

Financial Statements and Report of Independent  
Certified Public Accountants

**COLBURN FOUNDATION**

December 31, 2017 and 2016

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## **Report of Independent Certified Public Accountants**

Board of Directors  
Colburn Foundation

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We have audited the accompanying financial statements of the Colburn Foundation (the “Foundation”), 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.

### **Auditor’s 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 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 the Colburn 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.

Los Angeles, California  
December 3, 2018

Colburn Foundation

STATEMENTS OF FINANCIAL POSITION

As of December 31,

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 5,823	\$ 4,466
Investments	169,107,807	150,052,838
Federal excise tax receivable	<u>-</u>	<u>177,121</u>
Total assets	<u>\$ 169,113,630</u>	<u>\$ 150,234,425</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 911	\$ 165
Federal excise tax payable	5,062	-
Deferred tax liability	630,766	400,420
Grants payable, net of discount of \$2,119,488 and \$2,018,481 for 2017 and 2016, respectively	<u>27,150,012</u>	<u>25,880,519</u>
Total liabilities	<u>27,786,751</u>	<u>26,281,104</u>
Net assets		
Unrestricted	<u>141,326,879</u>	<u>123,953,321</u>
Total net assets	<u>141,326,879</u>	<u>123,953,321</u>
Total liabilities and net assets	<u>\$ 169,113,630</u>	<u>\$ 150,234,425</u>

The accompanying notes are an integral part of these financial statements.

Colburn Foundation

STATEMENTS OF ACTIVITIES

For the Years Ended December 31,

	<u>2017</u>	<u>2016</u>
Revenues		
Dividends and interest income	\$ 2,480,583	\$ 2,482,447
Net realized and unrealized gains on investments	25,083,568	10,202,237
Miscellaneous income	<u>1,481</u>	<u>16</u>
Total revenues	<u>27,565,632</u>	<u>12,684,700</u>
Expenses		
Grants	7,748,118	2,584,246
Management and general	302,244	295,567
Investment fees	<u>1,679,183</u>	<u>1,157,947</u>
Total expenses before provision for excise taxes	9,729,545	4,037,760
Provision for excise taxes	<u>462,529</u>	<u>254,962</u>
Total expenses	<u>10,192,074</u>	<u>4,292,722</u>
Change in net assets	17,373,558	8,391,978
Unrestricted net assets, beginning of year	<u>123,953,321</u>	<u>115,561,343</u>
Unrestricted net assets, end of year	<u><u>\$ 141,326,879</u></u>	<u><u>\$ 123,953,321</u></u>

The accompanying notes are an integral part of these financial statements.

Colburn Foundation

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 17,373,558	\$ 8,391,978
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(25,083,568)	(10,202,237)
Discount on grants payable at net present value	101,007	(608,496)
Changes in operating assets and liabilities:		
Federal excise tax receivable	177,121	(73,147)
Accounts payable and accrued expenses	746	(2,378)
Federal excise tax payable	5,062	-
Deferred tax liability	230,346	78,109
Grants payable	<u>1,168,486</u>	<u>(3,463,008)</u>
Net cash used in operating activities	<u>(6,027,242)</u>	<u>(5,879,179)</u>
Cash flows from investing activities		
Purchases of investments	(50,073,327)	(55,346,607)
Proceeds from sale of investments	<u>56,101,926</u>	<u>61,122,107</u>
Net cash provided by investing activities	<u>6,028,599</u>	<u>5,775,500</u>
Net change in cash and cash equivalents	1,357	(103,679)
Cash and cash equivalents, beginning of year	<u>4,466</u>	<u>108,145</u>
Cash and cash equivalents, end of year	<u>\$ 5,823</u>	<u>\$ 4,466</u>
Supplemental disclosure of cash flow information		
Federal excise tax paid	<u>\$ 50,000</u>	<u>\$ 250,000</u>

The accompanying notes are an integral part of these financial statements.

Colburn Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

1. NATURE OF OPERATIONS

The Colburn Foundation (“Foundation”) is a California nonprofit private foundation whose primary purpose is to provide grants to charitable organizations furthering the study, teaching, and performance of classical music and dance in the United States of America and abroad. The Foundation was created and funded by Richard D. Colburn whose dreams of becoming a professional musician fueled his generosity and life-long commitment to music and music education.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Foundation classifies its net assets into three categories according to donor-imposed restrictions or provisions of law: permanently restricted, temporarily restricted, and unrestricted.

*Permanently Restricted Net Assets*

The part of net assets of the Foundation which include gifts in which donors have stipulated that the principle be invested in perpetuity. At December 31, 2017 and 2016, the Foundation had no such net assets.

*Temporarily Restricted Net Assets*

The part of net assets of the Foundation resulting from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. At December 31, 2017 and 2016, the Foundation had no such net assets.

*Unrestricted Net Assets*

The part of the net assets of the Foundation that are not subject to donor-imposed restrictions. The only limits on unrestricted net assets are broad limits resulting from the nature of the Foundation and the purposes specified in its articles of incorporation or bylaws and, perhaps, limits resulting from contractual agreements. Unrestricted net assets include Board-designated funds.

**Revenues and Expense Recognition**

Investment income, including realized and unrealized gains and losses, are recognized as revenues in the statements of activities.



Colburn Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Revenues and Expense Recognition - Continued**

The Foundation records contribution revenue when they are received unconditionally at their fair value. Contributions are reported as unrestricted or as restricted depending on the existence of donor stipulations that limit the use of the support. The Foundation did not receive unrestricted or restricted contributions for the years ended December 31, 2017 and 2016.

Grant expenses are recorded when the Foundation's Board of Directors agrees to make an unconditional contribution to a qualified charity.

**Cash and Cash Equivalents**

The Foundation considers all highly liquid instruments purchased with an original maturity of three months or less to be classified as cash equivalents, except that any such investments held by external investment managers are classified as investments. The carrying value approximates fair value because of the short maturity of those instruments.

**Investments**

The Foundation holds significant investments in the form of fixed-income and equity securities. Many of these investments in stocks and bonds are listed on national securities exchanges, quoted on New York Stock Exchange ("NYSE"), NASDAQ Stock Market or on over-the-counter-markets. The investments in hedge funds includes funds that invest in transactions at the sole discretion of the investment managers. The funds hold, among other investments, debt and/or equity securities of troubled or restructured companies, and enter into transactions in financial futures, foreign exchange options, forward currency contracts (which are used for hedging and non-hedging purposes), securities purchased under agreements to resell and securities sold under agreements to repurchase. The investments in these funds may not be immediately liquid.

Investments in limited partnerships include investments in assets that may be illiquid and require redemption requests be made at certain times during the fiscal year. Those investments in which the Foundation has requested redemption of shares in limited partnerships are recorded at fair value until the redemption has occurred.

Investment transactions are recorded on trade date. Realized gains and losses on sales of investments are determined on the specific identification basis.

The investments are monitored by the Foundation's Finance and Investment Committee and made in a manner consistent with policies and guidelines established by the Finance and Investment Committee and approved by the Board of Directors. The Foundation is exposed to credit loss for the amount of the investments in the event of nonperformance by the other parties in the investment transactions. However, nonperformance by the counterparties is not anticipated.

Colburn Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Equipment**

Office equipment is recorded at cost at the time of acquisition. Depreciation is provided over the estimated useful life (3 years) of the respective asset on a straight-line basis. Office equipment with an original cost of \$13,172 is fully depreciated. Repairs and maintenance are charged as expense when incurred.

**Income Taxes**

The Foundation has been recognized by the Internal Revenue Service (“IRS”) as exempt from federal income taxes under provisions of the Internal Revenue Code (“IRC”) Section 501(c)(3), except for unrelated business income and has also been determined by the IRS as an organization that is classified as a private foundation under IRC Section 509(a).

The Foundation is subject to federal excise tax of 2%, or 1% if certain criteria are met, on net investment income, including realized gains as defined by the IRC. For tax purposes, the Foundation’s basis in contributions of appreciated property is equal to that of the donor and the tax basis in other investments is the cost of the investment. This difference between the tax basis and fair value of appreciated assets for financial statements and tax purposes results in net unrealized gains or losses on investments for tax purposes, which increases taxable investment income when those investments are sold at a gain.

The Foundation has also been recognized by the California Franchise Tax Board (“FTB”) as exempt from California franchise and/or income taxes under section 23701(d) of the California Revenue and Taxation Code, except for unrelated business income.

The Foundation recognizes and measures its unrecognized tax benefits in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740, which requires the Foundation to determine whether tax positions of the Foundation are “more likely than not” to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of December 31, 2017, the Foundation has analyzed the inventory of tax positions taken with respect to all applicable income tax issues for all open tax years (in each respective jurisdiction). The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Colburn Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Recent Accounting Pronouncements**

In May 2015, the FASB issued Accounting Standards Update (“ASU”) 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. The guidance specifically classified how investments valued using the net asset value (NAV) practical expedient within the fair value hierarchy should be classified. The ASU was issued in order to address diversity in practice. The amended standard’s key provision exempts investments measured using the NAV practical expedient from categorization within the fair value hierarchy and related disclosures. The new guidance is effective for the Foundation for the year ended December 31, 2017. The impact of adopting this standard was only a change to the investment disclosure in the notes to the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The core principal of this ASU is that a lessee should recognize an asset and a liability for all leases. Lessees should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing their right to use the underlying asset for the lease term. The amendments in this update are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation is in the process of evaluating the impact of this standard on its operations.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The guidance is intended to simplify and improve how a not-for-profit organization (NFP) classifies its net assets, as well as the information it presents in its financial statements about its liquidity, financial performance and cash flows. The new guidance is effective for annual reporting periods beginning after December 15, 2017. The Foundation is in the process of evaluating the impact of this standard on its operations.

3. INVESTMENTS

The Foundation records its investments at fair value in accordance with ASC 820, *Fair Value Measurements and Disclosures*. The Statement establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Foundation’s assumptions (unobservable inputs). Determining where an asset or liability falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy.

Colburn Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

3. INVESTMENTS - Continued

The hierarchy consists of three broad levels as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Inputs other than Level 1 inputs that are either directly or indirectly observable

Level 3 – Unobservable inputs developed using the Foundation's estimates and assumptions, which reflect those that market participants would use

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Foundation evaluates its hierarchy disclosures each reporting period and based on various factors, it is possible that an asset or liability may be classified differently from period to period. However, the Foundation expects that changes in classifications between different levels will be rare.

The following is a description of the valuation methodologies used for investments at fair value, as well as the general classification pursuant to the valuation hierarchy.

When quoted prices are available in an active market, securities are classified within Level 1 of the fair value hierarchy. If quoted market prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing, or discounted cash flow models. The fair value of securities estimated using pricing models or matrix pricing are generally classified within Level 2 of the fair value hierarchy. When discounted cash flow models are used there is limited activity or less transparency around inputs to the valuation and securities are classified within Level 3 of the fair value hierarchy.

The Foundation's valuation methodologies used for alternative investments measured at fair value is based on net asset value ("NAV") of shares held by the Foundation at year end. There have been no changes in methodologies used at December 31, 2017 and 2016. The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Foundation's valuation methodologies used for alternative investments, which consists of funds that utilize a variety of absolute return strategies are based on the NAV of shares held by the Foundation at year-end. Fair value is determined by the respective investment manager that holds the alternative investments based on valuation procedures adopted by the respective company. Based on their valuation, the fair value of the alternative investments was estimated to be \$105,057,349 and \$71,525,793 at December 31, 2017 and 2016, respectively.

Colburn Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

3. INVESTMENTS - Continued

The fair values of investments that are measured on a recurring basis are listed below as of December 31 2017:

	Totals	Fair Value Measurements Using			Net Asset Value
		Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and Cash Equivalents	\$ 1,374,496	\$ 1,374,496	\$ -	\$ -	\$ -
Global Equities					
U.S Equities	14,245,806	5,271,409	8,974,397	-	-
International Equities	11,376,082	11,376,082	-	-	-
Global Equities (US & Intl)	44,590,689	-	-	-	44,590,689
Absolute Return Strategies	24,962,372	-	-	-	24,962,372
Private Equity	20,830,185	-	-	-	20,830,185
Private Real Estate	11,523,783	-	-	-	11,523,783
Master Limited Partnerships	5,142,037	-	5,142,037	-	-
Oil & Gas	2,150,320	-	-	-	2,150,320
Core Fixed Income	32,912,037	32,912,037	-	-	-
Totals	<u>\$ 169,107,807</u>	<u>\$ 50,934,024</u>	<u>\$ 14,116,434</u>	<u>\$ -</u>	<u>\$ 104,057,349</u>

Colburn Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

3. INVESTMENTS - Continued

The fair values of investments that are measured on a recurring basis are listed below as of December 31 2016:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<u>Totals</u>			
Cash and Cash Equivalents	\$ 632,358	\$ 632,358	\$ -	\$ -
Global Equities				
U.S Equities	18,124,677	7,412,657	10,712,020	-
International Equities	10,926,563	10,926,563	-	-
Global Equities (US & Intl)	32,319,132	14,371,535	-	17,947,597
Absolute Return Strategies	22,241,201	-	-	22,241,201
Private Equity	14,876,664	-	-	14,876,664
Global REIT's	-	-	-	-
Private Real Estate	13,770,752	-	-	13,770,752
Master Limited Partnerships	5,464,431	-	5,464,431	-
Oil & Gas	2,689,579	-	-	2,689,579
Core Fixed Income	29,007,481	29,007,481	-	-
Totals	<u>\$ 150,052,838</u>	<u>\$ 62,350,594</u>	<u>\$ 16,176,451</u>	<u>\$ 71,525,793</u>

Colburn Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

3. INVESTMENTS - Continued

The following is a description of valuation inputs and techniques that the Foundation utilizes to fair value each major category of assets and liabilities in accordance with ASC 820:

Global Equities – Equity securities that are actively traded on a securities exchange are valued on quoted prices from the applicable exchange, and to the extent valuation adjustments are not applied to these securities, they are categorized as Level 1. Equity securities traded on inactive markets and certain foreign equity securities are valued using significant other observable inputs, which include broker quotes or evaluated price quotes received from pricing services. To the extent that these inputs are observable and timely, the values of these securities are categorized as Level 2; otherwise, the values are categorized as Level 3.

Absolute Return Strategies – Investments are valued based on NAV per share (or its equivalent) of the underlying fund as provided by the investment manager. These investments are in the form of partnerships which may invest in bank debt, convertible arbitrage, capital structure arbitrage, high yield investments, structured credit investments, merger arbitrage, special situations, distressed debt and long/short strategies. To the extent that these inputs are observable and timely, the values of these securities are categorized as Level 2; otherwise, the values are categorized as Level 3.

On October 15, 2008, a partnership investment in credit strategies announced that the partnership would be liquidated. A resolution to dissolve and distribute the remaining assets in the partnership has been approved. The values of these securities were \$0 and \$235,790 at December 31, 2017 and 2016, respectively, and are categorized as Level 3.

Private Equity – Investments are valued based on NAV per share (or its equivalent) of the underlying fund as provided by the investment manager. To the extent that the Fund does not have the ability to redeem its investment with the investee investment fund in the near term at NAV per share, the values are categorized as Level 3. In the absence of such NAV per share, fair value is determined in good faith by the investment advisor. To the extent that inputs are observable, the values are categorized as Level 2; otherwise, the values are categorized as Level 3.

Colburn Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

3. INVESTMENTS - Continued

Private equity investments are not registered for public sale and are carried at estimated fair value as determined in good faith by the Foundation's management after consideration of available relevant financial, operational, and economic data. Significant factors considered in the estimation of fair value include, but are not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value require significant management judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

Global REITs – These investments are in the form of a common trust fund which may invest in activities in or related to the development, operation, and/or ownership of real estate (including Real Estate Investment Trusts (“REITs”). To the extent that they are actively traded on a securities exchange, they are valued on quoted prices from the applicable exchange, and to the extent valuation adjustments are not applied to these securities, they are categorized as Level 1.

Investments are valued based on NAV per share (or its equivalent) of the underlying fund as provided by the investment manager. The common trust fund may also invest in real estate service companies and non-US companies. To the extent that these inputs are observable and timely, the value of these securities is categorized as Level 2; otherwise, the values are categorized as Level 3.

Master Limited Partnerships – Master Limited Partnerships (“MLPs”) currently operate in the energy infrastructure industry, owning assets such as pipelines that transport crude oil, natural gas and other refined petroleum products. To the extent that these inputs are observable and timely, the value of these securities is categorized as Level 2; otherwise, the values are categorized as Level 3.

Oil and Gas – Investments in oil and gas related companies consist of direct private equity investments in partnerships. The transaction price, excluding transaction costs, is typically the Foundation's best estimate of fair value at inception. When evidence supports a change to the carrying value from the transaction price, adjustments are made to reflect expected exit values. To the extent that the Foundation does not have the ability to redeem its investments with the investee investment fund in the near term a NAV per share, the values are categorized as Level 3.



Colburn Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

3. INVESTMENTS - Continued

Core Fixed Income – These investments are in the form of equity securities in U.S. Treasury bonds, notes and mortgage backed securities of varying maturities issued by the U.S. government, their agencies or instrumentalities. Equity securities that are actively traded on a securities exchange are valued on quoted prices from the applicable exchange, and to the extent valuation adjustments are not applied to these securities, they are categorized as Level 1.

The following table presents additional information about the assets recorded at fair value on the Foundation's Statements of Financial Position on a recurring basis for which Level 3 inputs were used. The table presents amounts of total gains and losses for the period ended December 31, 2017 and 2016 that have been included in earnings and are attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2017 and 2016 measured utilizing significant unobservable inputs (Level 3):

	Beginning Balance January 1, 2017	Net Income (Expense)	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Purchases	Sales	Ending Balance December 31, 2017
Global Equity	\$ 17,947,597	\$ -	\$ -	\$ 6,143,092	\$ 20,500,000	\$ -	\$ 44,590,689
Absolute Return Strategies	22,241,201	-	(479,591)	3,517,321	-	(316,559)	\$ 24,962,372
Private Equity	14,876,664	(640,867)	2,806,864	3,221,567	4,951,153	(4,385,196)	20,830,185
Private Real Estate	13,770,752	(140,804)	1,681,599	65,223	1,781,176	(5,634,163)	11,523,783
Oil & Gas	2,689,579	(65,405)	156,319	(145,383)	731,147	(1,215,937)	2,150,320
Totals	<u>\$ 71,525,793</u>	<u>\$ (847,076)</u>	<u>\$ 4,165,191</u>	<u>\$ 12,801,820</u>	<u>\$ 27,963,476</u>	<u>\$ (11,551,855)</u>	<u>\$ 104,057,349</u>

	Beginning Balance January 1, 2016	Net Income (Expense)	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Purchases	Sales	Ending Balance December 31, 2016
Global Equity	\$ -	\$ -	\$ -	\$ 1,247,597	\$ 16,700,000	\$ -	\$ 17,947,597
Absolute Return Strategies	22,907,171	-	(2,072,715)	2,092,921	-	(686,176)	22,241,201
Private Equity	10,887,906	(216,241)	1,122,269	1,120,893	3,952,198	(1,990,361)	14,876,664
Private Real Estate	11,862,491	(183,877)	876,923	612,623	4,210,278	(3,607,686)	13,770,752
Oil & Gas	2,445,268	(58,461)	51,308	750,692	431,543	(930,771)	2,689,579
Totals	<u>\$ 48,102,837</u>	<u>\$ (458,579)</u>	<u>\$ (22,215)</u>	<u>\$ 5,530,383</u>	<u>\$ 25,294,019</u>	<u>\$ (7,214,994)</u>	<u>\$ 71,525,793</u>

Colburn Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

3. INVESTMENTS - Continued

The following table lists investments in investment companies which are valued at NAV by major category as of December 31, 2017:

	<u>NAV in funds</u>	<u>\$ Amount of Unfunded Commitments</u>	<u>Timing to Draw Down Commitments</u>	<u>No. of Investments</u>	<u>Redemption/Lock up terms</u>	<u>Redemption Restrictions</u>
Global equities	\$ 44,590,689	\$ -	N/A	1	N/A	N/A
Absolute Return Strategies	24,962,372	-	N/A	1	Lock-up period up to one-year. Withdrawals can be made quarterly with zero to sixty day notice.	May be limited or suspended under certain circumstances.
Private Equity	20,830,185	13,972,298	Up to 2022	10	Can not redeem	Can not redeem
Private Real Estate	11,523,783	6,826,819	Up to 2018	9	Can not redeem	Can not redeem
Oil & Gas	<u>2,150,320</u>	<u>1,780,816</u>	Up to 2019	3	Can not redeem	Can not redeem
	<u>\$ 104,057,349</u>	<u>\$ 22,579,933</u>				

The following table lists investments in investment companies which are valued at NAV by major category as of December 31, 2016:

	<u>NAV in funds</u>	<u>\$ Amount of Unfunded Commitments</u>	<u>Timing to Draw Down Commitments</u>	<u>No. of Investments</u>	<u>Redemption/Lock up terms</u>	<u>Redemption Restrictions</u>
Global equities	\$ 17,947,597	\$ -	N/A	1	N/A	N/A
Absolute Return Strategies	22,241,201	-	N/A	2	Lock-up period up to one-year. Withdrawals can be made quarterly with zero to sixty day notice.	May be limited or suspended under certain circumstances.
Private Equity	14,876,664	19,090,846	Up to 2022	8	Can not redeem	Can not redeem
Private Real Estate	13,770,752	7,723,887	Up to 2018	9	Can not redeem	Can not redeem
Oil & Gas	<u>2,689,579</u>	<u>2,513,138</u>	Up to 2019	3	Can not redeem	Can not redeem
	<u>\$ 71,525,793</u>	<u>\$ 29,327,871</u>				

Colburn Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

4. GRANTS PAYABLE

Unconditional promises to give totaled \$29,269,500 and \$27,899,000 at December 31, 2017 and 2016, respectively, and have been discounted to their present value using rates between 0.58% and 3.01% for 2017 and 2016, based on the length of the grants. Commitments for grants due in future periods are comprised of the following at December 31, 2017:

<u>Years ending December 31,</u>	<u>Amount</u>
2018	\$ 5,654,500
2019	4,365,000
2020	3,750,000
2021	3,500,000
2022	3,500,000
Thereafter	<u>8,500,000</u>
Grants payable - gross	29,269,500
Less: Unamortized discount	<u>(2,119,488)</u>
Grants payable - net	<u><u>\$ 27,150,012</u></u>
California Institute of the Arts	\$ 100,000
The Colburn School	20,000,000
Los Angeles Chamber Orchestra	600,000
Los Angeles Master Chorale	200,000
Los Angeles Opera	1,000,000
Los Angeles Philharmonic	6,750,000
University of Southern California	150,000
Other	<u>469,500</u>
Total	<u><u>\$ 29,269,500</u></u>

As of December 31, 2017 and 2016, the Foundation had also approved grants totaling \$0 and \$10,000, respectively, which are payable upon future events.

Colburn Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

5. FEDERAL EXCISE TAX

The Colburn Foundation is a private foundation and qualifies as a tax-exempt organization under Section 501(c)(3) of the IRC. Private foundations are subject to an excise tax on net investment income and may reduce their federal excise tax rate from two percent to one percent by exceeding a certain payout target for the year. The Foundation paid a two percent excise tax rate in 2017 and in 2016. The deferred tax provision is related to the book/tax basis difference in the Foundation's investments, primarily on unrealized gains.

The expense for federal excise tax is as follows:

	<u>2017</u>	<u>2016</u>
Current	\$ 249,704	\$ 131,508
Deferred	<u>212,825</u>	<u>123,454</u>
Total	<u>\$ 462,529</u>	<u>\$ 254,962</u>

6. PENSION PLAN

In 2008, the Foundation adopted a 401(k) Profit Sharing Plan (the "Plan") covering substantially all qualified employees. The Foundation's contributions to the Plan are based upon 4% of eligible employee salaries. The related expense is included in management and general expenses in the statements of activities and is \$5,786 and \$5,456 for the years ended December 31, 2017 and 2016, respectively.

7. RELATED PARTY TRANSACTIONS

The Foundation awarded grants in the amount of \$178,500 and \$394,500 to The Colburn School during the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the amount payable to The Colburn School is \$20,000,000 and \$23,000,000, respectively.

8. SUBSEQUENT EVENTS

The Foundation has evaluated its financial statements for subsequent events through December 3, 2018, the date the financial statements were available to be issued.