

The Rancho Santa Fe Foundation

Financial Statements

For the Year Ended December 31, 2007

The Rancho Santa Fe Foundation

Contents

Independent Auditors' Report	3
Financial Statements	
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	6
Notes to Financial Statements	7-12



Mayer Hoffman McCann P.C.

An Independent CPA Firm

10616 Scripps Summit Court
San Diego, California 92131
858-795-2000 ph
858-795-2001 fx
www.mhm-pc.com

Independent Auditors' Report

To the Audit Committee
The Rancho Santa Fe Foundation
Rancho Santa Fe, California

We have audited the accompanying statement of financial position of **The Rancho Santa Fe Foundation** ("the Foundation"), a nonprofit organization, as of December 31, 2007 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.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 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 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 **The Rancho Santa Fe Foundation** as of December 31, 2007 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.

We also audited the adjustments described in Note 1 that were applied to restate the December 31, 2006 net assets. In our opinion, such adjustments are appropriate and have been properly applied.

Mayer Hoffman McCann P.C.

June 17, 2008

The Rancho Santa Fe Foundation

Statement of Financial Position

December 31, 2007

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash and cash equivalents	\$ 886,237	\$ -	\$ 1,000	\$ 887,237
Investments	11,376,829	528,874	5,198,246	17,103,949
Investments and other assets held for other agencies	9,853,206	-	-	9,853,206
Contributions receivable	-	1,474,306	297,300	1,771,606
Other assets	27,627	-	-	27,627
Total assets	\$ 22,143,899	\$ 2,003,180	\$ 5,496,546	\$ 29,643,625
Liabilities and Net Assets				
Liabilities:				
Grants payable and accrued expenses	\$ 24,185	\$ -	\$ -	\$ 24,185
Due to other agencies	9,853,206	-	-	9,853,206
Total liabilities	9,877,391	-	-	9,877,391
Net Assets	12,266,508	2,003,180	5,496,546	19,766,234
Total Net Assets and Liabilities	\$ 22,143,899	\$ 2,003,180	\$ 5,496,546	\$ 29,643,625

The accompanying notes are an integral part of this financial statement.

The Rancho Santa Fe Foundation

Statement of Activities

Year ended December 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, gains, and other support:				
Gifts and bequests	\$ 4,612,224	\$ 725,114	\$ 1,422,174	\$ 6,759,512
Realized and unrealized gains on investments, net	635,015	-	-	635,015
Interest and dividend income	451,594	-	-	451,594
Management fee revenue	71,674	-	-	71,674
Change in value of split interest agreements		5,361		5,361
Interfund grants and gifts	(531,347)	327,597	203,750	-
	<u>5,239,160</u>	<u>1,058,072</u>	<u>1,625,924</u>	<u>7,923,156</u>
Net assets released from restriction	<u>316,144</u>	<u>(316,144)</u>	<u>-</u>	<u>-</u>
Total revenue, gains, and other support	<u>5,555,304</u>	<u>741,928</u>	<u>1,625,924</u>	<u>7,923,156</u>
Expenses:				
Program grants	3,891,948	-	-	3,891,948
Operating and administrative expenses	401,545	-	-	401,545
Total expenses	<u>4,293,493</u>	<u>-</u>	<u>-</u>	<u>4,293,493</u>
Change in net assets	1,261,811	741,928	1,625,924	3,629,663
Net assets at beginning of year, as previously reported	16,086,570	1,088,881	-	17,175,451
Increase/(decrease) in net assets due to restatement (see Note 1)	<u>(5,081,873)</u>	<u>172,371</u>	<u>3,870,622</u>	<u>(1,038,880)</u>
Net assets at beginning of year, as restated	<u>11,004,697</u>	<u>1,261,252</u>	<u>3,870,622</u>	<u>16,136,571</u>
Net assets at end of year	<u>\$ 12,266,508</u>	<u>\$ 2,003,180</u>	<u>\$ 5,496,546</u>	<u>\$ 19,766,234</u>

The accompanying notes are an integral part of this financial statement.

The Rancho Santa Fe Foundation

Statement of Cash Flows

Year Ended December 31, 2007

Cash flows from operating activities:	
Change in net assets	\$ 3,629,663
Adjustments and reclassifications to reconcile change in net assets to net cash provided by operating activities:	
Contribution of stock and securities	(2,578,855)
Realized and unrealized gains on investments, net	(635,015)
Depreciation	5,276
Increase/(decrease) in cash resulting from changes in:	
Contributions receivable	(1,810,664)
Other assets	(1,971)
Grants payable and accrued expenses	(33,773)
Due to other agencies	1,621,965
Net cash provided by operating activities	<u>196,626</u>
Cash flows from investing activities:	
Purchases of investments	(16,795,441)
Proceeds from sales of investments	15,173,418
Purchases of equipment	(1,319)
Net cash used in investing activities	<u>(1,623,342)</u>
Cash flows from financing activities:	
Cash received restricted for long term investment	1,124,874
Payments on capital lease obligation	(2,694)
Net cash provided by financing activities	<u>1,122,180</u>
Net decrease in cash and cash equivalents	(304,536)
Cash and Cash Equivalents at beginning of year	<u>1,191,773</u>
Cash and Cash Equivalents at end of year	<u>\$ 887,237</u>
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the year for:	
Interest	\$ 1,734
Noncash Investing and Financing Activities:	
Assets acquired through capital lease	\$ 16,971

The accompanying notes are an integral part of this financial statement.

The Rancho Santa Fe Foundation

Notes to Financial Statements

(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 which was 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) Method of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

(c) 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. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Support revenue is reported as an increase in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. The Foundation follows the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 117 requires that net assets, revenue, gains, expenses, and losses be classified as unrestricted, temporarily restricted, and permanently restricted.

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 contributions receivable and deferred gifts in the form of trusts and annuities that are subject to passage of time.

Permanently Restricted – Permanently restricted net assets represent those assets contributed to the Foundation where the original dollar value is to remain in perpetuity as a permanent endowment of the Foundation.

The Rancho Santa Fe Foundation

Notes to Financial Statements

(d) ***Cash and Cash Equivalents***

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

(e) ***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.

The Foundation maintains a cash account at a bank in Rancho Santa Fe. Accounts at this institution are secured by the Federal Deposit Insurance Corporation up to \$100,000. At times, balances may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes that the Foundation is not exposed to any significant credit risk with respect to its cash and cash equivalents.

The Foundation invests in various investment securities, including U.S. government securities and debt and equity securities. Investment securities, in general, are subject to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

(f) ***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 on the last business day of the year.

Investments acquired by gift are recorded at their fair market value at the date of the gift. The Foundation's policy is to liquidate all gifts of investment immediately upon receipt.

(g) ***Deferred Gifts***

The Foundation is a beneficiary of certain trust funds held by others and has recorded an asset for the net present value of the estimated future amount to be received from such trusts included in contributions receivable at December 31, 2007. The charitable remainder trusts are irrevocable trusts established in connection with a split-interest agreement, in which the donor or a third-party beneficiary receives specified distributions during the agreement's term. Upon termination of the trust, the Foundation will receive the assets remaining in the trust. The present values are calculated by using recent life expectancy tables and a discount rate of 5% as of December 31, 2007.

The Rancho Santa Fe Foundation

Notes to Financial Statements

(h) Depreciation

Fixed assets are depreciated using the straight-line method over the estimated useful lives of the related assets. The Foundation capitalizes all assets with a useful life greater than one year and a cost greater than \$500.

(i) Due to Other Agencies

The Foundation receives contributions on behalf of unaffiliated not-for-profit agencies, 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 \$9,853,206 at December 31, 2007.

(j) Donated Rent

The Foundation receives donated rent for office space from a bank. The donated rent is recorded based on the fair market value of the space as determined by the bank. Donated rent of \$45,000 was recorded in contributions and general and administrative expenses on the statement of activities for 2007.

(k) Functional Allocation of Expenses

The cost of providing programs and other activities for 2007 is summarized on a functional basis below:

Program		
Grants	\$	3,891,948
Other		73,823
Management and general		182,178
Fundraising		<u>145,544</u>
	\$	<u>4,293,493</u>

(l) 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. Significant estimates used in preparing these financial statements include those assumed in computing the estimated future cash flow of deferred gifts.

The Rancho Santa Fe Foundation

Notes to Financial Statements

(m) *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.

(n) *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.

(o) *Restatement of Prior Year Net Assets*

In accordance with SFAS No. 154, *Accounting Changes and Error Corrections – A Replacement of APB Opinion NO. 20 and FASB Statement No.3*, the Foundation has restated its 2006 net assets to reflect the correction of an error. Certain agency funds were improperly classified as investments and net assets of the Foundation as of December 31, 2006. As of December 31, 2007, the agency funds were recorded as investments and other assets held for other agencies and due to other agencies. The error correction resulted in an increase in investments and other assets held for others and due to other agencies of \$1,038,880, an increase in contributions receivable of \$1,000 and a decrease to investments of the Foundation and the net assets at December 31, 2006 of \$1,039,880.

In addition, certain restricted net assets were improperly classified as unrestricted net assets at December 31, 2006. As of December 31, 2007, the net assets are properly classified. The error correction resulted in an increase in temporarily restricted net assets of \$172,371, an increase in permanently restricted net assets of \$3,870,622 and a corresponding decrease in unrestricted net assets of \$4,042,993.

(2) **Investments**

(a) *Marketable Securities*

Marketable securities consist of the following at December 31, 2007:

Mutual funds:	
Domestic equities	\$ 11,016,648
Fixed income	10,782,936
Foreign equities	4,958,655
	<hr/>
Total investments	26,758,239
	<hr/>
Less investments held for other agencies	(9,654,290)
	<hr/>
	\$ 17,103,949

The Rancho Santa Fe Foundation

Notes to Financial Statements

(b) *Summary of Return on Investment*

The following schedule summarizes the return on investment and its classification in the statement of activities for 2007:

Net realized gain on sales of marketable securities	\$	1,309,226
Decrease in unrealized appreciation of marketable securities		(674,211)
Interest and dividend income		451,594
Total return on investment	\$	<u>1,086,609</u>

(3) **Contributions Receivable**

Contributions receivable consist of the following at December 31, 2007:

Charitable remainder trusts	\$	1,052,086
Stock gifts receivable		406,048
Gifts and bequests receivable		313,472
	\$	<u>1,771,606</u>

(4) **Other Assets**

Other assets consist of the following at December 31, 2007:

Fixed assets, net of accumulated depreciation of \$45,207	\$	19,082
Prepaid expenses		8,545
	\$	<u>27,627</u>

(5) **Due to Other Agencies**

The amount due to other agencies as of December 31, 2007 consists of the following:

Investments	\$	9,654,290
Cash and cash equivalents		160,319
Contributions receivable		38,597
	\$	<u>9,853,206</u>

The Rancho Santa Fe Foundation

Notes to Financial Statements

(6) 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. The value of this parcel has not been included within the accompanying financial statements as the land has no value due to the nature of the circumstances under which it is held.

(7) Charitable Real Estate Fund

The Rancho Santa Fe Foundation Charitable Real Estate Fund (“CREF”) was established in February 2007 for the purpose of helping donors become impactful philanthropists through gifts of real estate. The CREF received its IRS determination letter in January 2008. There was no activity in the CREF in 2007.