Leichtag Foundation and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2012 and 2011

AKT

CPAs and Business Consultants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Leichtag Foundation and Subsidiaries

We have audited the accompanying financial statements of Leichtag Foundation (a nonprofit organization) and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, 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, 2012 and 2011, 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
August 28, 2013

LEICHTAG FOUNDATION AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31, 2012 and 2011

		2012		2011
ASSETS				
Current Assets:				
Cash	$	1,972,276	$	4,700,085
Investments		121,262,815		131,770,972
Prepaid expenses		10,563		10,851
Total Current Assets		123,245,654		136,481,908
Property and Equipment, net of accumulated depreciation		18,797,181		4,370,348
Total Assets	$	142,042,835	$	140,852,256
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	$	625	$	7,851
Current portion of grants payable		8,210,379		8,565,080
Accrued expenses		16,909		16,881
Total Current Liabilities		8,227,913		8,589,812
Grants payable, net of current portion		16,788,651		18,381,644
Total Liabilities		25,016,564		26,971,456
Unrestricted Net Assets		117,026,271		113,880,800
Total Liabilities and Net Assets	$	142,042,835	$	140,852,256

See accompanying notes to consolidated financial statements.

LEICHTAG FOUNDATION AND SUBSIDIARIES

Consolidated Statements of Activities

Years Ended December 31, 2012 and 2011

	2012	2011
Unrestricted Revenue:		
Contributions	$ 37,617	$ 24,462,800
In-kind contributions	-	121,559
Interest and dividends	3,950,010	3,776,772
Rental income	89,575	30,289
Realized and unrealized gains (losses), net	14,440,725	(5,812,604)
Total Unrestricted Revenue	18,517,927	22,578,816
Expenses:		
Program services:		
Contributions	12,335,931	10,902,181
Supporting services - general and administrative:		
Administrative fees	801,824	720,211
Consulting	516,023	175,212
Salaries	450,315	371,250
Taxes	310,393	91,405
Property management	229,809	50,644
Other	223,618	83,348
Travel	153,897	75,400
Rent	128,388	121,559
Depreciation	78,562	14,652
Legal	50,287	28,633
Director fees	41,500	44,000
Accounting	30,660	23,147
Dues and seminars	21,249	16,092
Total Expenses	15,372,456	12,717,734
Increase in Unrestricted Net Assets	3,145,471	9,861,082
Unrestricted Net Assets, beginning	113,880,800	104,019,718
Unrestricted Net Assets, ending	$ 117,026,271	$ 113,880,800

LEICHTAG FOUNDATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31, 2012 and 2011

		2012		2011
Cash Flows from Operating Activities:				
Increase in unrestricted net assets	$	3,145,471	$	9,861,082
Adjustments to reconcile increase in unrestricted net assets to net cash provided (used) by operating activities:				
Net realized and unrealized (gains) losses on investments		(14,440,725)		5,812,604
Depreciation		78,562		14,652
Donated property and equipment		-		(4,385,000)
Changes in operating assets and liabilities:				
Prepaid expenses		288		(10,851)
Accounts payable		(7,226)		5,931
Grants payable		(1,947,694)		453,989
Accrued expenses		28		2,528
Net Cash Provided (Used) by Operating Activities		(13,171,296)		11,754,935
Cash Flows from Investing Activities:				
Purchases of investments		(4,357,312)		(30,347,610)
Proceeds on sales of investments		29,306,194		17,317,388
Purchases of property and equipment		(14,505,395)		-
Net Cash Provided (Used) by Investing Activities:		10,443,487		(13,030,222)
Net Decrease in Cash		(2,727,809)		(1,275,287)
Cash, beginning		4,700,085		5,975,372
Cash, ending	$	1,972,276	$	4,700,085

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.

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 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 all 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 manager 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 recognizes the financial statements effects from a tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Foundation and the various positions related to the potential sources of unrelated business income. The assessment of the technical merits of a tax position is a matter of judgment. The Foundation believes that all its tax positions are more likely than not to be sustained upon examination.

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 2009 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, 2012 and 2011.

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, 2012 and 2011, 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 August 28, 2013, which is the date the consolidated financial statements were available to be issued.

Note 2 – Concentration of Credit Risk

The Foundation maintains cash in deposit accounts that are either insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000 per depositor or certain non-interest bearing accounts that are fully insured by the FDIC. The Foundation has not experienced any losses in its bank deposit accounts and believes it is not exposed to any significant credit risk on cash.

Effective January 1, 2013, the FDIC coverage became limited to $250,000 per depositor per financial institution.

Note 3 – Investments

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

The fair market value of investments is categorized as follows for the year ended December 31, 2011:

Description	Level 1	Level 2	Level 3	Total
Equity securities:				
Large cap - international	$ 6,329,295	$ -	$ -	$ 6,329,295
Mutual funds:				
Fixed income - domestic	33,977,201	-	-	33,977,201
Large cap - domestic	29,448,399	-	-	29,448,399
Large cap - international	33,000,746	-	-	33,000,746
Mid cap - domestic	8,614,955	-	-	8,614,955
Mid cap - international	4,347,440	-	-	4,347,440
Commodities	6,385,728	-	-	6,385,728
Alternative investments:				
Private equity funds	-	-	1,977,424	1,977,424
Hedge fund of funds	-	-	7,689,784	7,689,784
	$ 122,103,764	$ -	$ 9,667,208	$ 131,770,972

Note 3 – Investments, continued

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

Changes in the fair value of level 3 investments for the year ended December 31, 2011 are as follows:

	Private equity funds	Hedge fund of funds	Total
Fair value, beginning	$ -	$ 8,092,776	$ 8,092,776
Purchases	1,450,000	-	1,450,000
Investment gains (losses)	551,118	(402,992)	148,126
Investment expenses	(23,694)	-	(23,694)
Fair value, ending	$ 1,977,424	$ 7,689,784	$ 9,667,208

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, 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.

Commitments and redemption schedules for those investments valued based on net asset value are as follows for the year ended December 31, 2011:

Description	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Private equity funds [a]	$ 1,977,424	$ 550,000	n/a	n/a
Hedge fund of funds [b]	$ 7,689,784	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:

	2012	2011
Buildings	$ 6,225,254	$ 3,461,250
Machinery and equipment	5,395	-
Land	12,659,746	923,750
	18,890,395	4,385,000
Less accumulated depreciation	(93,214)	(14,652)
	$ 18,797,181	$ 4,370,348

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, 2012 are as follows:

Year Ending December 31,	
2013	$ 8,210,379
2014	5,330,167
2015	3,669,000
2016	3,490,000
2017	1,500,000
Thereafter	9,421,437
	31,620,983
Less: Discount on grants payable	(6,621,953)
	$ 24,999,030

Note 6 – Operating Leases

The Foundation leases office space that expires in September 2015. Total rent expense for the years ended December 31, 2012 and 2011 was $128,388 and $121,559, respectively.

Minimum future lease payments at December 31, 2012 are due as follows:

Year Ending December 31,	
2013	$ 129,514
2014	133,399
2015	103,051
Thereafter	-
	$ 365,964

Note 7 – 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 8 – 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. However, during the year ended December 31, 2011, the Foundation received support through reimbursed operating costs totaling approximately $121,600 from the Leichtag Survivor's Trust. The operating costs have been recorded in their natural category of expenses and in-kind contributions in the statements of activities.

During the year ended December 31, 2012, the Foundation received a contribution of $37,617 from the Leichtag Survivor's Trust. During the year ended December 31, 2011, the Foundation received a contribution of $24,462,800 from the Leichtag Survivor's Trust.

Note 9 – 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.

Note 10 – Subsequent Event

On August 1, 2013, 3501 West Garry, LLC sold its sole asset, a building located at 3501 West Garry Avenue, Santa Ana, California. The total sales price for the property was $3,073,500.