

THE LEICHTAG FAMILY FOUNDATION

Financial Statements

Years Ended December 31, 2008 and 2007 (Restated)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Leichtag Family Foundation
Carlsbad, California

We have audited the accompanying statements of financial position of The Leichtag Family Foundation as of December 31, 2008 and 2007, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of The Leichtag Family Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 Leichtag Family Foundation as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 9, subsequent to the issuance of The Leichtag Family Foundation's 2007 financial statements, we became aware that the 2007 financial statements reflected incorrect liabilities and net assets. In our original report, we issued an unqualified opinion, and our opinion on the restated financial statements remains unqualified.

AKT LLP

Carlsbad, California
September 2, 2009

THE LEICHTAG FAMILY FOUNDATION
Statements of Financial Position
December 31, 2008 and 2007 (Restated)

	<u>2008</u>	<u>2007</u> (Restated)
ASSETS		
Cash	\$ 73,604	\$ 167,299
Investments	29,551,165	10,855,224
Prepaid taxes	6,369	6,363
Prepaid expenses	<u>6,500</u>	<u>-</u>
Total Assets	<u>\$ 29,637,638</u>	<u>\$ 11,028,886</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 14,456	\$ -
Grants payable	7,335,122	6,483,419
Accrued expenses	<u>13,333</u>	<u>-</u>
Total Current Liabilities	7,362,911	6,483,419
Net Assets:		
Unrestricted	<u>22,274,727</u>	<u>4,545,467</u>
Total Liabilities and Net Assets	<u>\$ 29,637,638</u>	<u>\$ 11,028,886</u>

THE LEICHTAG FAMILY FOUNDATION

Statements of Activities

Years Ended December 31, 2008 and 2007 (Restated)

	2008	2007 (Restated)
Unrestricted Revenue:		
Contribution	\$ 30,000,000	\$ -
In-kind contributions	104,536	-
Interest	84,143	188,501
Dividends	740,805	146,137
Realized and unrealized gains (losses), net	<u>(10,279,703)</u>	<u>351,934</u>
Total Unrestricted Revenue	20,649,781	686,572
Expenses:		
Program services:		
Contributions	2,604,016	7,100,086
Supporting services - general and administrative:		
Administrative fees	130,381	-
Salaries	39,999	-
Legal	37,820	19,842
Director fees	32,000	3,000
Accounting	17,500	4,875
Other	17,383	-
Consulting	15,674	-
Taxes	13,438	85
Dues and seminars	<u>12,310</u>	<u>-</u>
Total Expenses	<u>2,920,521</u>	<u>7,127,888</u>
Increase (Decrease) in Unrestricted Net Assets	17,729,260	(6,441,316)
Unrestricted Net Assets, beginning	<u>4,545,467</u>	<u>10,986,783</u>
Unrestricted Net Assets, ending	<u>\$ 22,274,727</u>	<u>\$ 4,545,467</u>

THE LEICHTAG FAMILY FOUNDATION**Statements of Cash Flows**

Years Ended December 31, 2008 and 2007 (Restated)

	<u>2008</u>	<u>2007</u> <u>(Restated)</u>
Cash Flows from Operating Activities:		
Increase (decrease) in unrestricted net assets	\$ 17,729,260	\$ (6,441,316)
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Net realized and unrealized losses on investments	10,279,703	-
Changes in operating assets and liabilities:		
Prepaid taxes	(6)	-
Prepaid expenses	(6,500)	-
Accounts payable	14,456	-
Grants payable	851,703	6,483,419
Accrued expenses	13,333	-
	<u>28,881,949</u>	<u>42,103</u>
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities:		
Purchases of investments	(43,356,426)	(129,319)
Proceeds on sales of investments	14,380,782	-
	<u>(28,975,644)</u>	<u>(129,319)</u>
Net Cash Used by Investing Activities:		
Net Decrease in Cash	(93,695)	(87,216)
Cash, beginning	<u>167,299</u>	<u>254,515</u>
Cash, ending	<u>\$ 73,604</u>	<u>\$ 167,299</u>

See accompanying notes to financial statements.

THE LEICHTAG FAMILY FOUNDATION

Notes to Financial Statements

Years Ended December 31, 2008 and 2007 (Restated)

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

The Leichtag Family Foundation (Foundation) is a tax exempt foundation created to alleviate human hardship, advance self sufficiency and promote tolerance and understanding.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments

The Foundation carries investments in marketable securities at their fair values in the statements of financial position. The fair value is determined using quoted market prices. Alternative investments, for which quoted market prices are not available, are valued at fair value by the general partner of the partnership based on factors deemed relevant by the general partner including, but not limited to, market conditions, purchase price, estimated liquidation value, restrictions on transfer and meaningful third party transactions in the private market. The fair values are reported by the Foundation in good faith. Realized and unrealized gains and losses are included in the changes in net assets in the statements of activities.

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from California franchise and/or income tax under section 23701(d) of the Revenue and Taxation code. The Foundation is subject to federal excise tax.

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Foundation may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

The Foundation had no permanently restricted or temporarily restricted net assets for the years ended December 31, 2008 and 2007.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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.

THE LEICHTAG FAMILY FOUNDATION

Notes to Financial Statements

Years Ended December 31, 2008 and 2007 (Restated)

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Contributed Materials, Equipment and Services

Donated materials and equipment, with significant determinable values, are reflected as contributions in the accompanying financial statements at their estimated fair values at date of receipt. Such items are capitalized or charged to operations as appropriate.

The Foundation receives donated services from unpaid volunteers who assist in general and administrative and program services. No amounts have been recognized in the statements of activities for these services, because the criteria for recognition as contributions of such volunteer effort have not been satisfied.

The fair market values of contributed professional services are reported as support and expense in the period in which the services are performed.

Determination of Fair Value

Effective January 1, 2008, the Foundation adopted SFAS 157, which defines fair value, establishes a framework measuring fair value and expands disclosures about the fair value measurement. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset in the principal or most advantageous market. SFAS 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 also establishes a fair value hierarchy, which prioritizes the evaluation inputs into three broad levels.

The three general valuation techniques that may be used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date
- Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

Note 2 – Concentration of Credit Risk

The Foundation maintains its cash in bank accounts which, at times, may exceed federal insured limits. The Foundation manages the risk by using only high quality financial institutions.

Note 3 – Investments

The cost and fair market value of investments consist of the following:

	2008		2007	
	Cost	Fair Market Value	Cost	Fair Market Value
Fixed income	\$ 7,805,497	\$ 7,298,948	\$ 6,120,422	\$ 6,100,540
Equity securities	28,466,728	18,757,404	3,501,450	4,554,684
Alternative investments	2,490,000	2,035,524	-	-
International securities	2,542,148	1,459,289	200,250	200,000
	<u>\$ 41,304,373</u>	<u>\$ 29,551,165</u>	<u>\$ 9,822,122</u>	<u>\$ 10,855,224</u>

THE LEICHTAG FAMILY FOUNDATION

Notes to Financial Statements

Years Ended December 31, 2008 and 2007 (Restated)

Note 3 – Investments, continued

Investments are categorized as follows:

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2008 - Investments	\$ <u>27,515,641</u>	\$ <u>-</u>	\$ <u>2,035,524</u>
December 31, 2007 - Investments	\$ <u>10,855,224</u>	\$ <u>-</u>	\$ <u>-</u>

Note 4 – Grants Payable

The Foundation makes grants to recipient organizations whose mission is similar to that of the Foundation in the support of alleviating human hardship, advancing self sufficiency and promoting tolerance and understanding.

Future minimum grant obligations are as follows:

Year ending December 31,	
2009	\$ 879,308
2010	2,243,156
2011	570,000
2012	570,000
2013	450,000
Thereafter	<u>17,150,000</u>
	21,862,464
Less: Discount on grants payable	<u>(14,527,342)</u>
	\$ <u>7,335,122</u>

Note 5 – Federal Excise Tax

The Foundation is subject to federal excise tax imposed on private foundations at 2%, or at 1% if certain conditions are met. The excise tax is imposed on net investment income, as defined under federal law, which includes realized gains on the sale of investments. Federal excise tax expense consists of the current provision on realized net investment income.

Note 6 – Donor Advised Fund

The Foundation has a donor advised fund at the Jewish Community Foundation, for which management has the ability to make recommendations to direct funds for charitable purposes. The total value of the fund as of December 31, 2008 and 2007 was \$407,052 and \$356,178, respectively.

Note 7 – Related Party Transactions

During the year ended December 31, 2008, the Foundation received a contribution of \$30,000,000 and received support through reimbursed operating costs totaling approximately \$105,000 from The Leichtag Family Trust. The operating costs have been recorded in their natural category of expenses and in-kind contributions in the statements of activities.

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Notes to Financial Statements

Years Ended December 31, 2008 and 2007 (Restated)

Note 8 – Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 9 – Restatement of Financial Statements

Subsequent to the issuance of the Foundation's 2007 financial statements, management became aware that the 2007 financial statements reported incorrect liabilities and net assets. The inclusion of corrections in the restated financial statements increased liabilities and decreased net assets by \$6,483,419.

Note 10 – Subsequent Events

Subsequent to the year end, the Foundation entered into several long-term grant commitments. The total commitments that are pledged to recipient organizations total approximately \$2,000,000.