Leichtag Foundation and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Leichtag Foundation and Subsidiaries

We have audited the accompanying consolidated financial statements of Leichtag Foundation (a nonprofit organization) and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated 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 controls. 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Leichtag Foundation and Subsidiaries as of December 31, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

AKT LLP

San Diego, California
May 21, 2014

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LEICHTAG FOUNDATION AND SUBSIDIARIES
Consolidated Statements of Financial Position
December 31, 2013 and 2012

		2013		2012
ASSETS				
Current Assets:				
Cash	$	12,404,491	$	1,972,276
Investments		111,521,622		121,262,815
Prepaid expenses and other current assets		106,759		10,563
Total Current Assets		124,032,872		123,245,654
Property and Equipment, net of accumulated depreciation		18,589,131		18,797,181
Total Assets	$	142,622,003	$	142,042,835
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	$	504,536	$	625
Current portion of grants payable		8,185,496		8,210,379
Accrued expenses		130,554		16,909
Total Current Liabilities		8,820,586		8,227,913
Grants payable, net of current portion		16,984,109		16,788,651
Total Liabilities		25,804,695		25,016,564
Unrestricted Net Assets		116,817,308		117,026,271
Total Liabilities and Net Assets	$	142,622,003	$	142,042,835

See accompanying notes to consolidated financial statements.

LEICHTAG FOUNDATION AND SUBSIDIARIES

Consolidated Statements of Activities

Years Ended December 31, 2013 and 2012

	2013	2012
Unrestricted Revenue:		
Realized and unrealized gains, net	$ 12,557,628	$ 14,440,725
Interest and dividends	2,619,818	3,950,010
Gain on sale of property and equipment	678,824	-
Rental income	433,444	89,575
Contributions	-	37,617
Total Unrestricted Revenue	16,289,714	18,517,927
Expenses:		
Program services:		
Contributions	12,326,667	12,335,931
Supporting services - general and administrative:		
Salaries	1,024,691	450,315
Administrative fees	752,302	801,824
Taxes	420,404	310,393
Consulting	414,843	528,953
Other	263,886	143,898
Depreciation	258,623	78,562
Community events	164,901	7,757
Travel	152,042	153,897
Rent	137,318	128,388
Supplies	127,188	578
Repairs and maintenance	114,688	28,039
Accounting	87,128	30,660
Property management	80,475	229,809
Insurance	73,409	30,416
Legal	43,593	50,287
Dues and seminars	28,519	21,249
Director fees	28,000	41,500
Total Expenses	16,498,677	15,372,456
Increase (Decrease) in Unrestricted Net Assets	(208,963)	3,145,471
Unrestricted Net Assets, beginning	117,026,271	113,880,800
Unrestricted Net Assets, ending	$ 116,817,308	$ 117,026,271

See accompanying notes to consolidated financial statements

LEICHTAG FOUNDATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31, 2013 and 2012

		2013		2012
Cash Flows from Operating Activities:				
Increase (decrease) in unrestricted net assets	$	(208,963)	$	3,145,471
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided (used) by operating activities:				
Net realized and unrealized gains losses on investments		(12,557,628)		(14,440,725)
Depreciation		258,623		78,562
Gain on sale of property and equipment		(678,824)		-
Changes in operating assets and liabilities:				
Prepaid expenses		(96,196)		288
Accounts payable		503,911		(7,226)
Grants payable		170,575		(1,947,694)
Accrued expenses		113,645		28
Net Cash Used by Operating Activities		(12,494,857)		(13,171,296)
Cash Flows from Investing Activities:				
Purchases of investments		(5,711,905)		(4,357,312)
Proceeds on sales of investments		28,010,726		29,306,194
Purchases of property and equipment		(2,490,573)		(14,505,395)
Proceeds on sale of property and equipment		3,118,824		-
Net Cash Provided by Investing Activities:		22,927,072		10,443,487
Net Increase (Decrease) in Cash		10,432,215		(2,727,809)
Cash, beginning		1,972,276		4,700,085
Cash, ending	$	12,404,491	$	1,972,276

See accompanying notes to consolidated financial statements.

Note 1 – Organization and Summary of Significant Accounting Policies

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

LF Villas, LLC (Villas), 3501 West Garry, LLC (West Garry), and LF Encinitas Properties, LLC (LF Encinitas) were formed for the purposes of engaging in the business of acquiring, owning, operating, financing, refinancing, leasing, holding for investment, and selling real property. Villas, West Garry, and LF Encinitas are all single member limited liability companies whose sole member is Leichtag. West Garry filed its final tax return as of December 31, 2013 and is currently in the process of dissolution.

Principles of Consolidation
The consolidated financial statements include the accounts of Leichtag, Villas, West Garry, and LF Encinitas (collectively, the Foundation). All significant intercompany transactions and balances have been eliminated.

Use of Estimates
The preparation of the consolidated 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 with readily determinable fair values and investments in debt securities at fair values in the consolidated statements of financial position. Investments acquired by gift are recorded at their fair market value at the date of the gift. Alternative investments, for which quoted market prices are not readily available, are valued at fair value by the investment manager based on factors deemed relevant by the including, but not limited to, market conditions, purchase price, estimated liquidation value, restrictions on transfer and meaningful third party transactions in the private market. Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material. Realized and unrealized gains and losses are included in the changes in net assets in the consolidated statements of activities.

Property and Equipment
The Foundation capitalizes all expenditures for property and equipment in excess of $2,000. Equipment and improvements are recorded at cost or at estimated fair value at date of gift if donated. Expenditures for maintenance and repairs are charged against operations. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets of five to 40 years.

Grants Payable
Unconditional grants payable are recorded at their net present value at the date the grant is made. Grants payable that are due within one year are recorded at face value. The present value of future cash flows is calculated using a discount rate commensurate with the risks involved. The Foundation has not elected to subsequently measure grants payable at fair value under the financial instruments standard of reporting.

Income Taxes
Leichtag is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from California franchise and income tax under section 23701(d) of the Revenue and Taxation code. Leichtag is subject to federal excise tax. Villas, West Garry, and LF Encinitas are non-taxpaying entities for federal income tax purposes, and thus no income tax has been recorded in the consolidated financial statements.

The Foundation follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Foundation recognizes accrued interest and penalties associated with uncertain tax positions as part of the consolidated statement of activities, when applicable. Management has determined that the Foundation has no uncertain tax positions at December 31, 2013 and 2012and therefore no amounts have been accrued.

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

Income Taxes (continued)
The Foundation files income tax returns in the United States and various state and local jurisdictions. The Foundation's federal income tax returns for the years prior to 2010 are closed. State and local jurisdictions have statutes of limitation that generally range from three to five years.

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 or temporarily restricted net assets for the years ended December 31, 2013 and 2012.

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.

Fair Value Measurements
The Foundation defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Foundation applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs. The three levels are defined as follows:

> Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
>
> Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.
>
> Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of cash, receivables, and payables approximates fair value as of December 31, 2013 and 2012, due to the relative short maturities of these instruments.

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

Subsequent Events

The Foundation has evaluated subsequent events through May 21, 2014, which is the date the consolidated financial statements were available to be issued.

Note 2 – Concentration of Credit Risk

The Foundation maintains their cash balances in several financial institutions. The balances are insured by either the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC) up to a limit of $250,000 per institution. At December 31, 2013, the Foundation's total uninsured balance was $10,472,197. At December 31, 2012, the Foundation's total uninsured balance was $1,686,544. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

Note 3 – Investments

The fair market value of investments is categorized as follows for the year ended December 31, 2013:

Description	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income - domestic	$ 32,788,041	$ -	$ -	$ 32,788,041
Large cap - domestic	27,856,097	-	-	27,856,097
Large cap - international	35,566,667	-	-	35,566,667
Mid cap - international	3,616,413	-	-	3,616,413
Alternative investments:				
Private equity funds	-	-	2,565,899	2,565,899
Hedge fund of funds	-	-	9,128,505	9,128,505
	$ 99,827,218	$ -	$ 11,694,404	$ 111,521,622

The fair market value of investments is categorized as follows for the year ended December 31, 2012:

Description	Level 1	Level 2	Level 3	Total
Equity securities:				
Large cap - international	$ 6,138,700	$ -	$ -	$ 6,138,700
Mutual funds:				
Fixed income - domestic	31,224,404	-	-	31,224,404
Large cap - domestic	26,701,646	-	-	26,701,646
Large cap - international	30,412,797	-	-	30,412,797
Mid cap - domestic	7,129,049	-	-	7,129,049
Mid cap - international	3,502,056	-	-	3,502,056
Commodities	5,684,866	-	-	5,684,866
Alternative investments:				
Private equity funds	-	-	3,420,028	3,420,028
Hedge fund of funds	-	-	7,049,269	7,049,269
	$ 110,793,518	$ -	$ 10,469,297	$ 121,262,815

Note 3 – Investments, continued

Changes in the fair value of level 3 investments for the year ended December 31, 2013 are as follows:

	Private equity funds	Hedge fund of funds	Total
Fair value, beginning	$ 3,420,028	$ 7,049,269	$ 10,469,297
Purchases	909,177	3,000,000	3,909,177
Sales	(2,093,946)	(2,010,450)	(4,104,396)
Investment gains	407,277	1,089,686	1,496,963
Investment expenses	(76,637)	-	(76,637)
Fair value, ending	$ 2,565,899	$ 9,128,505	$ 11,694,404

The valuations of the private equity funds and hedge fund of funds are reflected at fair value, which is determined by the fund managers and defined as the price agreed to in an orderly transaction between market participants to sell an asset or transfer a liability. The fair value of the funds is generally based on the Net Asset Value (NAV) of the underlying funds. The NAV of each underlying fund is calculated by an independent administrator as of a specific valuation date, which is done at a minimum quarterly. The valuation techniques used by the administrators include, but are not limited to, the market approach, sales-comparison approach, and income approach.

Changes in the fair value of level 3 investments for the year ended December 31, 2012 are as follows:

	Private equity funds	Hedge fund of funds	Total
Fair value, beginning	$ 1,977,424	$ 7,689,784	$ 9,667,208
Purchases	641,578	-	641,578
Sales	-	(1,300,000)	(1,300,000)
Investment gains	817,515	659,485	1,477,000
Investment expenses	(16,489)	-	(16,489)
Fair value, ending	$ 3,420,028	$ 7,049,269	$ 10,469,297

Commitments and redemption schedules for those investments valued based on net asset value are as follows for the year ended December 31, 2013:

Description	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Private equity funds [a]	$ 2,565,899	$ 1,930,000	n/a	n/a
Hedge fund of funds [b]	$ 9,128,505	none	quarterly	90 days

[a] Private equity funds are investment in funds organized as limited partnerships which invest in media companies, technology companies (excluding biotech), mezzanine capital, secondaries, and buyouts.
[b] The hedge fund of funds employ a variety of strategies including absolute return, diversified arbitrage, investment in distress strategies, and various long/short strategies.

Note 3 – Investments, continued

Commitments and redemption schedules for those investments valued based on net asset value are as follows for the year ended December 31, 2012:

Description	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Private equity funds [a]	$ 3,420,028	$ 1,910,000	n/a	n/a
Hedge fund of funds [b]	$ 7,049,269	none	quarterly	90 days

[a] Private equity funds are investment in funds organized as limited partnerships which invest in media companies, mezzanine capital, secondaries, and buyouts.
[b] The hedge fund of funds employ a variety of strategies including absolute return, diversified arbitrage, investment in distress strategies, and various long/short strategies.

Note 4 – Property and Equipment

Property and equipment consist of the following:

	2013	2012
Buildings	$ 7,119,569	$ 6,225,254
Machinery and equipment	170,227	5,395
Land	11,612,859	12,659,746
Other	38,313	-
	18,940,968	18,890,395
Less accumulated depreciation	(351,837)	(93,214)
	$ 18,589,131	$ 18,797,181

On August 1, 2013, 3501 West Garry, LLC sold its assets, including a building located at 3501 West Garry Avenue, Santa Ana, California and other miscellaneous equipment. The total sales price for the property was $3,118,824.

Note 5 – 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. The discount on grants payable ranges from 3.92% to 5.50%.

Future minimum grant obligations at December 31, 2013 are as follows:

Year Ending December 31,	
2014	$ 8,185,496
2015	4,690,174
2016	3,955,079
2017	1,715,000
2018	1,465,000
Thereafter	8,515,000
	28,525,749
Less: Discount on grants payable	(3,356,144)
	$ 25,169,605

Note 6 – Property Leased to Others

The Foundation is the lessor of property on long-term operating leases and short-term rentals, which began in 2013. The long-term operating leases are for land and various greenhouses and other buildings constructed on the land. The Foundation also has short-term rentals of vacation properties.

The following is a summary of land and greenhouses held for lease as of December 31, 2013:

Land	$	8,597,140
Greenhouses and Buildings		3,127,246
		11,724,386
Less accumulated depreciation		(162,214)
	$	11,562,172

Minimum future lease income to be received under noncancellable leases as of December 31, 2013 are as follows:

Year Ending December 31,		
2014	$	237,296
2015		280,334
2016		281,773
2017		281,773
2018		284,983
Thereafter		1,082,237
	$	2,448,396

Note 7 – Operating Leases

The Foundation leases office space that expires in September 2015. Total rent expense for the years ended December 31, 2013 and 2012 was $137,318 and $128,388, respectively.

Minimum future lease payments at December 31, 2013 are due as follows:

Year Ending December 31,		
2014	$	133,399
2015		103,051
Thereafter		-
	$	236,450

Note 8 – 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 9 – Retirement Plans

The Foundation provides a Defined Contribution Plan and a 403(b) Thrift Plan (Plans), both of which are administered by TPC Qualified Plans LLC. The Plans were established in August 2013. The Plans cover substantially all of the Foundation's full time employees. The Foundation makes contributions equal to 7% of compensation up to $30,000 and an additional 4.3% of compensation in excess of $30,000 to the Defined Contribution Plan. The Foundation also makes contributions to the 403(b) Thrift Plan for eligible employees equal to the lesser of 50% of the participants' contributions during the plan year up to 3% of the participants' eligible compensation.

Retirement plan expense was $55,570 for the year ended December 31, 2013.

Note 10 – Related Party Transactions

In December 2009, the Leichtag Survivor's Trust moved its operating offices. As a result of the move and increased operation, the Foundation took occupancy of a majority of the leased spaced. The Foundation assumed the lease from the Leichtag Survivor's Trust effective January 1, 2012.

During the year ended December 31, 2012, the Foundation received a contribution of $37,617 from the Leichtag Survivor's Trust. No contributions were received during the year ended December 31, 2013.

Note 11 – Functional Allocation of Expenses

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