

Leichtag Foundation and Subsidiaries

Consolidated Financial Statements

Year Ended September 30, 2017



LEICHTAG FOUNDATION AND SUBSIDIARIES
Consolidated Financial Statements
Year Ended September 30, 2017

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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 statement of financial position as of September 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 September 30, 2017 and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Aldrich CPAs + Advisors LLP

San Diego, California
March 20, 2018

LEICHTAG FOUNDATION AND SUBSIDIARIES
Consolidated Statement of Financial Position
September 30, 2017

ASSETS

Current Assets:		
Cash	\$	1,496,748
Accounts receivable		15,561
Investments		90,474,223
Prepaid expenses		<u>390,380</u>
Total Current Assets		92,376,912
Property and Equipment, net of accumulated depreciation		<u>20,367,175</u>
Total Assets	\$	<u><u>112,744,087</u></u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$	267,525
Accrued expenses		361,135
Current portion of grants payable		<u>2,404,498</u>
Total Current Liabilities		3,033,158
Grants Payable, net of current portion		<u>8,350,024</u>
Total Liabilities		11,383,182
Net Assets:		
Unrestricted		101,308,937
Temporarily Restricted		<u>51,968</u>
Total Net Assets		<u>101,360,905</u>
Total Liabilities and Net Assets	\$	<u><u>112,744,087</u></u>

LEICHTAG FOUNDATION AND SUBSIDIARIES
Consolidated Statement of Activities
Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Realized and unrealized gains, net	\$ 7,557,536	\$ -	\$ 7,557,536
Interest and dividends	1,867,346	-	1,867,346
Rental income	935,784	-	935,784
Contributions	222,385	164,442	386,827
Consulting	189,264	-	189,264
Farm income	150,512	-	150,512
Fundraising	77,337	-	77,337
Membership	19,570	-	19,570
Miscellaneous	15,678	-	15,678
Loss on sale of property and equipment	(110,040)	-	(110,040)
Net assets released from restrictions	112,474	(112,474)	-
	<u>11,037,846</u>	<u>51,968</u>	<u>11,089,814</u>
Total Revenue and Support			
Expenses:			
Program services	7,484,886	-	7,484,886
Management and general services	4,954,872	-	4,954,872
	<u>12,439,758</u>	<u>-</u>	<u>12,439,758</u>
Total Expenses			
Increase (Decrease) in Net Assets	(1,401,912)	51,968	(1,349,944)
Net Assets, beginning	<u>102,710,849</u>	<u>-</u>	<u>102,710,849</u>
Net Assets, ending	<u>\$ 101,308,937</u>	<u>\$ 51,968</u>	<u>\$ 101,360,905</u>

LEICHTAG FOUNDATION AND SUBSIDIARIES
Consolidated Statement of Functional Expenses
Year Ended September 30, 2017

	Program Services	Management and General	Total
Grants	\$ 5,483,129	\$ -	\$ 5,483,129
Payroll and related expenses	1,717,846	2,193,934	3,911,780
Consulting	380,693	436,928	817,621
Depreciation	-	516,566	516,566
Other	91,909	414,950	506,859
Repairs and maintenance	29,679	380,641	410,320
Taxes	-	323,567	323,567
Community events	200,051	32,232	232,283
Office	70,377	103,440	173,817
Rent	160,658	-	160,658
Insurance	34,201	121,419	155,620
Supplies	86,156	43,924	130,080
Travel	68,896	52,285	121,181
Professional fees	2,979	113,943	116,922
Systems support	12,029	100,850	112,879
Security	24,852	52,669	77,521
Conference	9,834	67,210	77,044
Telephone	12,802	37,899	50,701
Commission	-	41,110	41,110
Marketing	13,976	24,276	38,252
Meals and entertainment	12,553	24,686	37,239
Property management	-	4,001	4,001
Total Expenses	\$ <u>8,412,620</u>	\$ <u>5,086,530</u>	\$ <u>13,499,150</u>

LEICHTAG FOUNDATION AND SUBSIDIARIES
Consolidated Statement of Cash Flows
Year Ended September 30, 2017

Cash Flows From Operating Activities:	
Decrease in net assets	\$ (1,349,944)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Net realized and unrealized gains on investments	(7,557,536)
Depreciation	516,566
Loss on sale of property and equipment	110,040
Changes in present value of grants payable	1,181,458
Changes in operating assets and liabilities:	
Accounts receivable	(1,133)
Prepaid expenses	(257,134)
Accounts payable	(80,883)
Accrued expenses	(78,711)
Grants payable	<u>(5,439,908)</u>
Net Cash Used by Operating Activities	(12,957,185)
Cash Flows From Investing Activities:	
Proceeds from sales of investments	16,311,824
Purchases of investments	(5,517,626)
Proceeds from sales of property and equipment	1,225,388
Purchases of property and equipment	<u>(977,490)</u>
Net Cash Provided by Investing Activities	<u>11,042,096</u>
Net Decrease in Cash	(1,915,089)
Cash, beginning	<u>3,411,837</u>
Cash, ending	<u>\$ 1,496,748</u>

LEICHTAG FOUNDATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Year Ended September 30, 2017

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

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. All of the Villas properties were sold during the year ended September 30, 2017.

Coastal Roots Farm (the Farm), was formed as a tax exempt organization on October 17, 2014 and began operations on January 1, 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. In its first year of operations, Leichtag is primarily financing the Farm through grants which are designed to decrease annually in order to establish full independence through increased diversity amongst other fund development strategies.

Principles of Consolidation

The consolidated financial statements include the accounts of Leichtag, Villas, LF Encinitas, and the Farm (collectively, the Foundation). All significant intercompany transactions and balances have been eliminated. Independent financial statements have been issued for the Farm.

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.

Accounts Receivable

The accounts receivable arise in the normal course of operations. It is the policy of management to review the outstanding accounts receivable at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. No allowance was considered necessary at September 30, 2017 because management believes all amounts are collectible.

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 statement 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 39 years.

LEICHTAG FOUNDATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Year Ended September 30, 2017

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

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 and the Farm are 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 and the Farm remain subject to taxes on any net income which is derived from a trade or business regularly carried on and unrelated to their 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.

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 September 30, 2017 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 restricted net assets for the year ended September 30, 2017.

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.

LEICHTAG FOUNDATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Year Ended September 30, 2017

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

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 September 30, 2017 due to the relative short maturities of these instruments.

Subsequent Events

The Foundation has evaluated subsequent events through March 20, 2018, 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 or the Securities Investor Protection Corporation up to a limit of \$250,000 per institution. At September 30, 2017, the Foundation's total uninsured balance was \$3,671,858. 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 September 30, 2017:

Description	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income - domestic	\$ 25,285,599	\$ -	\$ -	\$ 25,285,599
Fixed income - international	2,919,139	-	-	2,919,139
Large cap - domestic	20,030,006	-	-	20,030,006
Large cap - international	24,401,172	-	-	24,401,172
Mid cap - international	4,698,322	-	-	4,698,322
Small cap - domestic	4,916,904	-	-	4,916,904
Alternative investments:				
Private equity funds	-	-	8,025,597	8,025,597
Hedge fund of funds	-	-	197,484	197,484
	\$ 82,251,142	\$ -	\$ 8,223,081	\$ 90,474,223

LEICHTAG FOUNDATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Year Ended September 30, 2017

Note 3 – Investments, continued

Changes in the fair value of level 3 investments for the year ended September 30, 2017 are as follows:

	Private equity funds	Hedge fund of funds	Total
Fair value, beginning	\$ 3,454,178	\$ 6,286,243	\$ 9,740,421
Purchases	4,249,000	-	4,249,000
Sales	(138,050)	(6,170,883)	(6,308,933)
Investment gains	465,288	82,124	547,412
Investment expenses	(4,819)	-	(4,819)
Fair value, ending	<u>\$ 8,025,597</u>	<u>\$ 197,484</u>	<u>\$ 8,223,081</u>

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.

Commitments and redemption schedules for those investments valued based on net asset value are as follows for the year ended September 30, 2017:

Description	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Private equity funds [a]	\$ 8,025,597	\$ 2,439,009	n/a	n/a
Hedge fund of funds [b]	\$ 197,484	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 4 – Property and Equipment

Property and equipment as of September 30, 2017 consist of the following:

Buildings	\$ 9,204,717
Machinery and equipment	416,633
Land and land improvements	9,932,732
Other	448,769
	<u>20,002,851</u>
Less accumulated depreciation	(1,368,100)
	<u>18,634,751</u>
Construction in progress	1,732,424
	<u>\$ 20,367,175</u>

LEICHTAG FOUNDATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**Year Ended September 30, 2017

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 coastal North San Diego County and Jerusalem. The discount on grants payable ranges from 3.25% to 5.50%.

Future minimum grant obligations at September 30, 2017 are as follows:

Year Ending September 30,	
2018	\$ 2,404,498
2019	1,180,000
2020	1,180,000
2021	1,180,000
2022	1,000,000
Thereafter	5,685,176
	<u>12,629,674</u>
Less: Discount on grants payable	(1,875,152)
	<u>10,754,522</u>
Less: Current portion	(2,404,498)
	<u><u>\$ 8,350,024</u></u>

Note 6 – Property Leased to Others

The Foundation is the lessor of property on long-term operating leases and short-term rentals. 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 September 30, 2017:

Land and land improvements	\$ 8,597,140
Greenhouses and buildings	2,609,761
	<u>11,206,901</u>
Less accumulated depreciation	(208,166)
	<u><u>\$ 10,998,735</u></u>

Minimum future lease income to be received under noncancellable leases as of September 30, 2017 are as follows:

Year Ending September 30,	
2018	\$ 1,113,806
2019	677,645
2020	549,696
2021	549,696
2022	438,508
Thereafter	65,395
	<u>3,394,746</u>
	<u><u>\$ 3,394,746</u></u>

LEICHTAG FOUNDATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Year Ended September 30, 2017

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.

Federal excise tax expense for the year ended September 30, 2017 was \$85,000.

Note 8 – Retirement Plans

The Foundation provides a 401(k) Profit Sharing Plan (Plans), which is administered by Newport Group as of January 2016. The Plans cover substantially all of the Foundation’s full time employees. The Foundation makes nonelective contributions equal to 3% of compensation for the Safe Harbor, 4% of compensation up to \$30,000 and an additional 4.3% of compensation in excess of \$30,000 to the Profit Sharing plan. The Foundation also makes matching contributions 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 \$268,290 for the year ended September 30, 2017.

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 statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 10 – Temporarily Restricted Net Assets

Net assets were temporarily restricted for the following purposes at September 30, 2017:

Camp Pendelton Produce Program	\$	29,218
Produce cooler		20,250
Seeds		<u>2,500</u>
	\$	<u><u>51,968</u></u>