

**THE DURFEE FOUNDATION**

**Financial Statements  
As of December 31, 2011 and 2010  
And for the Years Then Ended**

**Together With Independent Auditor's Report**

**THE DURFEE FOUNDATION**  
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**December 31, 2011 and 2010**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
The Durfee Foundation

We have audited the accompanying statements of financial position of The Durfee Foundation (the "Foundation"), a Nevada nonprofit public benefit corporation, as of December 31, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

STANISLAWSKI & HARRISON

June 5, 2012

**THE DURFEE FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2011 and 2010**

ASSETS

	<u>2011</u>	<u>2010</u>
ASSETS:		
Cash and Cash Equivalents (Note 2)	\$ 277,621	\$ 168,821
Investments (Notes 2 and 3)	22,737,990	24,661,948
Contribution Receivable (Note 4)	1,799,797	2,310,071
Excise Tax Receivable (Note 7)	12,940	23,561
Prepaid Expenses	<u>23,342</u>	<u>17,002</u>
 Total Assets	 <u>\$ 24,851,690</u>	 <u>\$ 27,181,403</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts Payable and Accrued Expenses	\$ 49,861	\$ 68,125
Grants Payable (Note 5)	<u>1,079,404</u>	<u>1,022,872</u>
 Total Liabilities	 <u>1,129,265</u>	 <u>1,090,997</u>
 LEASE COMMITMENT (Note 6)		
NET ASSETS:		
Unrestricted Net Assets	21,922,628	23,780,335
Temporarily Restricted Net Assets	<u>1,799,797</u>	<u>2,310,071</u>
 Total Net Assets	 <u>23,722,425</u>	 <u>26,090,406</u>
 Total Liabilities and Net Assets	 <u>\$ 24,851,690</u>	 <u>\$ 27,181,403</u>

**THE DURFEE FOUNDATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Year Ended December 31, 2011**  
**(With Comparative Totals for the Year Ended December 31, 2010)**

	Unrestricted	Temporarily Restricted	Total	
			2011	2010
<b>REVENUES</b>				
Dividends and Interest	\$ 776,858	\$ -	\$ 776,858	\$ 453,364
Realized Gains on Investments, net	370,151	-	370,151	130,453
Unrealized Gains (Losses) on Investments, net	(1,521,258)	-	(1,521,258)	2,457,634
Contributions	146,472	-	146,472	2,529,146
Other Income	-	-	-	10,120
Net Assets Released from Restriction (Note 9)	510,274	(510,274)	-	-
<b>Total Revenue</b>	<b>282,497</b>	<b>(510,274)</b>	<b>(227,777)</b>	<b>5,580,717</b>
<b>EXPENSES</b>				
Grants	1,427,438	-	1,427,438	1,806,816
Salaries	267,817	-	267,817	268,228
Grant Related Expenses	94,505	-	94,505	85,717
Office Expense (Note 6)	80,823	-	80,823	76,044
Employee Benefits	71,721	-	71,721	72,551
Professional Services	62,342	-	62,342	81,616
Investment Management Fees	28,818	-	28,818	30,248
Payroll Tax	24,448	-	24,448	20,866
Other Expenses	17,136	-	17,136	23,411
Travel, Conference and Meetings	15,917	-	15,917	43,974
Trustee Fees Paid to Officers and Directors	15,000	-	15,000	15,000
Dues	12,626	-	12,626	9,579
Insurance	10,992	-	10,992	10,287
Excise Tax	10,621	-	10,621	-
<b>Total Expenses</b>	<b>2,140,204</b>	<b>-</b>	<b>2,140,204</b>	<b>2,544,337</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$ (1,857,707)</b>	<b>\$ (510,274)</b>	<b>\$ (2,367,981)</b>	<b>\$ 3,036,380</b>
NET ASSETS - Beginning of Year	\$ 23,780,335	\$ 2,310,071	\$ 26,090,406	\$ 23,054,026
Increase (Decrease) in Net Assets	(1,857,707)	(510,274)	(2,367,981)	3,036,380
<b>NET ASSETS - End of Year</b>	<b>\$ 21,922,628</b>	<b>\$ 1,799,797</b>	<b>\$ 23,722,425</b>	<b>\$ 26,090,406</b>

**THE DURFEE FOUNDATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Year Ended December 31, 2010**

	Unrestricted	Temporarily Restricted	Total
<b><u>REVENUES</u></b>			
Dividends and Interest	\$ 453,364	\$ -	\$ 453,364
Realized Gains on Investments, net	130,453	-	130,453
Unrealized Gains on Investments, net	2,457,634	-	2,457,634
Contributions	25,000	2,504,146	2,529,146
Other Income	10,120	-	10,120
Net Assets Released from Restriction (Note 9)	194,075	(194,075)	-
	<u>3,270,646</u>	<u>2,310,071</u>	<u>5,580,717</u>
<b><u>EXPENSES</u></b>			
Grants	1,806,816	-	1,806,816
Salaries	268,228	-	268,228
Grant Related Expenses	85,717	-	85,717
Professional Services	81,616	-	81,616
Office Expense (Note 6)	76,044	-	76,044
Employee Benefits	72,551	-	72,551
Travel, Conference and Meetings	43,974	-	43,974
Investment Management Fees	30,248	-	30,248
Other Expenses	23,411	-	23,411
Payroll Tax	20,866	-	20,866
Trustee Fees Paid to Officers and Directors	15,000	-	15,000
Insurance	10,287	-	10,287
Dues	9,579	-	9,579
	<u>2,544,337</u>	<u>-</u>	<u>2,544,337</u>
<b>INCREASE IN NET ASSETS</b>	<u>\$ 726,309</u>	<u>\$ 2,310,071</u>	<u>\$ 3,036,380</u>
<b>NET ASSETS - Beginning of Year</b>	<u>\$ 23,054,026</u>	<u>\$ -</u>	<u>\$ 23,054,026</u>
<b>Increase in Net Assets</b>	<u>726,309</u>	<u>2,310,071</u>	<u>3,036,380</u>
<b>NET ASSETS - End of Year</b>	<u>\$ 23,780,335</u>	<u>\$ 2,310,071</u>	<u>\$ 26,090,406</u>

**THE DURFEE FOUNDATION**

See Independent Auditor's Report  
The Accompanying Notes Are An Integral Part Of These Financial Statements

**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2011 and 2010**

CASH FLOWS FROM OPERATING ACTIVITIES:	2011	2010
Increase (Decrease) In Net Assets	\$ (2,367,981)	\$ 3,036,380
Adjustments to Reconcile Increase in Net Assets to Net Cash Used in Operating Activities:		
Realized Gains on Investments, net	(370,151)	(130,453)
Unrealized (Gains) Losses on Investments, net	1,521,258	(2,457,634)
Change in Operating Assets and Liabilities		
Contribution Receivable	510,274	(2,310,071)
Excise Tax Receivable	10,621	-
Prepaid Expenses	(6,340)	(7,399)
Accounts Payable and Accrued Expenses	(18,264)	26,192
Grants Payable	56,532	740,872
Total Adjustments	1,703,930	(4,138,493)
Net Cash Used in Operating Activities	(664,051)	(1,102,113)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Investments	(4,020,807)	(5,907,292)
Sales of Investments	4,793,658	6,836,472
Net Cash Provided by Investing Activities	772,851	929,180
NET (INCREASE) DECREASE IN CASH AND CASH EQUIVALENTS	108,800	(172,933)
CASH AND CASH EQUIVALENTS - Beginning of Year	168,821	341,754
CASH AND CASH EQUIVALENTS - End of Year	\$ 277,621	\$ 168,821

**THE DURFEE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

**(1) ORGANIZATION**

The Durfee Foundation (the "Foundation"), located in Santa Monica, California, was created in 1960 for general philanthropic purposes. Over the years, the Foundation has developed a special emphasis to encourage individuals and organizations in pursuing their particular vision. Grants are awarded at the discretion of the Board of Trustees based on guidelines set forth in the Bylaws primarily for research, education, and cultural enhancement principally in the Los Angeles region.

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial Statement Presentation - The financial statements of the Foundation have been prepared on the accrual basis of accounting to conform to generally accepted accounting principles in the United States of America as applicable to non-profit organizations. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein have been classified and are reported as follows:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations; donor-restricted contributions whose restrictions are met in the same reporting period; and net assets designated by the Board of Trustees for specific purposes.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or by the expiration of stipulated time (See Note 11).

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes. Currently, the Foundation has no permanently restricted net assets.

Cash and Cash Equivalents - The Foundation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Contributions Receivable (Pledges) - Promises to give (pledges) are recorded as contribution income and as receivables. Contributions are classified as unrestricted and temporarily restricted based on donor-imposed stipulations. Pledges that are expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are initially recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible pledges is estimated by management based on such factors as prior collections history, type of contribution and the nature of the fund-raising activity.

Investments - Investments are stated at fair value. The estimated fair value of investments is based on quoted market prices and net asset value. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the statement of activities.



**THE DURFEE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Value – Fair Value Standards FASB Accounting Standards Codification 820 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring fair value. This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 – Quoted market prices are available in active market for identical assets or liabilities as of the reporting date.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level II input could result in the Level II measurement becoming a Level III measurement.

Level 3 – Pricing inputs are unobservable and shall be used to measure fair value to the extent that observable inputs are not available. The inputs into the determination of fair value are based upon the best information available and require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Grants Payable – Grants payable and related expenses are initially measured at fair value using present value techniques, if greater than one year or at net realizable value if less than one year.

Income Taxes - The Foundation is a Nevada nonprofit public benefit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Foundation is classified as a private foundation as described in Section 509(a) and is not exempt from excise taxes on the net investment income of private foundations under Section 4940 of the Code.

Concentration of Credit Risk - Amounts on deposit with banks are insured by the FDIC up to statutory limits. Amounts maintained at brokerages are insured up to statutory limits by the SIPC. Mutual fund holdings are uninsured.

As of and for the years ended December 31, 2011 and 2010, one contributor accounted for 100% of contribution receivable and contribution income.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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.

**THE DURFEE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Subsequent Events - Subsequent events have been evaluated through June 5, 2012, the date that these financial statements were available to be issued.

**(3) INVESTMENTS AND FAIR VALUE MEASUREMENTS**

The following is the fair value measurement for investments measured on a recurring basis:

2011	Total	Level 1	Level 2	Level 3
Equity Mutual Funds - Diversified Emerging Mrks	\$ 280,875	\$ 280,875	\$ -	\$ -
Equity Mutual Funds - Large Blend	1,757,971	1,757,971	-	-
Equity Mutual Funds - Foreign Large Blend	3,107,315	3,107,315	-	-
Equity Mutual Funds - Large Value	3,946,314	3,946,314	-	-
Equity Mutual Funds - Small Growth	3,044,713	3,044,713	-	-
Equity Mutual Funds - Large Growth	4,410,084	4,410,084	-	-
Total Equity Mutual Funds	<u>16,547,272</u>	<u>16,547,272</u>	<u>-</u>	<u>-</u>
Bond Mutual Fund - Short - Term Bond	584,866	584,866	-	-
Bond Mutual Fund - Intermediate - Term Bond	5,286,988	5,286,988	-	-
Total Bond Mutual Funds	<u>5,871,854</u>	<u>5,871,854</u>	<u>-</u>	<u>-</u>
Common Stock - Paper and Paper Products	318,864	318,864	-	-
Total Investments	<u>\$22,737,990</u>	<u>\$ 22,737,990</u>	<u>\$ -</u>	<u>\$ -</u>
2010	Total	Level 1	Level 2	Level 3
Equity Mutual Funds - Diversified Emerging Mrks	\$ 333,112	\$ 333,112	\$ -	\$ -
Equity Mutual Funds - Large Blend	1,722,149	1,722,149	-	-
Equity Mutual Funds - Foreign Large Blend	3,663,942	3,663,942	-	-
Equity Mutual Funds - Large Value	3,839,719	3,839,719	-	-
Equity Mutual Funds - Small Growth	4,459,933	4,459,933	-	-
Equity Mutual Funds - Large Growth	4,489,380	4,489,380	-	-
Total Equity Mutual Funds	<u>18,508,235</u>	<u>18,508,235</u>	<u>-</u>	<u>-</u>
Bond Mutual Fund - Intermediate - Term Bond	5,682,979	5,682,979	-	-
Common Stock - Paper and Paper Products	470,734	470,734	-	-
Total Investments	<u>\$24,661,948</u>	<u>\$ 24,661,948</u>	<u>\$ -</u>	<u>\$ -</u>

**THE DURFEE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

**(4) CONTRIBUTION RECEIVABLE**

Contribution receivable as of December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
BayTree Receivable	\$ 1,950,000	\$ 2,600,000
Less: Present Value Discount at 8%	<u>(150,203)</u>	<u>(289,929)</u>
	<u>\$ 1,799,797</u>	<u>\$ 2,310,071</u>

The remaining payments are expected to be received as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
2012	\$ 650,000
2013	650,000
2014	<u>650,000</u>
	<u>\$ 1,950,000</u>

On April 4, 2010, the Foundation received a \$25,000 grant from the BayTree Fund (a related party until January 1, 2010) to support the Foundation's conference in October 2010. On June 8, 2010, the Foundation entered into a grant agreement with the BayTree Fund to receive a total of \$2,794,075 in general operating support over five years, of which \$650,000 was received in January 2011 and the remaining \$1,950,000 is expected to be collected in the future.

**(5) GRANTS PAYABLE**

Grants payable are as follows:

	<u>2011</u>	<u>2010</u>
Stanton Fellowships	\$ 466,650	\$ 206,872
Center for Cultural Innovation	238,000	238,000
Earthwatch	104,754	332,000
Gay Straight Alliance - Los Angeles Office	95,000	195,000
Sabbatical Awards	150,000	10,000
Springboard Program	<u>25,000</u>	<u>41,000</u>
	<u>\$ 1,079,404</u>	<u>\$ 1,022,872</u>

Grants payable as of December 31, 2011 are expected to be paid within one year.

**THE DURFEE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

**(6) LEASE COMMITMENT**

The Foundation occupies its office facility under a non-cancelable operating lease which expires December, 2013. Under the terms of the lease, the Foundation pays a monthly rent of \$4,969, subject to four percent annual cost-of-living increases. In addition, the Foundation is responsible for real property taxes and its share of increases in operating expenses. During the years ended December 31, 2011 and 2010, the Foundation had rent expense of \$62,318 and \$61,083, respectively.

Future minimum lease payments are as follows:

Year Ending December 31,

2012	\$	67,056
2013		<u>69,744</u>
	\$	<u><u>136,800</u></u>

**(7) CREDIT FOR EXCISE TAXES**

For the years ended December 31, 2011 and 2010, the Foundation anticipates that it will receive \$12,940 and \$23,561, respectively, for over payment on excise taxes. Estimated tax payments and a carryover of overpaid excise taxes satisfy the excise tax liability.

**(8) RETIREMENT PLAN**

The Foundation has a [403(b)] retirement plan (the "Plan") administered by Teachers Insurance and Annuity Association-College Retirement Equity Fund (TIAA-CREF) available for all employees. The Foundation makes contributions on behalf of the employees between 1% and 10% of compensation depending on the employees' contributions to the Plan and years of service. For the years ended December 31, 2011 and 2010, the Foundation made plan contributions of \$31,552 and \$36,967, respectively.

**(9) TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2011 and 2010 temporarily restricted net assets balance of \$1,799,797 and \$2,310,071, respectively, was available for general operating support, balance considered restricted due to time restriction.

During the years ended December 31, 2011 and 2010, the Foundation released \$510,274 and \$194,075, respectively, of net assets from restriction by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

**THE DURFEE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

**(10) FUNCTIONAL ALLOCATION OF EXPENSES**

The functional allocation of expenses for the years ended December 31, 2011 and 2010 was as follows:

	<u>2011</u>	<u>2010</u>
Program	\$ 1,931,762	\$ 2,376,250
Management and General	<u>208,442</u>	<u>168,087</u>
	<u>\$ 2,140,204</u>	<u>\$ 2,544,337</u>