)	(1,822,060)
Federal Excise Tax Payable	8,443	798
	<b>220,837</b>	<b>455,227</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds on Sale of Investments	1,812,274	1,524,448
Purchase of Investments	(2,037,083)	(2,023,291)
	<b>(224,809)</b>	<b>(498,843)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(3,972)</b>	<b>(43,616)</b>
Cash and Cash Equivalents - Beginning of Year	26,562	70,178
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 22,590</b>	<b>\$ 26,562</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash Paid During the Year for Federal Excise Taxes	\$ 17,500	\$ 40,000

The Accompanying Notes are an Integral Part of These Financial Statements

# LAUREL FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### NOTE 1 - ORGANIZATION

LaureL Foundation (the Foundation) is a private, non-profit, public benefit corporation founded in 1995 by Laure W. Kastanis to promote and engage exclusively in charitable endeavors. The main focus of the Foundation's grant-making is to support education, youth programs, animal welfare and local environmental education. It does not conduct or administer its own charitable programs, but operates by making grants to qualified 501(c)(3) organizations. Operations are funded primarily by the Foundation's return on its investment portfolio.

The Foundation is administered by the Philanthropic Services division of the Whittier Trust Company (WTC), a private wealth management firm which provides investment and administrative services to the Foundation.

### 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 restrictions.
- **Net Assets With Donor Restrictions.** Net assets subject to donor-imposed restrictions.

None of the Foundation's net assets were subject to donor-imposed restrictions at December 31, 2018.

#### (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 banks, 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, 2018 approximates its fair value.

# LAUREL FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### 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 marketable securities with readily determinable fair market values are reported at fair value. For readily marketable securities, such as common stocks and corporate and government bonds, fair value is based on quoted market prices. The fair value of investments in equity fund partnerships is based on the market value of the underlying securities provided by professional pricing sources less an expense allocation associated with managing the funds. Realized and unrealized investment gains or losses are determined by comparison of specific costs of acquisition to net proceeds received at the time of disposal or changes in the difference between fair value and cost, respectively.

The Foundation invests in various securities, including U.S. government securities, corporate debt securities and equities. 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.

All financial assets of the Foundation are managed by WTC and are held in custody by a major commercial bank. The Foundation believes that, in the event of the insolvency of its custodian, some of the Foundation's assets may be unavailable for a period of time, but all assets would be fully recoverable.

Investments are made according to the investment policies, guidelines, and objectives adopted by the Foundation's Board of Directors. To achieve its investment objective over long periods of time, the Foundation has adopted an investment strategy that invests in domestic and international equities and fixed income securities. Diversification by asset class, investment style and investment managers is embraced to avoid undue risk concentration and enhance total return. The Foundation has adopted investment and spending policies that seek to maintain the purchasing power of assets. In addition, the Foundation seeks to support current operations through interest income, dividends and capital gains. The Foundation's investment and spending policies work together to achieve this objective.

#### (f) CONTRIBUTIONS

Unconditional contributions are recognized as revenues in the period received. The Foundation reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets.

During the year ended December 31, 2018, the Foundation recognized contributions of \$2,999,984 from its founder.



# LAUREL FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (g) GRANTS

Grants, including any conditional grants, are charged against operations when authorized by the Foundation's Board of Directors. The actual payment of the grant may not necessarily occur in the year of authorization. Based on historical grant cancellation rates and the Foundation's giving trend, management has determined that there is only a remote chance that the conditional grants will not be paid and considers the liability for grants payable at December 31, 2018 to be fairly stated.

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) §4942(a) will apply. The Foundation met the IRC grant distribution requirement for the year ended December 31, 2018.

#### (h) 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). The Foundation is subject to a 2% (1% if certain criteria are met) federal excise tax on net investment income. Accounting principles generally accepted in the United States of America require Foundation management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken uncertain tax positions that more-likely-than-not would not be sustained upon examination by applicable taxing authorities. Management has analyzed tax positions taken by the Foundation and concluded that, as of December 31, 2018, there are no uncertain tax positions taken, or expected to be taken, that would require recognition of a liability or that would require disclosure in the financial statements. Deferred federal excise taxes, based on a 1.5% tax rate supported by historical trends, arise from the net unrealized appreciation in the fair value of investments.

The excise tax expense is included in investment return (net) expense in the statement of activities for the year ended December 31, 2018, and consists of the following:

Current Excise Tax Expense	\$	25,943
Deferred Excise Tax Benefit		(7,884)
<b>TOTAL EXCISE TAX EXPENSE</b>	<b>\$</b>	<b>18,059</b>

#### (i) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Foundation's programs and other activities 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.

# LAUREL FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **(j) COMPARATIVE TOTALS**

The financial statements include certain prior-period summarized financial information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such financial information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2017 from which the summarized financial information was derived.

#### **(k) NEW ACCOUNTING PRONOUNCEMENTS**

In August 2016, Financial Accounting Standards Board (FASB) issued (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. The Foundation implemented this ASU during the year ended December 31, 2018.

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance. For the Foundation, the ASU will be effective for the year ending December 31, 2019.

#### **(l) RECLASSIFICATIONS**

For comparability, certain December 31, 2017 amounts have been reclassified, where appropriate, to conform with the financial statement presentation used at December 31, 2018.

#### **(m) SUBSEQUENT EVENTS**

The Foundation has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2018 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through August 1, 2019, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

# LAUREL FOUNDATION

## NOTES TO FINANCIAL STATEMENTS December 31, 2018

### NOTE 3 - INVESTMENTS

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 (or liabilities). 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 (or liability) and include situations where there is little, if any, market activity for the asset (or liability).

The following table presents information about the Foundation's assets that are measured at fair value on a recurring basis at December 31, 2018 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Year Ended December 31, 2018	Fair Value Measurements Using			Net Asset Value Per Share or its Equivalent (NAV)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Equities	\$ 2,697,670	\$ 2,697,670	\$ -	\$ -	\$ -
Fixed Income Securities	38,734	38,734	-	-	-
Equity Fund Partnerships	370,560	-	-	-	370,560
<b>TOTAL INVESTMENTS</b>	<b>\$ 3,106,964</b>	<b>\$ 2,736,404</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 370,560</b>

The fair value of the equities and fixed income securities within Level 1 was obtained based on quoted market prices at the closing of the last business day of the fiscal year.

The Foundation uses net asset value (NAV) to determine the fair value of all the underlying investments which (1) do not have a readily determinable fair value and (2) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The Foundation's investments in equity fund partnerships are based on the market values of the underlying securities owned by the funds. Market values of the underlying securities are in turn based on quoted prices for identical or similar instruments that may or may not be actively traded. For these investments, the Foundation has concluded that the NAV reported by the underlying fund is a practical expedient to fair value and that these investments are redeemable with the fund at NAV under the original terms of the subscription agreements and operations of underlying funds. These investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient are not categorized in the fair value hierarchy.

# LAUREL FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### NOTE 3 - INVESTMENTS (continued)

WTC is the named investment manager of the various equity fund partnerships. Investments in these partnerships can be redeemed monthly on the first day of the month with 5 business day notice. There is no unfunded commitment at December 31, 2018.

The Foundation recognizes transfers at the beginning of each reporting period. Transfers between Level 1 and 2 investments generally relate to whether a market becomes active or inactive. Transfers between Level 2 and 3 investments generally relate to whether significant relevant observable inputs are available for the fair value measurement in their entirety and when redemption rules become more or less restrictive. There were no transfers between levels during the year ended December 31, 2018.

### NOTE 4 - GRANTS PAYABLE

Grants authorized but unpaid are reported as liabilities. Grants to be paid beyond one year are discounted using the risk-free rate at time of approval of the grant.

The following is a summary of grants authorized and payable at December 31, 2018:

To Be Paid in Less than One Year	\$ 743,000
To Be Paid in One to Five Years	<u>450,000</u>
<b>TOTAL</b>	1,193,000
Less: Present Value Discount	<u>(43,527)</u>
<b>TOTAL GRANTS PAYABLE (NET)</b>	<u>\$ 1,149,473</u>

### NOTE 5 - RELATED PARTY TRANSACTIONS

Two of the Foundation's Board members are employees of WTC, which provides investment management services and administrative services to the Foundation. These individuals abstain from voting on any issues related to the WTC relationship and fees. Fees paid to WTC were \$100,000 for the year ended December 31, 2018.

The Foundation's Board of Directors has adopted a conflict of interest policy and re-affirms its belief that its mission is fostered by having on the Board of Directors 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 of Directors and staff and their immediate family members with grant-seeking agencies.

# LAUREL FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### NOTE 6 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by the Foundation at December 31, 2018 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, 2018		
Cash and Cash Equivalents	\$	22,590
Investments		3,106,964
Interest and Dividends Receivable		13,001
<b>FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR</b>		<b>\$ 3,142,555</b>

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.

### NOTE 7 - ANALYSIS OF FUNCTIONAL EXPENSES

The Foundation's expenses have been allocated between program services and management and general based on estimates made by the Foundation's management. Program services includes expenses for grants and grant administration. Management and general includes expenses incurred for operational support in managing the Foundation.

The Foundation's functional expenses, presented by natural expense classification, for the year ended December 31, 2018 were as follows:

	Program Services	Management and General	Total Expenses
Grants	\$ 1,408,367	\$ -	\$ 1,408,367
Management Fees	30,000	10,000	40,000
Legal and Professional Expense	-	21,650	21,650
Insurance	-	1,707	1,707
Other Expense	-	1,444	1,444
<b>TOTAL EXPENSES</b>	<b>\$ 1,438,367</b>	<b>\$ 34,801</b>	<b>\$ 1,473,168</b>