

**THE DURFEE FOUNDATION**

**Financial Statements  
December 31, 2013 and 2012  
And for the Years Then Ended**

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

**THE DURFEE FOUNDATION**  
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**December 31, 2013 and 2012**

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Voice: 626-793-3600  
Fax: 626-793-3631  
E-mail: [info@snh-cpa.com](mailto:info@snh-cpa.com)

301 N. Lake Avenue  
Suite 900  
Pasadena, CA 91101-4108

## **INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

To the Board of Trustees  
The Durfee Foundation

We have reviewed the accompanying statements of financial position of Durfee Foundation ("Foundation"), a Nevada non-profit public benefit corporation, as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets and cash flows for the years 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 reviews, 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.

STANISLAWSKI & HARRISON

May 24, 2014

**THE DURFEE FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2013 and 2012**

ASSETS

	<u>2013</u>	<u>2012</u>
ASSETS:		
Cash and cash equivalents	\$ 237,338	\$ 293,515
Investments (Note 3)	29,050,590	24,695,126
Contributions receivable (Note 4)	648,436	1,247,095
Excise tax receivable (Note 7)	440	13,940
Prepaid expenses and other assets	<u>22,516</u>	<u>22,201</u>
Total assets	<u>\$ 29,959,320</u>	<u>\$ 26,271,877</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts payable and accrued expenses	\$ 42,967	\$ 67,935
Grants payable (Note 5)	<u>1,154,931</u>	<u>814,075</u>
Total liabilities	<u>1,197,898</u>	<u>882,010</u>
LEASE COMMITMENT (Note 6)		
NET ASSETS:		
Unrestricted net assets	28,112,064	24,141,850
Temporarily restricted net assets	<u>649,358</u>	<u>1,248,017</u>
Total net assets	<u>28,761,422</u>	<u>25,389,867</u>
Total liabilities and net assets	<u>\$ 29,959,320</u>	<u>\$ 26,271,877</u>

**THE DURFEE FOUNDATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Year Ended December 31, 2013**  
**(With Comparative Totals for the Year Ended December 31, 2012)**

	Unrestricted	Temporarily Restricted	Total	
			2013	2012
<b>REVENUES</b>				
Dividends and interest	\$ 1,038,719	\$ -	\$ 1,038,719	\$ 566,396
Realized gains on investments, net	272,693	-	272,693	848,695
Unrealized gains on investments, net	4,224,140	-	4,224,140	1,894,916
Contributions	51,442	-	51,442	97,298
Net assets released from restriction (Note 9)	598,659	(598,659)	-	-
<b>Total revenue</b>	<b>6,185,653</b>	<b>(598,659)</b>	<b>5,586,994</b>	<b>3,407,305</b>
<b>EXPENSES</b>				
Grants	1,468,256	-	1,468,256	975,960
Salaries	285,056	-	285,056	279,303
Employee benefits	84,854	-	84,854	85,118
Office expense (Note 6)	84,096	-	84,096	81,664
Grant related expenses	116,842	-	116,842	79,957
Professional services	36,257	-	36,257	66,693
Other expenses	28,420	-	28,420	43,790
Investment management fees	28,083	-	28,083	28,386
Payroll tax	21,992	-	21,992	23,305
Travel, conference and meetings	4,535	-	4,535	18,541
Trustee fees paid to officers and directors	20,000	-	20,000	16,250
Dues	12,586	-	12,586	15,685
Excise taxes	13,500	-	13,500	14,000
Insurance	10,962	-	10,962	11,211
<b>Total expenses</b>	<b>2,215,439</b>	<b>-</b>	<b>2,215,439</b>	<b>1,739,863</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$ 3,970,214</b>	<b>\$ (598,659)</b>	<b>\$ 3,371,555</b>	<b>\$ 1,667,442</b>
NET ASSETS - Beginning of year	\$ 24,141,850	\$ 1,248,017	\$ 25,389,867	\$ 23,722,425
Increase (decrease) in net assets	3,970,214	(598,659)	3,371,555	1,667,442
<b>NET ASSETS - End of year</b>	<b>\$ 28,112,064</b>	<b>\$ 649,358</b>	<b>\$ 28,761,422</b>	<b>\$ 25,389,867</b>

**THE DURFEE FOUNDATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Year Ended December 31, 2012**

	Unrestricted	Temporarily Restricted	Total
<u>REVENUES</u>			
Dividends and interest	\$ 566,396	\$ -	\$ 566,396
Realized gains on investments, net	848,695	-	848,695
Unrealized gains on investments, net	1,894,916	-	1,894,916
Contributions	97,298	-	97,298
Net assets released from restriction (Note 9)	551,780	(551,780)	-
	<u>3,959,085</u>	<u>(551,780)</u>	<u>3,407,305</u>
<u>EXPENSES</u>			
Grants	975,960	-	975,960
Salaries	279,303	-	279,303
Employee benefits	85,118	-	85,118
Office expense (Note 6)	81,664	-	81,664
Grant related expenses	79,957	-	79,957
Professional services	66,693	-	66,693
Other expenses	43,790	-	43,790
Investment management fees	28,386	-	28,386
Payroll tax	23,305	-	23,305
Travel, conference and meetings	18,541	-	18,541
Trustee fees paid to officers and directors	16,250	-	16,250
Dues	15,685	-	15,685
Excise taxes	14,000	-	14,000
Insurance	11,211	-	11,211
	<u>1,739,863</u>	<u>-</u>	<u>1,739,863</u>
Total revenue	<u>3,959,085</u>	<u>(551,780)</u>	<u>3,407,305</u>
Total expenses	<u>1,739,863</u>	<u>-</u>	<u>1,739,863</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 2,219,222</u>	<u>\$ (551,780)</u>	<u>\$ 1,667,442</u>
NET ASSETS - Beginning of year	\$ 21,922,628	\$ 1,799,797	\$ 23,722,425
Increase (decrease) in net assets	<u>2,219,222</u>	<u>(551,780)</u>	<u>1,667,442</u>
NET ASSETS - End of year	<u>\$ 24,141,850</u>	<u>\$ 1,248,017</u>	<u>\$ 25,389,867</u>

**THE DURFEE FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2013 and 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 3,371,555	\$ 1,667,442
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Realized gains on investments, net	(272,693)	(848,695)
Unrealized gains on investments, net	(4,224,140)	(1,894,916)
Change in operating assets and liabilities:		
Contributions receivable	598,659	552,702
Excise tax receivable	13,500	(1,000)
Prepaid expenses and other assets	(315)	1,141
Accounts payable and accrued expenses	(24,968)	18,074
Grants payable	340,856	(265,329)
Total adjustments	(3,569,101)	(2,438,023)
Net cash used in operating activities	(197,546)	(770,581)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,273,417)	(977,901)
Sales of investments	1,414,786	1,764,376
Net cash provided by investing activities	141,369	786,475
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(56,177)	15,894
CASH AND CASH EQUIVALENTS - Beginning of year	293,515	277,621
CASH AND CASH EQUIVALENTS - End of year	\$ 237,338	\$ 293,515
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Excise taxes paid	\$ 13,500	\$ 15,000

**THE DURFEE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

**(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 - Promises to give 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, 2013 and 2012**

**(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 Foundation's informational tax returns are subject to examination by federal and state tax authorities for three years and four 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 December 31, 2013 and 2012, one contributor accounted for 100% of contribution receivable. For the years ended December 31, 2013 and 2012, one contributor accounted for 99% and 100% of contribution income, respectively.

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, 2013 and 2012**

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

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

Subsequent Events - Subsequent events have been evaluated through May 24, 2014, 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:

	Level 1	
	2013	2012
Equity Mutual Funds - Diversified Emerging Mrks	\$ 361,459	\$ 331,770
Equity Mutual Funds - Large Blend	2,266,341	2,038,796
Equity Mutual Funds - Foreign Large Blend	4,310,480	3,629,948
Equity Mutual Funds - Large Value	5,296,966	4,609,305
Equity Mutual Funds - Small Growth	3,449,025	2,629,380
Equity Mutual Funds - Large Growth	7,116,152	5,088,186
Total Equity Mutual Funds	22,800,423	18,327,385
Bond Mutual Fund - Short - Term Bond	657,887	374,265
Bond Mutual Fund - Emerging Markets - Term Bond	181,065	345,180
Bond Mutual Fund - Intermediat Government - Term Bond	1,270,990	1,317,486
Bond Mutual Fund - High Yield - Term Bond	197,771	326,895
Bond Mutual Fund - Intermediate - Term Bond	3,942,454	4,003,915
Total Bond Mutual Funds	6,250,167	6,367,741
Total Investments	\$ 29,050,590	\$ 24,695,126

**(4) CONTRIBUTIONS RECEIVABLE**

Contributions receivable as of December 31, 2013 and 2012 are as follows:

	2013	2012
BayTree Receivable	\$ 650,000	\$ 1,300,000
Less: Present Value Discount at 8%	(1,564)	(52,905)
	\$ 648,436	\$ 1,247,095

The remaining payment has received in January 2014.

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, 2013 and 2012, the balance of \$650,000 and \$1,300,000, respectively, is expected to be collected.

**THE DURFEE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

**(5) GRANTS PAYABLE**

Grants payable are as follows:

	<u>2013</u>	<u>2012</u>
Stanton Fellowships	\$ 482,115	\$ 226,766
Earthwatch	286,500	271,286
Sabbatical Awards	212,500	-
Artists' Resource Completion Program	80,595	80,595
Springboard Program	50,000	100,000
Literary Atlas of Los Angeles	40,000	80,000
LEAD Residency Program	3,221	-
Gay Straight Alliance - Los Angeles Office	-	55,428
	<u>\$ 1,154,931</u>	<u>\$ 814,075</u>

The remaining payments are expected to be paid as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
2014	\$ 967,431
2015	<u>187,500</u>
	<u>\$ 1,154,931</u>

**(6) LEASE COMMITMENT**

The Foundation occupies its office facility under a non-cancelable operating lease which expired 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, 2013 and 2012, the Foundation had rent expense of \$69,557 and \$67,420, respectively.

Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	
2014	\$ 69,749
2015	71,842
2016	73,997
2017	76,217
2018	<u>78,503</u>
	<u>\$ 370,308</u>

**THE DURFEE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

**(7) CREDIT FOR EXCISE TAXES**

For the years ended December 31, 2013 and 2012, the Foundation anticipates that it will receive \$440 and \$13,940, 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 \$17,500 in 2013 (\$23,000 if age 50 or older) and \$17,000 in 2012 (\$22,500 if age 50 or older). For the years ended December 31, 2013 and 2012, the Foundation made plan contributions of \$38,258 and \$35,539, respectively.

**(9) TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2013 and 2012 temporarily restricted net asset balances of \$649,358 and \$1,248,017, respectively, were available for general operating support, balances are considered restricted due to time restriction.

During the years ended December 31, 2013 and 2012, the Foundation released \$598,659 and \$551,780, respectively, of net assets from restriction by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

**(10) FUNCTIONAL ALLOCATION OF EXPENSES**

The functional allocation of expenses for the years ended December 31, 2013 and 2012 was as follows:

	<u>2013</u>	<u>2012</u>
Program	\$ 1,943,781	\$ 1,527,563
Management and General	<u>271,658</u>	<u>212,300</u>
	<u>\$ 2,215,439</u>	<u>\$ 1,739,863</u>