

The Rancho Santa Fe Foundation

Financial Statements

For the Year Ended December 31, 2008

With Summarized Financial Information for 2007



Mayer
Hoffman
McCann P.C.
An Independent CPA Firm

The Rancho Santa Fe Foundation

Contents

Independent Auditors' Report	3
Financial Statements	
Statements of Financial Position	4
Statements of Activities	5
Statements of Cash Flows	6
Notes to Financial Statements	7-15



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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, 2008, 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 2007 financial statements and, in our report dated June 17, 2008, we expressed an unqualified opinion on those financial statements.

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 Rancho Santa Fe Foundation** as of December 31, 2008, 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.

Mayer Hoffman McCann P.C.

April 20, 2009

The Rancho Santa Fe Foundation

Statements of Financial Position

With Summarized Financial Information for 2007

December 31,

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
Cash and cash equivalents	\$ 340,240	\$ 70,028	\$ 3,999	\$ 414,267	\$ 887,237
Investments	6,373,368	226,568	5,262,266	11,862,202	17,103,949
Investments and other assets held for other agencies	7,866,982	-	-	7,866,982	9,853,206
Contributions receivable	-	520,503	269,550	790,053	1,771,606
Other assets	21,808	-	-	21,808	27,627
Total assets	\$ 14,602,398	\$ 817,099	\$ 5,535,815	\$ 20,955,312	\$ 29,643,625
Liabilities and Net Assets					
Liabilities:					
Grants payable and accrued expenses	\$ 15,819	\$ -	\$ -	\$ 15,819	\$ 24,185
Due to other agencies	7,866,982	-	-	7,866,982	9,853,206
Total liabilities	7,882,801	-	-	7,882,801	9,877,391
Net Assets	<u>6,719,597</u>	<u>817,099</u>	<u>5,535,815</u>	<u>13,072,511</u>	<u>19,766,234</u>
Total Net Assets and Liabilities	\$ 14,602,398	\$ 817,099	\$ 5,535,815	\$ 20,955,312	\$ 29,643,625

The accompanying notes are an integral part of these financial statements.

The Rancho Santa Fe Foundation

Statements of Activities

With Summarized Financial Information for 2007

Year ended December 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
Revenue, earnings, and other support:					
Gifts and bequests	\$ 2,191,311	\$ 196,914	\$ 25,670	\$ 2,413,895	\$ 6,759,512
Realized and unrealized (loss)/gain on investments, net	(4,044,095)	(58,084)	-	(4,102,179)	635,015
Change in value of split interest agreement	-	(556,835)	-	(556,835)	5,361
Interest and dividend income	334,668	4,826	-	339,494	451,594
Management fee revenue	77,631	-	-	77,631	71,674
Interfund transfers	(50,280)	36,681	13,599	-	-
	<u>(1,490,765)</u>	<u>(376,498)</u>	<u>39,269</u>	<u>(1,827,994)</u>	<u>7,923,156</u>
Net assets released from restrictions	<u>809,583</u>	<u>(809,583)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue, earnings, and other support	<u>(681,182)</u>	<u>(1,186,081)</u>	<u>39,269</u>	<u>(1,827,994)</u>	<u>7,923,156</u>
Expenses:					
Program grants	4,379,702	-	-	4,379,702	3,891,948
Operating and administrative expenses	486,027	-	-	486,027	401,545
Total expenses	<u>4,865,729</u>	<u>-</u>	<u>-</u>	<u>4,865,729</u>	<u>4,293,493</u>
Change in net assets	(5,546,911)	(1,186,081)	39,269	(6,693,723)	3,629,663
Net assets at beginning of year	<u>12,266,508</u>	<u>2,003,180</u>	<u>5,496,546</u>	<u>19,766,234</u>	<u>16,136,571</u>
Net assets at end of year	\$ 6,719,597	\$ 817,099	\$ 5,535,815	\$ 13,072,511	\$ 19,766,234

The accompanying notes are an integral part of these financial statements.

The Rancho Santa Fe Foundation

Statements of Cash Flows

Years ended December 31,

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (6,693,723)	\$ 3,629,663
Adjustments and reclassifications to reconcile change in net assets to net cash provided by/(used in) operating activities:		
Realized and unrealized net (gain)/loss on investments	4,102,179	(635,015)
Contributions of stock and securities	(218,102)	(2,578,855)
Depreciation	5,403	5,276
Increase/(Decrease) in cash resulting from changes in:		
Contributions receivable	915,283	(1,810,664)
Other assets	5,819	(1,971)
Grants payable and accrued expenses	(8,366)	(33,773)
Due to other agencies	(1,986,224)	1,621,965
Net cash provided by/(used in) operating activities	<u>(3,877,731)</u>	<u>196,626</u>
Cash flows from investing activities:		
Proceeds from sale of investments	23,755,812	15,173,418
Purchases of investments	(20,411,920)	(16,795,441)
Purchases of equipment	(2,395)	(1,319)
Net cash provided by/(used in) investing activities	<u>3,341,497</u>	<u>(1,623,342)</u>
Cash flows from financing activities:		
Cash received restricted for long term investment	66,270	1,124,874
Payments on capital lease obligation	(3,006)	(2,694)
Net cash provided by financing activities	<u>63,264</u>	<u>1,122,180</u>
Net decrease in cash and cash equivalents	<u>(472,970)</u>	<u>(304,536)</u>
Cash and cash equivalents at beginning of year	<u>887,237</u>	<u>1,191,773</u>
Cash and cash equivalents at end of year	<u>\$ 414,267</u>	<u>\$ 887,237</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	\$ 1,422	\$ 1,734
Noncash Investing and Financing Activities:		
Assets acquired through capital lease	\$ -	\$ 16,971

The accompanying notes are an integral part of these financial statements.

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 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 contributed funds, subject to specific donor-imposed restrictions, contingent upon a specific performance of a future event or a specific passage of time before the Foundation may spend the funds. The balance includes contributions receivable, term endowments, and deferred gifts in the form of trusts and annuities.

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) *Summarized Information*

The financial statements include certain prior year summarized comparative information in total but not by net asset classification and are presented to provide a basis for comparison to financial information for 2008. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for 2007, from which the summarized information was derived.

(e) *Cash and Cash Equivalents*

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

(f) *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. The balance in the account at this institution may at times, exceed the amount secured by the Federal Deposit Insurance Corporation. The Foundation has not experienced any losses in this account. 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.

(g) *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.

The Rancho Santa Fe Foundation

Notes to Financial Statements

(h) Split Interest 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, 2008. 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 trusts, the Foundation will receive a portion of the assets remaining in the trusts. The present values are calculated by using recent life expectancy tables and a discount rate of 3.4% as of December 31, 2008.

(i) 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.

(j) 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 \$7,866,982 at December 31, 2008.

(k) Donated Rent

The Foundation receives donated rent for office space from a bank. The donated rent is recorded based upon the fair market value of the space as determined by the bank. Donated rent of \$67,410 was recorded in contributions and general and administrative expenses on the statement of activities for 2008.

(l) Functional Allocation of Expenses

The cost of providing programs and other activities for 2008 is summarized on a functional basis below:

Program:	
Grants	\$4,379,702
Other	120,702
Management and general	236,224
Fundraising	<u>129,101</u>
	<u>\$4,865,729</u>

(m) 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

The Rancho Santa Fe Foundation

Notes to Financial Statements

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 split interest gifts.

(n) *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.

(o) *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.

(p) *Fair Value Measurements*

Statement of Financial Accounting Standard ("SFAS") No. 157, *Fair Value Measurements*, establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements.

The Foundation adopted SFAS No. 157 as of January 1, 2008 for financial assets and financial liabilities. There was no material impact on the Foundation's financial position or the results of operations for 2008. The Foundation measures fair value at the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

SFAS No. 157 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. The Statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

The Foundation endeavors to utilize the best available information in measuring fair value. The following table summarizes the valuation of our financial instruments in accordance with SFAS No. 157 pricing levels as of December 31, 2008. There were no Level 2 financial instruments.

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 2008:

Decrease in unrealized appreciation of marketable securities	\$ (4,009,265)
Interest and dividend income	339,494
Net realized loss on sales of marketable securities	(92,914)
Total return on investment	<u>\$ (3,762,685)</u>

(3) Contributions Receivable

Contributions receivable consist of the following at December 31, 2008:

Charitable remainder trusts	\$ 495,251
Gifts and bequests receivable	294,167
Stock gifts receivable	635
	<u>\$ 790,053</u>

(4) Other Assets

Other assets consist of the following at December 31, 2008:

Fixed assets, net of accumulated depreciation of \$50,610	\$ 15,564
Prepaid expenses	6,244
	<u>\$ 21,808</u>

(5) Due to Other Agencies

The amount due to other agencies as of December 31, 2008 consists of the following:

Investments	\$ 7,441,058
Cash and cash equivalents	351,571
Contributions receivable	74,353
	<u>\$ 7,866,982</u>

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes at December 31, 2008:

Charitable remainder trusts	\$ 495,251
Term endowment	171,708
Purpose restricted	132,388
Time restricted	17,752
	<u>\$ 817,099</u>

The Rancho Santa Fe Foundation

Notes to Financial Statements

(7) Endowment Net Asset Classifications

In August 2008, the Financial Accounting Standards Board issued Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act* (“UPMIFA”), and *Enhanced Disclosures for All Endowment Funds* (“FSP 117-1”). FSP 117-1 improves disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board designated endowment funds) whether the organization is subject to the Uniform Management of Institutional Funds Act (“UMIFA”), or its replacement legislation, UPMIFA. The Foundation has adopted FSP 117-1 for 2008 in order to provide these improved disclosures. The State of California adopted UPMIFA effective January 1, 2009.

The Foundation’s Board of Directors has interpreted UMIFA as requiring the preservation of the fair market value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted endowment net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted is classified as unrestricted net assets to be appropriated for expenditure by the Foundation.

Temporarily restricted endowment assets are those that have a donor stipulated time restriction. When donor restrictions expire, temporarily restricted endowment assets are reclassified either as permanently restricted or unrestricted depending upon the donor’s stipulations.

The Foundation determines the appropriation of each endowment fund’s assets for expenditure based upon the following adopted spending policy:

- If the annual return on the Foundation’s general investment pool during the prior fiscal year was equal or greater than the annual expenditure percentage specified in the original fund agreement, the amount appropriated for expenditure is calculated by multiplying the fund’s balance as of December 31 of the prior year by the specified expenditure percentage.
- If the annual return on the Foundation’s general investment pool during the prior fiscal year was less than the annual expenditure percentage specified in the original fund agreement, the amount appropriated for expenditure is calculated by averaging the fund’s ending quarterly balance over the prior 12 quarters and multiplying that amount by the specified expenditure percentage.

The primary goals of the Foundation’s investment policy are to ensure a total return necessary to preserve and enhance the principal of the funds and to provide a dependable source or revenue for current and future needs. To achieve these objectives, the Foundation’s portfolio will be administered with a moderate level of risk, accepting some volatility in principal while attempting to grow the portfolio over time. The investment policy directs the managers for a target allocation for the portfolio that approximates 65% invested in equity securities and the remainder of the portfolio

The Rancho Santa Fe Foundation

Notes to Financial Statements

in fixed income and other securities. At a minimum, an annual rebalancing will be administered to bring the portfolio back in line with the asset allocation model.

Endowment net asset composition by type of fund as of December 31, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (882,972)	\$ 171,708	\$ 5,535,815	\$ 4,824,551
Board designated endowment funds	320,944	-	-	320,944
Total endowment funds	<u>\$ (562,028)</u>	<u>\$ 171,708</u>	<u>\$ 5,535,815</u>	<u>\$ 5,145,495</u>

Changes in endowment net assets for 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$1,087,192	\$ 250,000	\$ 5,496,546	\$ 6,833,738
Contributions	34,650	-	39,269	73,919
Investment return:				
Net investment income	124,657	4,826	-	129,483
Net depreciation (realized and unrealized)	(1,530,399)	(58,084)	-	(1,588,483)
Total investment loss	(1,405,742)	(53,258)	-	(1,459,000)
Amounts appropriated for expenditure	(278,128)	(25,034)	-	(303,162)
Endowment net assets, end of year	<u>\$ (562,028)</u>	<u>\$ 171,708</u>	<u>\$ 5,535,815</u>	<u>\$ 5,145,495</u>

The temporarily restricted endowment is restricted for a specified charity. Distributions from this endowment are made annually until the earlier of 20 years or until assets in the fund are depleted.

At times, the fair value of donor-restricted assets may fall below the level that a donor requires the Foundation to retain as permanently restricted assets. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$882,972 as of December 31, 2008. This deficiency resulted from unfavorable market fluctuations that occurred during 2008.

In response to these circumstances, the Foundation's Board of Directors voted to limit the expenditure of permanently restricted assets in the first six months of 2009 to 2.5% of each fund's balance as of December 31, 2008 and to reevaluate economic circumstances before establishing a spending policy for the remainder of 2009.

The Rancho Santa Fe Foundation

Notes to Financial Statements

(8) 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.

(9) 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 2008.

(10) Subsequent Events

Domestic and international capital markets have experienced significant volatility with respect to certain securities. As a result, significant fluctuations in the fair value of investments may have occurred subsequent to December 31, 2008.