



THE RANCHO SANTA FE FOUNDATION

Financial Statements

December 31, 2005

(With summarized comparative financial information for 2004)

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 1500
750 B Street
San Diego, CA 92101

Independent Auditors' Report

The Board of Directors
The Rancho Santa Fe Foundation:

We have audited the accompanying statement of financial position of The Rancho Santa Fe Foundation (The Foundation) as of December 31, 2005, and the related statements of activities and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from The Foundation's 2004 financial statements and in our report dated April 29, 2005, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Rancho Santa Fe Foundation as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

April 13, 2006

THE RANCHO SANTA FE FOUNDATION

Statement of Financial Position

December 31, 2005

(with comparative financial information as of December 31, 2004)

Assets	2005	2004
Cash and cash equivalents	\$ 607,311	593,619
Investments	15,078,798	12,157,076
Investments and other assets held for other agencies	5,105,137	3,516,608
Contributions receivable	1,615,305	598,466
Other assets	11,912	5,892
Total assets	<u>\$ 22,418,463</u>	<u>16,871,661</u>
Liabilities and Net Assets		
Liabilities:		
Grants payable and accrued expenses	\$ 30,588	37,693
Due to other agencies	5,105,137	3,516,608
Total liabilities	<u>5,135,725</u>	<u>3,554,301</u>
Net assets:		
Unrestricted	15,665,431	12,716,901
Temporarily restricted	1,617,307	600,459
Total net assets	<u>17,282,738</u>	<u>13,317,360</u>
Total liabilities and net assets	<u>\$ 22,418,463</u>	<u>16,871,661</u>

See accompanying notes to financial statements.

THE RANCHO SANTA FE FOUNDATION

Statement of Activities

Year ended December 31, 2005

(with summarized financial information for the year ended December 31, 2004)

	2005			2004 Total
	Unrestricted	Temporarily restricted	Total	
Revenue, gains, and other support:				
Gifts and bequests	\$ 5,527,078	658,692	6,185,770	6,873,097
Interest and dividend income	389,173	—	389,173	263,508
Realized and unrealized gains on investments, net	379,955	—	379,955	571,308
Change in value of split interest agreements	—	427,360	427,360	33,653
	<u>6,296,206</u>	<u>1,086,052</u>	<u>7,382,258</u>	<u>7,741,566</u>
Net assets released from restriction	<u>69,204</u>	<u>(69,204)</u>	<u>—</u>	<u>—</u>
Total revenue, gains, and other support	<u>6,365,410</u>	<u>1,016,848</u>	<u>7,382,258</u>	<u>7,741,566</u>
Expenses:				
Program grants	3,110,899	—	3,110,899	1,326,343
Operating and administrative expenses	305,981	—	305,981	248,623
Total expenses	<u>3,416,880</u>	<u>—</u>	<u>3,416,880</u>	<u>1,574,966</u>
Change in net assets	<u>2,948,530</u>	<u>1,016,848</u>	<u>3,965,378</u>	<u>6,166,600</u>
Net assets at beginning of year	<u>12,716,901</u>	<u>600,459</u>	<u>13,317,360</u>	<u>7,150,760</u>
Net assets at end of year	<u>\$ 15,665,431</u>	<u>1,617,307</u>	<u>17,282,738</u>	<u>13,317,360</u>

See accompanying notes to financial statements.

THE RANCHO SANTA FE FOUNDATION

Statement of Cash Flows

Year ended December 31, 2005

(with comparative financial information for the year ended December 31, 2004)

	2005	2004
Cash flows from operating activities:		
Change in net assets	\$ 3,965,378	6,166,600
Adjustments and reclassifications to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,461	4,541
Contribution of investments	(1,068,122)	(2,474,112)
Realized and unrealized losses on investments, net	(379,955)	(571,308)
Change in value of split interest agreements	(427,360)	(33,653)
Increase in contributions receivable	(589,479)	(3,694)
Increase in prepaid expenses	(6,413)	—
Decrease in other assets	—	(15,070)
(Increase) decrease in accounts payable and accrued expenses	(7,105)	37,693
Increase in amounts due to other agencies	1,588,529	2,509,492
Net cash provided by operating activities	3,076,934	5,620,489
Cash flows from investing activities:		
Purchases of equipment	(1,068)	(6,131)
Proceeds from sale of investments	11,010,861	14,743,418
Purchases of investments	(14,073,035)	(21,195,011)
Net cash used in investing activities	(3,063,242)	(6,457,724)
Net increase (decrease) in cash and cash equivalents	13,692	(837,235)
Cash and cash equivalents at beginning of year	593,619	1,430,854
Cash and cash equivalents at end of year	\$ 607,311	593,619

See accompanying notes to financial statements.

THE RANCHO SANTA FE FOUNDATION

Notes to Financial Statements

December 31, 2005

(1) Organization and Significant Accounting Policies

(a) Organization

The Rancho Santa Fe Foundation (The Foundation), formerly the Rancho Santa Fe Community Foundation, is a public charity founded in 1981 created to improve community life through increased philanthropy. The Foundation administers charitable gifts, including permanent endowments, from which grants are made to not-for-profit organizations for community betterment.

(b) Basis of Presentation

In order to accommodate the various alternatives for donors' distribution objectives, The Foundation's records are maintained for internal purposes in accordance with the principles of fund accounting. As discussed below, The Foundation has variance power over contributions received, therefore, only those contributions that are not yet received are reported as temporarily restricted support due to the time restriction implicit in such contributions. When a donor restriction expires, that is, when a stipulated time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Foundation's restated bylaws include a variance power provision giving the board of directors the power to modify any restriction or condition on distribution of funds for any specified charitable purposes or to specified organizations if, in its sole judgment, the board of directors determines that such restriction or condition becomes, in effect, incapable of fulfillment or inconsistent with the charitable needs of the community or area served.

A summary of the net asset categories included in the accompanying financial statements is as follows:

Unrestricted – Unrestricted net assets include amounts that are available for support of The Foundation's operational and administrative functions, discretionary nonadvised amounts that are available to support community activities and charitable endeavors at the discretion of The Foundation's board of directors, and discretionary donor-advised amounts for which grant recommendations of the respective donors are accepted for consideration, subject to final approval by The Foundation's board of directors.

Temporarily Restricted – Temporarily restricted amounts represent donor pledges and deferred gifts in the form of trusts and annuities that are subject to the passage of time. The Foundation is the remainderman on charitable remainder trusts held by others on The Foundation's behalf. The value of the charitable remainder trusts is recorded as temporarily restricted based on the present value of the amounts The Foundation expects to receive using a discount rate of 5.4% for the year ended December 31, 2005.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with maturities, when acquired, of three months or less.

THE RANCHO SANTA FE FOUNDATION

Notes to Financial Statements

December 31, 2005

(d) Concentration of Credit Risk

The Foundation invests its excess cash in various types of marketable securities and money market funds. The Foundation has established guidelines relative to diversification and maturities that maximize safety and liquidity within acceptable risk levels. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

(e) Investments

Investments consist of marketable securities. Marketable securities consist of U.S. government securities and debt and equity securities. Equity securities with readily determinable values and all debt securities are carried at fair value. Fair value is determined by quoted market prices.

(f) Due to Other Agencies

The Foundation receives contributions on behalf of unaffiliated not-for-profit agencies in the capacity as an agent, which are not reflected in The Foundation's statement of activities as they do not represent contributions to The Foundation. The amounts due to the other agencies totaled \$5,105,137 at December 31, 2005.

(g) Contributions of Goods and Services

The value of contributed goods is reflected as contributions in the accompanying statement of activities at the fair value of such goods at the date of contribution. Such contributed goods, representing office space, totaled \$30,000 for the year ended December 31, 2005.

Contributed services are recognized by The Foundation if the services received a) create or enhance long-lived assets, or b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. No such services were received during the year ended December 31, 2005.

(h) Use 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Income Tax Status

The Foundation is exempt from income taxes under the current provisions of Internal Revenue Code Section 501(c)(3) and Section 23701(d) of the California Franchise Tax Code.

(j) Earnings on Discretionary Funds

Funds are maintained within the investment portfolio. Interest, dividends, and unrealized gains and losses in the investment pools are allocated monthly to the discretionary funds in proportion to each fund's share in the investment pools.

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Notes to Financial Statements

December 31, 2005

(k) Summarized Comparative Information

The accompanying financial statements include certain summarized comparative information in total but not by net asset class derived from The Foundation's 2004 financial statements. This summarized comparative information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with The Foundation's financial statements as of and for the year ended December 31, 2004, from which the summarized comparative information was derived.

(l) Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Investments

(a) Marketable Securities

Marketable securities consist of the following at December 31, 2005:

Mutual funds:	
Domestic equities	\$ 7,920,510
Foreign equities	3,021,335
Fixed income	<u>9,239,523</u>
Total investments	20,181,368
Less investments held for other agencies	<u>5,102,570</u>
	<u>\$ 15,078,798</u>

(b) Summary of Return on Investment

The following schedule summarizes the return on investment and its classification in the statement of activities for the year ended December 31, 2005:

Interest and dividend income	\$ 389,173
Realized and unrealized gains and losses on investments, net	<u>379,955</u>
Total return on investment	<u>\$ 769,128</u>

(3) Contributions Receivable

Contributions receivable consist of the following at December 31, 2005:

Pledges receivable	\$ 656,690
Charitable remainder trusts	<u>958,615</u>
	<u>\$ 1,615,305</u>

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(4) Other Assets

Other assets consist of the following at December 31, 2005:

Fixed assets, net of accumulated depreciation of \$37,692	\$	5,500
Prepaid expenses		<u>6,412</u>
	\$	<u><u>11,912</u></u>

(5) Real Estate

The Foundation holds title to a 22-acre parcel of undeveloped land in Rancho Santa Fe which is to be held by The Foundation in perpetuity as open space. Due to the nature of the circumstances under which it is held, the land has no value and is not included in the accompanying financial statements.

(6) Due to Other Agencies

The amounts due to other agencies as of December 31, 2005 consist of the following:

Investments	\$	5,102,570
Contributions receivable		2,002
Cash and cash equivalents		<u>565</u>
	\$	<u><u>5,105,137</u></u>