Leichtag Foundation and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2015 and 2014

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 consolidated financial statements of Leichtag Foundation (a nonprofit organization) and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities, functional expenses, 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, 2015 and 2014, 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
July 28, 2016

LEICHTAG FOUNDATION AND SUBSIDIARIES
Consolidated Statements of Financial Position
December 31, 2015 and 2014

		2015		2014
ASSETS				
Current Assets:				
Cash	$	1,289,201	$	3,871,471
Investments		97,129,090		110,643,235
Prepaid expenses and other current assets		175,674		92,709
Total Current Assets		98,593,965		114,607,415
Property and Equipment, net of accumulated depreciation		20,901,303		19,380,863
Total Assets	$	119,495,268	$	133,988,278
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	$	188,678	$	111,516
Current portion of grants payable		5,615,411		5,643,770
Accrued expenses		150,907		249,081
Total Current Liabilities		5,954,996		6,004,367
Grants payable, net of current portion		10,699,963		13,172,616
Total Liabilities		16,654,959		19,176,983
Unrestricted Net Assets		102,840,309		114,811,295
Total Liabilities and Net Assets	$	119,495,268	$	133,988,278

See accompanying notes to the consolidated financial statements.

LEICHTAG FOUNDATION AND SUBSIDIARIES
Consolidated Statements of Activities
Years Ended December 31, 2015 and 2014

		2015		2014
Unrestricted Revenue:				
Realized and unrealized gains (losses), net	$	(2,964,731)	$	4,292,082
Interest and dividends		1,804,595		2,857,566
Rental income		635,364		466,630
Total Unrestricted Revenue		(524,772)		7,616,278
Expenses:				
Program services		7,713,222		5,434,379
Supporting services		3,732,992		4,187,912
Total Expenses		11,446,214		9,622,291
Decrease in Unrestricted Net Assets		(11,970,986)		(2,006,013)
Unrestricted Net Assets, beginning		114,811,295		116,817,308
Unrestricted Net Assets, ending	$	102,840,309	$	114,811,295

See accompanying notes to the consolidated financial statements.

LEICHTAG FOUNDATION AND SUBSIDIARIES
Consolidated Statement of Functional Expenses
Year Ended December 31, 2015

	Program Services	Supporting Services	Total
Grants	$ 6,384,308	$ -	$ 6,384,308
Payroll and related expenses	527,414	2,089,725	2,617,139
Consulting	355,098	294,476	649,574
Taxes	-	204,354	204,354
Other	29,481	173,985	203,466
Community events	163,650	7,812	171,462
Supplies	79,495	79,536	159,031
Insurance	16,994	134,697	151,691
Conference	24,720	91,997	116,717
Rent	-	113,124	113,124
Professional fees	30,400	80,762	111,162
Repairs and maintanence	5,116	76,318	81,434
Depreciation	-	68,564	68,564
Office	33,534	34,916	68,450
Systems supports	6,419	53,841	60,260
Marketing	2,149	53,967	56,116
Telephone	11,652	40,405	52,057
Security	10,585	38,938	49,523
Property management	-	43,554	43,554
Meals and entertainment	17,213	25,321	42,534
Travel	14,994	26,700	41,694
Total Expenses	$ 7,713,222	$ 3,732,992	$ 11,446,214

See accompanying notes to the consolidated financial statements.

LEICHTAG FOUNDATION AND SUBSIDIARIES
Consolidated Statement of Functional Expenses
Year Ended December 31, 2014

	Program Services	Supporting Services	Total
Grants	$ 4,319,170	$ -	$ 4,319,170
Payroll	329,620	1,853,805	2,183,425
Consulting	164,044	538,781	702,825
Taxes	-	441,291	441,291
Depreciation	-	293,047	293,047
Community events	180,605	41,450	222,055
Travel	147,076	36,140	183,216
Supplies	63,112	113,921	177,033
Other	38,312	92,972	131,284
Repairs and maintanence	15,302	112,439	127,741
Rent	-	120,523	120,523
Systems supports	64,536	48,656	113,192
Insurance	-	107,115	107,115
Utilities	999	95,498	96,497
Conference	37,084	31,614	68,698
Marketing	-	66,893	66,893
Office	21,421	41,224	62,645
Professional fees	3,629	51,341	54,970
Meals and entertainment	25,401	20,766	46,167
Security	14,926	20,900	35,826
Property management	-	34,471	34,471
Telephone	9,142	25,065	34,207
Total Expenses	$ 5,434,379	$ 4,187,912	$ 9,622,291

See accompanying notes to the consolidated financial statements.

LEICHTAG FOUNDATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities:		
Decrease in unrestricted net assets	$ (11,970,986)	$ (2,006,013)
Adjustments to reconcile decrease in unrestricted net assets to net cash used by operating activities:		
Net realized and unrealized (gains) losses on investments	2,964,731	(4,292,082)
Depreciation	68,564	293,047
Payments on grants payable	(2,720,338)	(6,729,824)
Change in present value of grants payable	219,326	376,605
Changes in operating assets and liabilities:		
Prepaid expenses	(82,965)	14,050
Accounts payable	77,162	(393,020)
Accrued expenses	(98,174)	118,527
Net Cash Used by Operating Activities	(11,542,680)	(12,618,710)
Cash Flows from Investing Activities:		
Purchases of investments	(2,472,132)	(4,745,091)
Proceeds on sales of investments	13,021,546	9,915,560
Purchases of property and equipment	(1,589,004)	(1,084,779)
Net Cash Provided by Investing Activities:	8,960,410	4,085,690
Net (Decrease) in Cash	(2,582,270)	(8,533,020)
Cash, beginning	3,871,471	12,404,491
Cash, ending	$ 1,289,201	$ 3,871,471

See accompanying notes to the consolidated financial statements.

Note 1 – Organization and Summary of Significant Accounting Policies

<u>Nature of Activities</u>
The Leichtag Foundation (Leichtag) is a tax exempt foundation created to honor the legacy of Lee and Toni Leichtag through igniting and inspiring Jewish life, advancing self-sufficiency, and stimulating social entrepreneurship in coastal North San Diego County and Jerusalem.

LF Villas, LLC (Villas) 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 and LF Encinitas are all single member limited liability companies whose sole member is Leichtag Foundation.

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

<u>Use of Estimates</u>
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.

<u>Investments</u>
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.

<u>Property and Equipment</u>
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.

<u>Grants Payable</u>
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.

<u>Income Taxes</u>
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. However, Leichtag remains subject to taxes on any net income which is derived from a trade or business regularly carried on and unrelated to its exempt purpose. Leichtag is subject to federal excise tax. Villas 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.

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

Income Taxes (continued)
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, 2015 and 2014 and therefore no amounts have been accrued.

The Foundation files income tax returns in the United States and various state and local jurisdictions.

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, 2015 and 2014.

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.

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

Fair Value Measurements (continued)
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, 2015 and 2014, due to the relative short maturities of these instruments.

Subsequent Events
The Foundation has evaluated subsequent events through July 28, 2016, 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, 2015, the Foundation's total uninsured balance was $2,578,411. 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, 2015:

Description	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income - domestic	$ 26,902,935	$ -	$ -	$ 26,902,935
Fixed income - international	3,027,869	-	-	3,027,869
Large cap - domestic	19,711,591	-	-	19,711,591
Large cap - international	26,234,667	-	-	26,234,667
Mid cap - international	4,946,411	-	-	4,946,411
Small cap - domestic	4,858,852	-	-	4,858,852
Alternative investments:				
Private equity funds	-	-	5,140,553	5,140,553
Hedge fund of funds	-	-	6,306,212	6,306,212
	$ 85,682,325	$ -	$ 11,446,765	$ 97,129,090

Note 3 – Investments, continued

The fair market value of investments is categorized as follows for the year ended December 31, 2014:

Description	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income - domestic	$ 31,579,148	$ -	$ -	$ 31,579,148
Large cap - domestic	24,397,243	-	-	24,397,243
Large cap - international	30,815,616	-	-	30,815,616
Mid cap - international	5,985,943	-	-	5,985,943
Small cap - domestic	5,999,386			5,999,386
Alternative investments:				
Private equity funds	-	-	5,342,487	5,342,487
Hedge fund of funds	-	-	6,523,412	6,523,412
	$ 98,777,336	$ -	$ 11,865,899	$ 110,643,235

Changes in the fair value of level 3 investments for the year ended December 31, 2015 are as follows:

	Private equity funds	Hedge fund of funds	Total
Fair value, beginning	$ 5,342,487	$ 6,523,412	$ 11,865,899
Purchases	758,486	-	758,486
Sales	(2,242,154)	-	(2,242,154)
Investment gains	1,406,180	(217,200)	1,188,980
Investment expenses	(124,446)	-	(124,446)
Fair value, ending	$ 5,140,553	$ 6,306,212	$ 11,446,765

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, 2014 are as follows:

	Private equity funds	Hedge fund of funds	Total
Fair value, beginning	$ 2,565,899	$ 9,128,505	$ 11,694,404
Purchases	1,308,829	199,000	1,507,829
Sales	(386,444)	(2,854,522)	(3,240,966)
Investment gains	1,972,906	51,672	2,024,578
Investment expenses	(118,703)	(1,243)	(119,946)
Fair value, ending	$ 5,342,487	$ 6,523,412	$ 11,865,899

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, 2015:

Description		Fair value		Unfunded commitments	Redemption frequency	Redemption notice period
Private equity funds [a]	$	5,140,553	$	2,700,077	n/a	n/a
Hedge fund of funds [b]	$	6,306,212		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, 2014:

Description		Fair value		Unfunded commitments	Redemption frequency	Redemption notice period
Private equity funds [a]	$	5,342,487	$	1,770,000	n/a	n/a
Hedge fund of funds [b]	$	6,523,412		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:

		2015		2014
Buildings	$	8,166,565	$	7,716,178
Machinery and equipment		235,513		219,948
Land and land improvements		11,854,847		11,745,157
Other		158,232		145,843
		20,415,157		19,827,126
Less accumulated depreciation		(713,449)		(644,884)
		19,701,708		19,182,242
Construction in progress		1,199,595		198,621
	$	20,901,303	$	19,380,863

Note 5 – Grants Payable

The Foundation makes grants to recipient organizations whose mission is similar to that of the Foundation in igniting and inspiring Jewish life, advancing self-sufficiency, and stimulating social entrepreneurship in costal North San Diego County and Jerusalem. The discount on grants payable ranges from 3.25% to 5.50%.

Note 5 – Grants Payable, continued

Future minimum grant obligations at December 31, 2015 are as follows:

Year Ending December 31,		
2016	$	5,615,411
2017		2,130,000
2018		1,605,000
2019		1,180,000
2020		1,180,000
Thereafter		7,365,176
		19,075,587
Less: Discount on grants payable		(2,760,213)
		16,315,374
Less: Current portion		(5,615,411)
	$	10,699,963

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, 2015:

Land and land improvements	$	8,597,140
Greenhouses and buildings		3,260,022
		11,857,162
Less accumulated depreciation		(72,912)
	$	11,784,250

Minimum future lease income to be received under noncancellable leases as of December 31, 2015 are as follows:

Year Ending December 31,		
2016	$	846,397
2017		841,896
2018		835,596
2019		306,919
2020		290,132
Thereafter		486,018
	$	3,606,958

Note 7 – Operating Leases

The Foundation leases office space that expired in November 2015. Total rent expense for the years ended December 31, 2015 and 2014 was $113,124 and $120,523, respectively.

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.

Federal excise tax expense for the years ended December 31, 2015 and 2014 was $40,312 and $144,951, respectively.

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 $208,287 and $176,028 for the years ended December 31, 2015 and 2014, respectively.

Note 10 – 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 11 – Reclassification

Certain items in the 2014 consolidated financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.

Note 12 – Subsequent Events

The farm operations of the Foundation incorporated as its own non-profit organization, Coastal Roots Farm (the Farm), on March 3, 2016. The Farm's mission is to seed new ideas around sustainable farming and Jewish Life, grow healthy food, and share the harvest with the local community.