

**THE DURFEE FOUNDATION**

**Financial Statements  
As of December 31, 2012 (Reviewed) and 2011 (Audited)  
And for the Years Then Ended**

**Together With Independent Accountant's Review Report**

**THE DURFEE FOUNDATION**  
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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Trustees  
The Durfee Foundation

We have reviewed the accompanying statement of financial position of Durfee Foundation ("Foundation"), a Nevada non-profit public benefit corporation, as of December 31, 2012 and the related statements of activities and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Foundation's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The financial statements for the year ended December 31, 2011, were audited by us, and we expressed an unqualified opinion on them in our report dated June 5, 2012, but we have not performed any auditing procedures since that date.

STANISLAWSKI & HARRISON

July 1, 2013

**THE DURFEE FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2012 (Reviewed) and 2011 (Audited)**

ASSETS

	<u>2012</u>	<u>2011</u>
ASSETS:		
Cash and cash equivalents (Note 2)	\$ 293,515	\$ 277,621
Investments (Notes 2 and 3)	24,695,126	22,737,990
Contribution receivable (Note 4)	1,247,095	1,799,797
Excise tax receivable (Note 7)	13,940	12,940
Prepaid expenses and other assets	<u>22,201</u>	<u>23,342</u>
Total assets	<u>\$ 26,271,877</u>	<u>\$ 24,851,690</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts payable and accrued expenses	\$ 67,935	\$ 49,861
Grants payable (Note 5)	<u>814,075</u>	<u>1,079,404</u>
Total liabilities	<u>882,010</u>	<u>1,129,265</u>
LEASE COMMITMENT (Note 6)		
NET ASSETS:		
Unrestricted net assets	24,141,850	21,922,628
Temporarily restricted net assets	<u>1,248,017</u>	<u>1,799,797</u>
Total net assets	<u>25,389,867</u>	<u>23,722,425</u>
Total liabilities and net assets	<u>\$ 26,271,877</u>	<u>\$ 24,851,690</u>

**THE DURFEE FOUNDATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Year Ended December 31, 2012 (Reviewed)**  
**(With Comparative Totals for the Year Ended December 31, 2011, Audited)**

	Unrestricted	Temporarily Restricted	Total	
			2012	2011
<b>REVENUES</b>				
Dividends and interest	\$ 566,396	\$ -	\$ 566,396	\$ 776,858
Realized gains on investments, net	848,695	-	848,695	370,151
Unrealized gains (losses) on investments, net	1,894,916	-	1,894,916	(1,521,258)
Contributions	97,298	-	97,298	146,472
Net assets released from restriction (Note 9)	551,780	(551,780)	-	-
<b>Total revenue</b>	<b>3,959,085</b>	<b>(551,780)</b>	<b>3,407,305</b>	<b>(227,777)</b>
<b>EXPENSES</b>				
Grants	975,960	-	975,960	1,427,438
Salaries	279,303	-	279,303	267,817
Employee benefits	85,118	-	85,118	71,721
Office expense (Note 6)	81,664	-	81,664	80,823
Grant related expenses	79,957	-	79,957	94,505
Professional services	66,693	-	66,693	62,342
Other expenses	43,790	-	43,790	17,136
Investment management fees	28,386	-	28,386	28,818
Payroll tax	23,305	-	23,305	24,448
Travel, conference and meetings	18,541	-	18,541	15,917
Trustee fees paid to officers and directors	16,250	-	16,250	15,000
Dues	15,685	-	15,685	12,626
Excise tax	14,000	-	14,000	10,621
Insurance	11,211	-	11,211	10,992
<b>Total expenses</b>	<b>1,739,863</b>	<b>-</b>	<b>1,739,863</b>	<b>2,140,204</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$ 2,219,222</b>	<b>\$ (551,780)</b>	<b>\$ 1,667,442</b>	<b>\$ (2,367,981)</b>
NET ASSETS - Beginning of year	\$ 21,922,628	\$ 1,799,797	\$ 23,722,425	\$ 26,090,406
increase (decrease) in net assets	2,219,222	(551,780)	1,667,442	(2,367,981)
<b>NET ASSETS - End of year</b>	<b>\$ 24,141,850</b>	<b>\$ 1,248,017</b>	<b>\$ 25,389,867</b>	<b>\$ 23,722,425</b>

**THE DURFEE FOUNDATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Year Ended December 31, 2011 (Audited)**

	Unrestricted	Temporarily Restricted	Total
<u>REVENUES</u>			
Dividends and interest	\$ 776,858	\$ -	\$ 776,858
Realized gains on investments, net	370,151	-	370,151
Unrealized gains on investments, net	(1,521,258)	-	(1,521,258)
Contributions	146,472	-	146,472
Net assets released from restriction (Note 9)	510,274	(510,274)	-
	282,497	(510,274)	(227,777)
<u>EXPENSES</u>			
Grants	1,427,438	-	1,427,438
Salaries	267,817	-	267,817
Grant related expenses	94,505	-	94,505
Office expense (Note 6)	80,823	-	80,823
Employee benefits	71,721	-	71,721
Professional services	62,342	-	62,342
Investment management fees	28,818	-	28,818
Payroll tax	24,448	-	24,448
Other expenses	17,136	-	17,136
Travel, conference and meetings	15,917	-	15,917
Trustee fees paid to officers and directors	15,000	-	15,000
Dues	12,626	-	12,626
Insurance	10,992	-	10,992
Excise tax	10,621	-	10,621
	2,140,204	-	2,140,204
INCREASE IN NET ASSETS	<u>\$ (1,857,707)</u>	<u>\$ (510,274)</u>	<u>\$ (2,367,981)</u>
NET ASSETS - Beginning of year	\$ 23,780,335	\$ 2,310,071	\$ 26,090,406
increase in net assets	<u>(1,857,707)</u>	<u>(510,274)</u>	<u>(2,367,981)</u>
NET ASSETS - End of year	<u>\$ 21,922,628</u>	<u>\$ 1,799,797</u>	<u>\$ 23,722,425</u>

**THE DURFEE FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2012 (Reviewed) and 2011 (Audited)**

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2012</u>	<u>2011</u>
Increase (decrease) in net assets	\$ 1,667,442	\$ (2,367,981)
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Realized gains on investments, net	(614,491)	(370,151)
Unrealized (gains) losses on investments, net	(1,894,916)	1,521,258
Change in operating assets and liabilities		
Contribution receivable	552,702	510,274
Excise tax receivable	(1,000)	10,621
Prepaid expenses and other assets	1,141	(6,340)
Accounts payable and accrued expenses	18,074	(18,264)
Grants payable	<u>(265,329)</u>	<u>56,532</u>
Total adjustments	<u>(2,203,819)</u>	<u>1,703,930</u>
Net cash used in operating activities	<u>(536,377)</u>	<u>(664,051)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,212,105)	(4,020,807)
Sales of investments	<u>1,764,376</u>	<u>4,793,658</u>
Net cash provided by investing activities	<u>552,271</u>	<u>772,851</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,894	108,800
CASH AND CASH EQUIVALENTS - Beginning of year	<u>277,621</u>	<u>168,821</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 293,515</u>	<u>\$ 277,621</u>
SUPPLEMENTA CASH FLOWS INFORMATION:		
Excise taxes paid	<u>\$ 15,000</u>	<u>\$ -</u>

**THE DURFEE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 (Reviewed) and 2011 (Audited)**

(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 9).

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, 2012 (Reviewed) and 2011(Audited)**

**(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. Generally, the Organization's informational tax returns are subject to examination by federal and state tax authorities for 3 years and 4 years, respectively, after the date of filing.

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, 2012 and 2011, 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, 2012 (Reviewed) and 2011(Audited)**

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

Subsequent Events - Subsequent events have been evaluated through July 1, 2013, 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:

2012	Total	Level 1	Level 2	Level 3
Equity Mutual Funds - Diversified Emerging Mrks	\$ 331,770	\$ 331,770	\$ -	\$ -
Equity Mutual Funds - Large Blend	2,038,796	2,038,796	-	-
Equity Mutual Funds - Foreign Large Blend	3,629,948	3,629,948	-	-
Equity Mutual Funds - Large Value	4,609,305	4,609,305	-	-
Equity Mutual Funds - Small Growth	2,629,380	2,629,380	-	-
Equity Mutual Funds - Large Growth	5,088,186	5,088,186	-	-
Total Equity Mutual Funds	18,327,385	18,327,385	-	-
Bond Mutual Fund - Short - Term Bond	374,265	374,265	-	-
Bond Mutual Fund - Emerging Markets - Term Bond	345,180	345,180	-	-
Bond Mutual Fund - Intermediat Government - Term Bond	1,317,486	1,317,486	-	-
Bond Mutual Fund - High Yield - Term Bond	326,895	326,895	-	-
Bond Mutual Fund - Intermediate - Term Bond	4,003,915	4,003,915	-	-
Total Bond Mutual Funds	6,367,741	6,367,741	-	-
Total Investments	\$24,695,126	\$ 24,695,126	\$ -	\$ -
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	16,547,272	16,547,272	-	-
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	5,871,854	5,871,854	-	-
Common Stock - Paper and Paper Products	318,864	318,864	-	-
Total Investments	\$22,737,990	\$ 22,737,990	\$ -	\$ -

**THE DURFEE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 (Reviewed) and 2011(Audited)**

**(4) CONTRIBUTION RECEIVABLE**

Contribution receivable as of December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
BayTree Receivable	\$ 1,300,000	\$ 1,950,000
Less: Present Value Discount at 8%	<u>(52,905)</u>	<u>(150,203)</u>
	<u>\$ 1,247,095</u>	<u>\$ 1,799,797</u>

The remaining payments are expected to be received as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
2013	\$ 650,000
2014	<u>650,000</u>
	<u>\$ 1,300,000</u>

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. As of December 31, 2012, the balance of \$1,300,000 is expected to be collected.

**(5) GRANTS PAYABLE**

Grants payable are as follows:

	<u>2012</u>	<u>2011</u>
Earthwatch	\$ 271,286	\$ 104,754
Stanton Fellowships	226,766	466,650
Springboard Program	100,000	25,000
Center for Cultural Innovation	80,595	238,000
Gay Straight Alliance - Los Angeles Office	55,428	95,000
Hay Dey Books	40,000	-
Sabbatical Awards	<u>-</u>	<u>150,000</u>
	<u>\$ 774,075</u>	<u>\$ 1,079,404</u>

Grants payable as of December 31, 2012 are expected to be paid within one year.

**THE DURFEE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 (Reviewed) and 2011(Audited)**

**(6) LEASE COMMITMENT**

The Foundation occupies its office facility under a non-cancelable operating lease which expires in 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. The lease was amended in April 2013. Under the amendment, the lease was extended through December 31, 2018 with monthly rent of \$5,812 and annual increases of three percent. During the years ended December 31, 2012 and 2011, the Foundation had rent expense of \$67,420 and \$65,620, respectively.

Future minimum lease payments are as follows:

Year Ending December 31,

2013	\$	69,744
2014		69,749
2015		71,842
2016		73,997
2017		76,217
Thereafter		<u>78,503</u>
	<u>\$</u>	<u>440,052</u>

**(7) CREDIT FOR EXCISE TAXES**

For the years ended December 31, 2012 and 2011, the Foundation anticipates that it will receive \$13,940 and \$12,940, 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. Employees may contribute up to the maximum amount allowed which is \$17,000 in 2012 (\$22,500 if age 50 or older) and \$16,500 in 2011 (\$22,000 if age 50 or older). For the years ended December 31, 2012 and 2011, the Foundation made plan contributions of \$35,539 and \$31,552, respectively.

**(9) TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2012 and 2011 temporarily restricted net asset balances of \$1,248,017 and \$1,799,797, respectively, were available for general operating support, balances are considered restricted due to time restriction.

During the years ended December 31, 2012 and 2011, the Foundation released \$551,780 and \$510,274, 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, 2012 (Reviewed) and 2011(Audited)**

**(10) FUNCTIONAL ALLOCATION OF EXPENSES**

The functional allocation of expenses for the years ended December 31, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Program	\$ 1,527,563	\$ 1,931,762
Management and General	<u>212,300</u>	<u>208,442</u>
	<u>\$ 1,739,863</u>	<u>\$ 2,140,204</u>