THE DURFEE FOUNDATION

Financial Statements
December 31, 2014 (Audited) and 2013 (Reviewed)
And for the Years Then Ended

Together With Independent Auditor's Report

THE DURFEE FOUNDATION
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December 31, 2014 (Audited) and 2013 (Reviewed)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Durfee Foundation

We have audited the accompanying financial statements of Durfee Foundation ("Foundation"), a Nevada non-profit public benefit corporation, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and cash flows 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 Foundation'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 Durfee Foundation as of December 31, 2014, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2013 financial statements were reviewed by us and our report thereon, dated May 24, 2014 stated we were not aware of any material modifications that should be made to those statements for them to be in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

STANISLAWSKI & HARRISON

May 18, 2015

THE DURFEE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2014 (Audited) and 2013 (Reviewed)

ASSETS

	2014	2013
ASSETS:		
Cash and cash equivalents	$ 531,236	$ 237,338
Investments (Note 3)	29,491,011	29,050,590
Contribution receivable (Note 4)	-	648,436
Prepaid expenses and other assets	28,994	22,956
Total assets	$ 30,051,241	$ 29,959,320

LIABILITIES AND NET ASSETS

	2014	2013
LIABILITIES:		
Accounts payable and accrued expenses	$ 46,740	$ 42,967
Grants payable (Note 5)	589,763	1,154,931
Total liabilities	636,503	1,197,898
LEASE COMMITMENT (Note 6)		
NET ASSETS:		
Unrestricted net assets	29,414,738	28,112,986
Temporarily restricted net assets	-	648,436
Total net assets	29,414,738	28,761,422
Total liabilities and net assets	$ 30,051,241	$ 29,959,320

THE DURFEE FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2014 (Audited)
(With Comparative Totals for the Year Ended December 31, 2013, Reviewed)

	Unrestricted	Temporarily Restricted	Total 2014	Total 2013
REVENUES				
Dividends and interest	$ 1,585,168	$ -	$ 1,585,168	$ 1,038,719
Realized gains on investments, net	1,639,132	-	1,639,132	272,693
Unrealized (losses) gains on investments, net	(801,536)	-	(801,536)	4,224,140
Contributions	1,564	-	1,564	51,442
Net assets released from restriction (Note 8)	648,436	(648,436)	-	-
Total revenue	3,072,764	(648,436)	2,424,328	5,586,994
EXPENSES				
Grants	906,760	-	906,760	1,468,256
Salaries	297,274	-	297,274	285,056
Grant related expenses	127,896	-	127,896	116,842
Office expense (Note 6)	85,104	-	85,104	84,096
Employee benefits	70,259	-	70,259	84,854
Professional services	52,399	-	52,399	36,257
Other expenses	50,086	-	50,086	28,420
Excise taxes	47,440	-	47,440	13,500
Trustee fees paid to officers and directors	35,000	-	35,000	20,000
Investment management fees	30,103	-	30,103	28,083
Dues	29,932	-	29,932	12,586
Payroll taxes	21,293	-	21,293	21,992
Insurance	8,782	-	8,782	10,962
Travel, conference and meetings	8,684	-	8,684	4,535
Total expenses	1,771,012	-	1,771,012	2,215,439
INCREASE (DECREASE) IN NET ASSETS	1,301,752	(648,436)	653,316	3,371,555
NET ASSETS - Beginning of year	28,112,986	648,436	28,761,422	25,389,867
NET ASSETS - End of year	$ 29,414,738	$ -	$ 29,414,738	$ 28,761,422

THE DURFEE FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2013 (Reviewed)

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Dividends and interest	$ 1,038,719	$ -	$ 1,038,719
Realized gains on investments, net	272,693	-	272,693
Unrealized gains on investments, net	4,224,140	-	4,224,140
Contributions	51,442	-	51,442
Net assets released from restriction (Note 8)	598,659	(598,659)	-
Total revenue	6,185,653	(598,659)	5,586,994
EXPENSES			
Grants	1,468,256	-	1,468,256
Salaries	285,056	-	285,056
Grant related expenses	116,842	-	116,842
Employee benefits	84,854	-	84,854
Office expense (Note 6)	84,096	-	84,096
Professional services	36,257	-	36,257
Other expenses	28,420	-	28,420
Investment management fees	28,083	-	28,083
Payroll taxes	21,992	-	21,992
Trustee fees paid to officers and directors	20,000	-	20,000
Excise taxes	13,500	-	13,500
Dues	12,586	-	12,586
Insurance	10,962	-	10,962
Travel, conference and meetings	4,535	-	4,535
Total expenses	2,215,439	-	2,215,439
INCREASE (DECREASE) IN NET ASSETS	3,970,214	(598,659)	3,371,555
NET ASSETS - Beginning of year	24,142,772	1,247,095	25,389,867
NET ASSETS - End of year	$ 28,112,986	$ 648,436	$ 28,761,422

THE DURFEE FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 (Audited) and 2013 (Reviewed)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 653,316	$ 3,371,555
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Realized gains on investments, net	(1,639,132)	(272,693)
Unrealized losses (gains) on investments, net	801,536	(4,224,140)
Change in operating assets and liabilities:		
Contributions receivable	648,436	598,659
Excise tax receivable	-	13,500
Prepaid expenses and other assets	(6,038)	(315)
Accounts payable and accrued expenses	3,773	(24,968)
Grants payable	(565,168)	340,856
Total adjustments	(756,593)	(3,569,101)
Net cash used in operating activities	(103,277)	(197,546)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(7,598,236)	(1,273,417)
Sales of investments	7,995,411	1,414,786
Net cash provided by investing activities	397,175	141,369
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	293,898	(56,177)
CASH AND CASH EQUIVALENTS - Beginning of year	237,338	293,515
CASH AND CASH EQUIVALENTS - End of year	$ 531,236	$ 237,338
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Excise taxes paid	$ 26,872	$ 13,500

THE DURFEE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 (Audited) and 2013 (Reviewed)

(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 8).

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.

THE DURFEE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 (Audited) and 2013 (Reviewed)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 fail 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. Historically, the Foundation has paid excise taxes at the 2% level. 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, one contributor accounted for 100% of contribution receivable. For the year ended December 31, 2013, one contributor accounted for 99% of contribution income.

THE DURFEE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 (Audited) and 2013 (Reviewed)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Reclassifications – Certain prior year balances have been reclassified to conform to current year presentation.

Subsequent Events - Subsequent events have been evaluated through May 18, 2015, the date that these financial statements were issued. Except as disclosed in Note 10, there were no subsequent events that would require adjustments to or disclosures in these financial statements.

(3) INVESTMENTS AND FAIR VALUE MEASUREMENTS

At December 31, 2014 and 2013, the fair value measurements for investments measured on a recurring basis are as follows:

	2014	2013
Equity Mutual Funds - Diversified Emerging Mkts	$ 308,456	$ 361,459
Equity Mutual Funds - Foreign Large Blend	3,699,272	4,310,480
Equity Mutual Funds - Large Blend	1,795,338	2,266,341
Equity Mutual Funds - Large Growth	7,621,078	7,116,152
Equity Mutual Funds - Large Value	4,852,328	5,296,966
Equity Mutual Funds - Small Growth	3,318,067	3,449,025
Total Equity Mutual Funds	21,594,539	22,800,423
Bond Mutual Fund - Emerging Markets Bond	-	181,065
Bond Mutual Fund - High Yield Bond	396,800	197,771
Bond Mutual Fund - Intermediate-Term Goverment Bond	-	1,270,990
Bond Mutual Fund - Intermediate-Term Bond	4,695,618	3,942,454
Bond Mutual Fund - Multi-sector Bond	2,001,435	-
Bond Mutual Fund - Short-Term Bond	802,619	657,887
Total Bond Mutual Funds	7,896,472	6,250,167
Total Investments	$ 29,491,011	$ 29,050,590

All of the Foundation’s investments are level 1 assets under the fair value hierarchy disclosed in Note 2.

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(4) CONTRIBUTIONS RECEIVABLE

Contribution receivable as of December 31, 2013 is as follows:

BayTree Fund Receivable	$	650,000
Less: Present Value Discount at 8%		(1,564)
	$	648,436

The contribution receivable outstanding at December 31, 2013 was collected in January 2014.

(5) GRANTS PAYABLE

At December 31, 2014 and 2013, grants payable are as follows:

	2014	2013
Stanton Fellowships	$ 210,263	$ 482,115
Springboard Program	185,000	50,000
Earthwatch	144,500	286,500
Food Forward	50,000	-
Sabbatical Awards	-	212,500
Artists' Resource Completion Program	-	80,595
Literary Atlas of Los Angeles	-	40,000
LEAD Residency Program	-	3,221
	$ 589,763	$ 1,154,931

The grants payable as of December 31, 2014 are expected to be paid in 2015.

THE DURFEE FOUNDATION
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(6) LEASE COMMITMENT

The Foundation occupies its office facility under a non-cancelable operating lease, under which the Foundation pays a monthly base rent plus real property taxes and its share of increases in operating expenses. In April 2013, the lease was amended and extended through December 31, 2018, at a monthly base rent of $5,812 with annual increases of three percent. For the years ended December 31, 2014 and 2013, rent expense was $71,234 and $69,557, respectively.

Future minimum lease payments are as follows:

Year Ending December 31,	
2015	$ 71,842
2016	73,997
2017	76,217
2018	78,503
	$ 300,559

(7) RETIREMENT PLAN

The Foundation has a deferred contribution 403(b) retirement plan (the “Plan”), administered by the Vanguard Group, available for all employees. Employees may contribute up to the maximum amount allowed which is $17,500 ($23,000 if age 50 or older) for the years ended December 31, 2014 and 2013. The Foundation, on a one-to-one matching basis, contributed up to the maximum allowed by the Internal Revenue Service for all employees with over one year of service. For the years ended December 31, 2014 and 2013, the Foundation made plan contributions of $36,568 and $38,258, respectively.

(8) TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2013, temporarily restricted net assets of $648,436 were available for general operating support. Balances were restricted due to time restriction.

During the years ended December 31, 2014 and 2013, the Foundation released net assets of $648,436 and $598,659, respectively, 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
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(9) FUNCTIONAL ALLOCATION OF EXPENSES

The functional allocation of expenses for the years ended December 31, 2014 and 2013 was as follows:

	2014	2013
Program	$ 1,446,892	$ 1,943,781
Management and General	324,120	271,658
	$ 1,771,012	$ 2,215,439

(10) SUBSEQUENT EVENT

On January 5, 2015, the Foundation received a $5,000,000 grant award from BayTree Fund for general support, which will be collected over the period of five years.