DJERASSI RESIDENT ARTISTS PROGRAM

Financial Statements

With Independent Auditors' Report Thereon

Years Ended

February 28, 2018 and 2017

REGALIA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

DJERASSI RESIDENT ARTISTS PROGRAM

(A California Non-Profit Corporation)
February 28, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Djerassi Resident Artists Program

We have audited the accompanying financial statements of the Djerassi Resident Artists Program (a California nonprofit organization) which comprise the statements of financial position as of February 28, 2018, and the related statements of activities and changes in net assets, cash flows and functional expenses 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 the Djerassi Resident Artists Program as of February 28, 2018 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
We have previously audited the Djerassi Resident Artists Program's February 28, 2017 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended February 28, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Regalia & Associates

July 9, 2018
Danville, California

Statements of Financial Position
February 28, 2018 and 2017

ASSETS

	2018	2017
Current assets:		
Cash and cash equivalents	$ 519,817	$ 79,961
Investments	2,596,888	2,495,435
Accounts, grants and pledges receivable	159,338	145,437
Prepaid expenses and other assets	25,976	20,050
Total current assets	3,302,019	2,740,883
Noncurrent assets:		
Grants and pledges receivable, net	76,284	120,792
Investments	711,398	767,593
Property and equipment, net	3,176,196	3,138,630
Artwork	66,518	66,518
Rebranding	120,335	19,501
Note receivable	15,101	-
Total noncurrent assets	4,165,832	4,113,034
	$ 7,467,851	$ 6,853,917

LIABILITIES AND NET ASSETS

	2018	2017
Current liabilities:		
Accounts payable and accrued liabilities	$ 18,986	$ 64,622
Accrued payroll and related benefits	35,792	30,256
Deferred revenue	24,680	21,606
Fiscal sponsorships payable	87,034	-
Total current liabilities	166,492	116,484
Net assets:		
Unrestricted	6,063,995	5,988,075
Temporarily restricted	353,372	391,671
Permanently restricted	883,992	357,687
Total net assets	7,301,359	6,737,433
	$ 7,467,851	$ 6,853,917

Statement of Activities and Changes in Net Assets
For the Year Ended February 28, 2018
(with Summarized Financial Information for the Year Ended February 28, 2017)

Changes in net assets:	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Revenue and support:					
Earned revenue:					
Program services and fees	$ 145,553	$ -	$ -	$ 145,553	$ 139,210
Tour income	12,869	-	-	12,869	3,575
Other earned income	5,659	-	-	5,659	4,895
Investment income	39,665	6,181	5,644	51,490	40,662
Realized gains on sale of investments	122,566	19,098	17,441	159,105	11,831
Unrealized investment gain (losses)	226,950	35,363	32,294	294,607	279,731
Total earned revenue	553,262	60,642	55,379	669,283	479,904
Contributed support:					
Donations and contributions	413,583	284,188	526,305	1,224,076	2,026,489
In-kind contributions	28,532	-	-	28,532	17,256
Fundraising and events	136,434	-	-	136,434	110,727
Discount on long-term pledges	-	(508)	-	(508)	(1,208)
Net assets released from restrictions	438,000	(382,621)	(55,379)	-	-
Total contributed support	1,016,549	(98,941)	470,926	1,388,534	2,153,264
Total revenue and support	1,569,811	(38,299)	526,305	2,057,817	2,633,168
Expenses:					
Programs	901,419	-	-	901,419	1,004,546
Management and general	235,390	-	-	235,390	121,518
Fundraising	357,082	-	-	357,082	117,535
Total expenses	1,493,891	-	-	1,493,891	1,243,599
Increase (decrease) in net assets	75,920	(38,299)	526,305	563,926	1,389,569
Net assets at beginning of year	5,988,075	391,671	357,687	6,737,433	5,347,864
Net assets at end of year	$6,063,995	$ 353,372	$ 883,992	$ 7,301,359	$ 6,737,433

Statements of Cash Flows
For the Years Ended February 28, 2018 and 2017

	2018	2017
Operating activities:		
Increase in net assets	**$ 563,926**	$ 1,389,569
Adjustments to reconcile to cash used for operating activities:		
Depreciation	**133,504**	106,761
Change in discount for multi-year receivables	**(508)**	(1,208)
Unrealized investment gains	**(294,607)**	(279,731)
Changes in:		
Accounts, grants and pledges receivable	**31,115**	(92,821)
Prepaid expenses and other current assets	**(5,926)**	(12,413)
Rebranding	**(100,834)**	(19,501)
Note receivable	**(15,101)**	-
Accounts payable and accrued liabilities	**(45,636)**	42,412
Accrued payroll and related benefits	**5,536**	17,497
Deferred revenue	**3,074**	(29,894)
Cash provided by operating activities	**274,543**	1,120,671
Investing activities:		
Acquisition (disposition) of investments	**249,349**	(1,069,009)
Acquisition of property and equipment	**(171,070)**	(49,842)
Cash provided by (used for) investing activities	**78,279**	(1,118,851)
Net increase in cash and cash equivalents	**439,856**	1,820
Cash and cash equivalents at beginning of year	**79,961**	78,141
Cash and cash equivalents at end of year	**$ 519,817**	$ 79,961
Additional cash flow information:		
Interest paid	**$ -**	$ -
State registration tax fees	**$ 150**	$ 150

Statement of Functional Expenses
For the Year Ended February 28, 2018

(with Summarized Financial Information for the Year Ended February 28, 2017)

	Total Programs	Management and General	Fund-raising	2018 Total	2017 Total
Salaries	$ 300,692	$ 78,056	$ 182,491	**$ 561,239**	$ 450,233
Payroll taxes	21,958	5,700	13,327	**40,985**	35,026
Benefits	48,939	12,704	29,702	**91,345**	89,682
Total salaries, taxes, and benefits	371,589	96,460	225,520	**693,569**	574,941
Artists Stipends	41,270	-	400	**41,670**	56,010
Bank charges/investment fees	348	36,361	3,615	**40,324**	31,356
Bad debt expense	-	-	-	**-**	13,009
Depreciation	120,154	13,350	-	**133,504**	106,761
Events and hospitality	3,716	982	64,747	**69,445**	58,503
In kind rent	27,000	-	-	**27,000**	6,750
Insurance	22,040	37,651	-	**59,691**	47,090
Legal and professional	-	10,578	-	**10,578**	9,967
Miscellaneous	3,941	5,732	1,278	**10,951**	11,498
Office and supplies	11,352	11,066	8,011	**30,429**	28,793
Outside services	84,840	4,001	37,046	**125,887**	76,642
Postage	2,538	1,111	2,454	**6,103**	3,965
Printing	4,884	428	5,501	**10,813**	8,918
Property and other taxes	1,630	337	-	**1,967**	1,831
Repairs and maintenance	86,310	7	3,813	**90,130**	64,565
Telephone	12,995	3,487	1,200	**17,682**	14,069
Travel and meals	93,906	3,962	3,497	**101,365**	109,255
Utilities	12,906	9,877	-	**22,783**	19,676
	$ 901,419	**$ 235,390**	**$ 357,082**	**$ 1,493,891**	$ 1,243,599

Notes to Financial Statements
February 28, 2018 and 2017

1. Organization

Djerassi Resident Artists Program ("Djerassi") was incorporated in 1983 as a California tax-exempt, non-profit organization. It was recognized by the IRS as a 501(c)(3), non-profit in 1999. Djerassi's mission is to support and enhance the creativity of artists by providing uninterrupted time for work, reflection, and collegial interaction in a setting of great natural beauty, and to preserve the land on which the Program is situated. The Program is internationally recognized as one of the eminent artist residency programs and strives to provide the best possible residency experience for artists of superior talent from a diverse range of backgrounds and geographical locations.

The organization has a robust, mission-driven earned income program that includes day-long public and private sculpture tours and arts-related workshops and retreats for writers and media artists. Djerassi alumni act as workshop leaders and select students via an application process. Retreat gatherings have included groups of playwrights, scientists, writers, choreographers, visual artists, and music composers. Sculpture tours are tailored to highlight the environmental/preservation component of our mission and serve approximately 1000 local residents, students, and visitors.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation
The financial statements of Djerassi have been prepared on the accrual basis of accounting in accordance with the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958.205, *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958.205, Djerassi is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Support and Revenue Recognition
Djerassi records contributions in accordance with ASC 958.605, *Revenue Recognition of Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the Statement of Activities and Changes in Net Assets as net assets released from restrictions.

Uses 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications
Certain reclassifications have been made to the 2017 financial statements in order to conform to the presentation used in 2018.

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Accounts, Grants and Pledges Receivable

Accounts, grants, and pledges receivable are recorded when Djerassi receives formal written notification of the funding commitments and are stated at estimated net realizable value.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in FDIC-insured bank accounts and highly liquid investments with maturity dates of less than three months. Cash equivalents include short-term interest-bearing investments in money market and liquid asset accounts. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Property and Equipment

Property and equipment purchased by Djerassi is stated at cost. Property and equipment donated to Djerassi is recorded at estimated fair value as of the date of the gift. The cost of additions and major improvements are capitalized, while maintenance and repairs are charged to expense as incurred. Components of property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets of from 3 to 40 years.

Income Taxes

Financial statement presentation follows the recommendations of ASC 740, Income Taxes, *Income Taxes.* Under ASC 740, Djerassi is required to report information regarding its exposure to various tax positions taken by Djerassi and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that Djerassi has adequately evaluated its current tax positions and has concluded that as of February 28, 2018 and 2017, Djerassi does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

Djerassi has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. This exemption is subject to periodic review by the federal and state taxing authorities and management is confident that Djerassi continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status. Djerassi may periodically receive unrelated business income requiring Djerassi to file separate tax returns under federal and state statutes. Under such conditions, Djerassi calculates and accrues the applicable taxes payable.

Functional Allocation of Expenses

The costs of providing Djerassi's various programs and other activities have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The costs of operating the various programs of Djerassi have been detailed in the Statement of Functional Expenses.

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Net Assets

In accordance with accounting principles generally accepted in the United States of America, financial statements must present classes of net assets based on the following categories: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Grants and contributions are classified in the appropriate net asset category based on the absence or existence of donor-imposed restrictions that limit the use of the donated assets if they are designated as support for future periods or future projects when they are received.

Djerassi reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor's intended purpose is met or a time restriction expires, the temporarily restricted net asset is transferred to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support.

3. Cash and Cash Equivalents

Cash and cash equivalents of $519,817 and $79,961 at February 28, 2018 and 2017, respectively, consist of deposits in local financial institutions. The balances reflect funds on deposit in various checking accounts that have a maturity date of 90 days or less. Included in cash and cash equivalents at February 28, 2018 and 2017 is $43,072 and $43,072, respectively, in donor restricted funds received in connection with the Djerassi Forever project.

4. Investments and Endowment

Investments consist of the following at February 28:

	2018	2017
Money market accounts	**$ 87,735**	$ 103,037
Mutual funds principally invested in bonds	**750,251**	766,996
Mutual funds principally invested in equities	**2,415,275**	2,328,040
Other (REIT, Emerging Markets, Foreign Funds)	**55,025**	64,955
Total investments	**$ 3,308,286**	$ 3,263,028

Endowment net asset composition by type of fund is summarized as follows as of February 28, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Money market accounts	$ 87,735	$ -	$ -	**$ 87,735**
Mutual funds principally invested in bonds	-	342,822	407,429	**750,251**
Mutual funds principally invested in equities	1,928,162	10,550	476,563	**2,415,275**
Other (REIT, Emerging Markets, Foreign Funds)	55,025	-	-	**55,025**
Total investments	**$ 2,070,922**	**$ 353,372**	**$ 883,992**	**$ 3,308,286**

(continued)

Notes to Financial Statements

4. Investments and Endowment *(continued)*

Endowment net asset composition by type of fund is summarized as follows as of February 28, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Money market accounts	$ 103,037	$ -	$ -	**$ 103,037**
Mutual funds principally invested in bonds	269,202	391,671	106,123	**766,996**
Mutual funds principally invested in equities	2,076,476	-	251,564	**2,328,040**
Other (REIT, Emerging Markets, Foreign Funds)	64,955	-	-	**64,955**
Total investments	**$ 2,513,670**	**$ 391,671**	**$ 357,687**	**$3,263,028**

Changes in endowment net assets for the year ended February 28, 2018 and net asset composition by type of fund at February 28, 2018 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Total investments-beginning of year	$2,513,670	$ 391,671	$ 357,687	$3,263,028
Investment return:				
Investment income	39,665	6,181	5,644	51,490
Net realized gains	122,566	19,098	17,441	159,105
Net unrealized gains	226,950	35,363	32,294	294,607
Total investment return	389,181	60,642	55,379	505,202
Contributions	-	284,188	526,305	810,493
Discount for present value of long-term receivables	-	(508)	-	(508)
Appropriation of endowment assets	321,979	(321,979)	-	-
Transfers of assets	(1,153,908)	(60,642)	(55,379)	(1,269,929)
Total investments-end of year	$2,070,922	$ 353,372	$ 883,992	$3,308,286
Endowment net assets by type of fund:				
Donor-restricted funds	-	-	883,992	883,992
Non-endowment net assets:				
Undesignated	2,070,922	353,372	-	2,424,294
Total investments-end of year	**$2,070,922**	**$ 353,372**	**$ 883,992**	**$3,308,286**

During the years ended February 28, 2018 and 2017, earnings on investments were reinvested. Net unrealized gains amounted to $294,607 and $279,731 for the years ended February 28, 2018 and 2017, respectively. Net realized gains amounted to $159,105 and $11,831 for the years ended February 28, 2018 and 2017, respectively. Interest, dividends, and realized gains are reflected as components of investment return on the statement of activities and changes in net assets. *(continued)*

Notes to Financial Statements

4. Investments and Endowment *(continued)*

Changes in endowment net assets for the year ended February 28, 2017 and net asset composition by type of fund at February 28, 2017 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Total investments-beginning of year	$1,380,851	$ 176,000	$ 357,437	$1,914,288
Investment return:				
Investment income	-	52,493	-	52,493
Net realized and unrealized gains	-	279,731	-	279,731
Total investment return	-	332,224	-	332,224
Contributions	-	215,671	250	250
Appropriation of endowment assets	332,224	(332,224)	-	-
Transfers of assets	1,016,266	-	-	1,016,266
Total investments-end of year	$1,380,851	$ 391,671	$ 357,687	$3,263,028
Endowment net assets by type of fund:				
Donor-restricted funds	-	-	357,687	357,687
Non-endowment net assets:				
Undesignated	1,380,851	391,671	-	1,556,851
Total investments-end of year	**$1,380,851**	**$ 391,671**	**$ 357,687**	**$3,263,028**

Djerassi has a Finance Committee which has the responsibility for establishing Djerassi's return objectives (generally lower rates of return associated with more stable and safer investments) and to define the risk parameters. The committee routinely oversees investment performances and reviews cash flows necessary to sustain Djerassi's operating activities.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires Djerassi to retain as a fund of perpetual duration. In accordance with ASC 958.205.55.31, there are no deficiencies of this nature that are required to be reported in unrestricted net assets at February 28, 2018. Such future deficiencies could result from unfavorable market fluctuations occurring after the investment of new restricted contributions and continued appropriation for certain programs which are deemed prudent by the Board of Directors.

(continued)

4. Investments and Endowment

Funds with Deficiencies (continued)
Djerassi's investments may decline below their original basis due to market fluctuations and unrealized losses which are beyond the control of Djerassi's management. Although there were none at February 28, 2019 and 2018, future deficiencies of this nature (if applicable) would be reported in unrestricted net assets.

Return Objectives and Risk Parameters
Djerassi has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Djerassi must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Finance Committee and the Board of Directors, the endowment assets are invested in a manner that is intended to (1) ensure the steady and long-term growth of the funds of its programs with the specific goal of preserving and increasing principal by at least the rate of inflation (local CPI) and producing income of at least five percent (5%) of the principal, (2) subject Djerassi to a moderate level of investment risk, and (c) maintain sufficient liquidity to meet planned expenditures. The tradeoff between gains and risk shall be tracked by a periodic review of investments (Sharp Ratio).

Strategies Employed for Achieving Objectives
To satisfy its long-term rate-of-return objectives, Djerassi relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Djerassi targets a diversified asset allocation that places a greater emphasis on equity-based investments (mutual funds) to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy
Djerassi follows accepted accounting policy to withdrawal income from any of the investment accounts no more frequently than four (4) times per fiscal year. The exact amount and date of each withdrawal shall be at the discretion of the Executive Director and set prior to each fiscal year by vote of the Board of Trustees, as may be amended by vote of the full Board if necessary.

In following this policy, Djerassi considered the long-term expected return on the investments in its portfolio. Accordingly, over the long term, Djerassi expects the current spending policy to allow its endowment fund assets to grow at a moderate rate annually. This is consistent with Djerassi’s objective to maintain the purchasing power of the endowment assets held in perpetuity.

5. Accounts, Grants and Pledges Receivable

Accounts, grants and pledges receivable of $235,622 and $266,229 at February 28, 2018 and 2017, respectively, represent amounts principally due from individuals, foundations, corporations, and other organizations. Grants and pledges receivable at February 28, 2018 are expected to be collected as follows:

Year ending February 28, 2019	**$ 159,338**
Year ending February 28, 2020	**78,000**
Total pledges receivable	**237,338**
Less: discount for multi-year contributions receivable	**(1,716)**
Less: grants and pledges receivable due within one year (current)	**(159,338)**
Grants and pledges receivable due after one year (noncurrent)	**$ 76,284**

Grants and pledges receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 2.3% per annum. The discount related to the present value calculation is being accreted back into income over the estimated collection period of the grants and pledges receivable. The change in discount for multi-year receivables amounted to $508 and $1,208 for the years ended February 28, 2018 and 2017, respectively.

Djerassi uses the direct write-off method with regards to receivables deemed uncollectible. Amounts written off as bad debt expense amounted to $13,009 during the year ended February 28 2017. There were no amounts written off for bad debt expense during the year ended February 28, 2018. Management has evaluated the receivables as of February 28, 2018 and determined that such amounts are fully collectible based on an assessment of the financial strength of the donors.

6. Fair Value Measurements

Composition of assets utilizing fair value measurements at February 28, 2018 is as follows:

	Totals	Level 1	Level 2	Level 3
Money market accounts	$ 87,735	$ 87,735	$ -	$ -
Mutual funds principally invested in bonds	750,251	750,251	-	-
Mutual funds principally invested in equity securities	2,415,275	2,415,275	-	-
Other (REIT, Emerging Markets, Foreign Funds)	55,025	29,136	-	25,889
Accounts, grants and pledges receivable	235,622	-	235,622	-
Totals	$ 3,543,908	$ 3,282,397	$ 235,622	$ 25,889

Composition of assets utilizing fair value measurements at February 28, 2017 is as follows:

	Totals	Level 1	Level 2	Level 3
Money market accounts	$ 103,037	$ 103,037	$ -	$ -
Mutual funds principally invested in bonds	766,996	766,996	-	-
Mutual funds principally invested in equity securities	2,328,040	2,328,040	-	-
Other (REIT, Emerging Markets, Foreign Funds)	64,955	-	-	64,955
Accounts, grants and pledges receivable	266,229	-	266,229	-
Totals	$ 3,529,257	$ 3,198,073	$ 266,229	$ 64,955

(continued)

6. Fair Value Measurements *(continued)*

Fair value measurements establish a fair value hierarchy that prioritizes the input used to measure fair value. This hierarchy consists of three broad levels: (a) Level 1 measurement reflects the value of the investments at quoted prices in active markets for identical assets, generally without any adjustments, (b) Level 2 assets and liabilities are valued based on "observable inputs" other than quoted active market prices, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and interest rates and yield curves, and (c) Level 3 assets and liabilities are valued based on “unobservable inputs," such as a company’s own estimates and pricing models.

Assets Classified as Level 3
The significant unobservable inputs used in the fair value measurement of other investments are amounts estimated and prepared by an independent broker.

7. Property and Equipment

Property and equipment consist of the following at February 28:

	2018	2017
Land and land improvements [a]	$ 1,748,200	$ 1,695,494
Barn, ranch, buildings, and improvements	2,094,175	2,023,440
Middlebrook Studios	1,090,693	1,090,693
Machinery and equipment	240,463	211,592
Furniture and fixtures	62,893	62,893
Less: accumulated depreciation and amortization	(2,060,228)	(1,945,482)
Property and equipment, net	$ 3,176,196	$ 3,138,630

Depreciation expense amounted to $133,504 and $106,761 for the years ended February 28, 2018 and 2017, respectively. During the year ended February 28, 2018, Djerassi disposed of fully depreciated assets of $18,758. There were no disposals during the year ended February 28, 2017.

[a] In 1999, Djerassi concluded a $2.2 million agreement with Peninsula Open Space Trust (POST) to sell a conservation easement on the entirety of its land to POST. Title to the property is retained by Djerassi. Djerassi retains its water rights and may undertake traditional agricultural uses of the land. Djerassi relinquished its timber and mineral rights with the provision that these resources will never be developed. Funds from the sale reimbursed Djerassi expenses related to the sale and created a land and buildings fund to support Djerassi 's capital needs.

8. Lease and Other Commitments

Djerassi is obligated under several multi-year operating leases for certain office equipment with expiration dates ranging from August 2022 through October 2023. Such leases require monthly rental payments ranging from $414 to $507 as of February 28, 2018 (and which continue through the end of the lease terms). At February 28, 2018, minimum future lease payments for all operating leases *(continued)*

8. Lease and Other Commitments *(continued)*

with terms of one year or more are as follows: $3,905 for the year ending February 28, 2019; $3,905 for the year ending February 28, 2020; $3,905 for the year ending February 28, 2021; $3,905 for the year ending February 28, 2022; and $2,480 for the year ending February 28, 2023. Equipment rental expense for the years ended February 28, 2018 and 2017 amounted to $3,817 and $3,802, respectively.

In January 2017, Djerassi entered into a three-year contract for capital campaign and development work. The future payments due under this obligation amounted to $81,000 as of February 28, 2018 and is expensed as incurred.

9. Fiscal Sponsorships Payable

Djerassi acts as the fiscal sponsor for certain outside groups and provides fiscal sponsorship and development services in a pass-thru capacity. Fiscal sponsorships payable amounted to $87,034 at February 28, 2018. There were no fiscal sponsorship liabilities at February 28, 2017.

10. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of ASC 710.25, *Compensated Absences*. Under ASC 710.25, Djerassi is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded in the financial statements as an accrued liability on the Statements of Financial Position based on hourly rates in effect at the end of the fiscal year. At February 28, 2018 and 2017, Djerassi reflected $35,792 and $30,256, respectively, in accrued payroll and related benefits.

11. Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and provide future services, which are not reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate Djerassi to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond Djerassi's control, such as generosity of donors, government contract funding and general economic conditions, (c) Employment and service agreements with key management and operating personnel, and (d) Financial risks associated with funds on deposit at bank and other financial institutions.

Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements. Current and prior costs of certain grants and contracts are subject to audit and final acceptance by the granting agencies involved.

Notes to Financial Statements

12. Retirement Plan

Djerassi maintains a salary deferral plan for eligible employees that is qualified under Internal Revenue Code Section 401(k). This plan was adopted January 1, 2013 and replaced the Simple IRA plan previously offered. The plan is available to employees who meet certain age and eligibility requirements. During the years ended February 28, 2018 and 2017, Djerassi contributed $19,962 and $20,230, respectively, to the plan.

13. Restricted Net Assets

Temporarily Restricted: Djerassi recognizes support from temporarily restricted net assets when the restrictions imposed by the donors have been satisfied or expired. Temporarily restricted net assets consist of the following at February 28:

Restricted by:	2018	2017
Alliance of Artist Communities	**$ 10,000**	$ 5,000
California Arts Council	**500**	-
California Fire	**5,817**	-
Contributions pledged for future fiscal years	**176,771**	39,409
Ford Family Foundation	**48,000**	36,000
Hewlett Foundation	**110,000**	257,470
Kenneth Rainin Foundation	**-**	25,000
National Endowment for the Arts	**-**	15,000
Rasmuson Foundation	**-**	15,000
San Mateo County Arts Commission	**4,000**	-
Unamortized discount on long-term receivables	**(1,716)**	(1,208)
	$ 353,372	$ 391,671

During the year ended February 28, 2018, Djerassi received restricted contributions of $284,188 and released $382,621 of previously restricted donations. During the year ended February 28, 2017, Djerassi received restricted contributions of $425,909 and released $209,030 of previously restricted donations.

Permanently Restricted: Permanently restricted net assets consist of the following at February 28:

	2018	2017
Restricted for endowment	**$ 883,992**	$ 357,687

During the years ended February 28, 2018 and 2017, Djerassi received permanently restricted contributions of $526,305 and $250, respectively. All of the endowment funds, classified as permanently restricted net assets, represent donor contributions that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. By law, Djerassi is permitted to transfer all interest and realized/unrealized gains to unrestricted net assets.

Notes to Financial Statements

14. In-Kind Contributions

During the years ended February 28, 2018 and 2017, Djerassi recognized $28,532 and $17,256, respectively, of in-kind contributions. Included in these totals are $27,000 and $6,750, respectively, in in-kind rent for office space in San Francisco for the years ended February 28, 2018 and 2017, respectively. The values of these contributions have been reflected in the financial statements because such donations were susceptible to objective measurement and therefore met the criteria for recognition under ASC 958.30 *Gifts in Kind*.

15. Advertising Expense

Advertising costs are expensed as incurred. Advertising expense amounted to $2,962 and $6,317 for the years ended June 30, 2016 and 2015, respectively, and is included with miscellaneous expense on the statement of functional expenses.

16. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, Djerassi has evaluated subsequent events through July 9, 2018, the date the financial statements were available to be issued. In the opinion of management, there are no subsequent events which need to be disclosed.