



THE RANCHO SANTA FE FOUNDATION

Financial Statements

December 31, 2006

(with summarized comparative information for 2005)

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Directors
The Rancho Santa Fe Foundation:

We have audited the accompanying statement of financial position of The Rancho Santa Fe Foundation (the Foundation) as of December 31, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2005 financial statements and in our report dated April 13, 2006, we expressed an unqualified opinion on those financial statements.

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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Rancho Santa Fe Foundation as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

August 27, 2007

THE RANCHO SANTA FE FOUNDATION

Statement of Financial Position

December 31, 2006

(with comparative financial information for 2005)

Assets	2006	2005
Cash and cash equivalents	\$ 1,191,773	607,311
Investments	14,929,903	15,078,798
Investments and other assets held for other agencies	7,192,359	5,105,137
Contributions receivable	1,084,816	1,615,305
Other assets	12,642	11,912
Total assets	\$ 24,411,493	22,418,463
Liabilities and Net Assets		
Liabilities:		
Grants payable and accrued expenses	\$ 43,683	30,588
Due to other agencies	7,192,359	5,105,137
Total liabilities	7,236,042	5,135,725
Net assets:		
Unrestricted	16,086,570	15,665,431
Temporarily restricted	1,088,881	1,617,307
Total net assets	17,175,451	17,282,738
Total liabilities and net assets	\$ 24,411,493	22,418,463

See accompanying notes to financial statements.

THE RANCHO SANTA FE FOUNDATION

Statement of Activities

Year ended December 31, 2006
(with summarized financial information for 2005)

	2006			2005
	Unrestricted	Temporarily restricted	Total	Total
Revenue, gains, and other support:				
Gifts and bequests	\$ 3,138,879	42,119	3,180,998	6,185,770
Interest and dividend income	461,497	—	461,497	389,173
Realized and unrealized gains on investments, net	1,377,580	—	1,377,580	379,955
Change in value of split interest agreement	—	88,110	88,110	427,360
	4,977,956	130,229	5,108,185	7,382,258
Net assets released from restriction	658,655	(658,655)	—	—
Total revenue, gains, and other support	5,636,611	(528,426)	5,108,185	7,382,258
Expenses:				
Program grants	4,831,691	—	4,831,691	3,110,899
Operating and administrative expenses	383,781	—	383,781	305,981
Total expenses	5,215,472	—	5,215,472	3,416,880
Change in net assets	421,139	(528,426)	(107,287)	3,965,378
Net assets at beginning of year	15,665,431	1,617,307	17,282,738	13,317,360
Net assets at end of year	\$ 16,086,570	1,088,881	17,175,451	17,282,738

See accompanying notes to financial statements.

THE RANCHO SANTA FE FOUNDATION

Statement of Cash Flows

Year ended December 31, 2006
(with comparative financial information for 2005)

	2006	2005
Cash flows from operating activities:		
Change in net assets	\$ (107,287)	3,965,378
Adjustments and reclassifications to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,239	1,461
Contribution of investments	(1,102,130)	(1,068,122)
Realized and unrealized gains on investments, net	(1,317,920)	(379,955)
Change in value of split interest agreement	(88,110)	(427,360)
Change in operating assets and liabilities:		
Contributions receivable	618,599	(589,479)
Prepaid expenses	2,348	(6,413)
Grants payable and accrued expenses	13,095	(7,105)
Amounts due to other agencies	2,087,222	1,588,529
Net cash provided by operating activities	108,056	3,076,934
Cash flows from investing activities:		
Purchases of equipment	(5,317)	(1,068)
Proceeds from sale of investments	11,153,372	11,010,861
Purchases of investments	(10,671,649)	(14,073,035)
Net cash provided by (used in) investing activities	476,406	(3,063,242)
Net increase in cash and cash equivalents	584,462	13,692
Cash and cash equivalents at beginning of year	607,311	593,619
Cash and cash equivalents at end of year	\$ 1,191,773	607,311

See accompanying notes to financial statements.

THE RANCHO SANTA FE FOUNDATION

Notes to Financial Statements

December 31, 2006

(with summarized comparative information for 2005)

(1) Organization and Significant Accounting Policies

(a) *Organization*

The Rancho Santa Fe Foundation (the Foundation), formerly the Rancho Santa Fe Community Foundation, is a public charity founded in 1981 to improve community life through increased philanthropy. The Foundation administers charitable gifts, including permanent endowments, from which grants are made to not-for-profit organizations for community betterment.

(b) *Basis of Presentation*

In order to accommodate the various alternatives for donors' distribution objectives, The Foundation's records are maintained for internal purposes in accordance with the principles of fund accounting. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 and reported in the statement of activities as net assets released from restrictions.

A summary of the net asset categories included in the accompanying financial statements is as follows:

Unrestricted – Unrestricted net assets include amounts that are available for support of the Foundation's operational and administrative functions, discretionary nonadvised amounts that are available to support community activities and charitable endeavors at the discretion of the Foundation's board of directors, and discretionary donor-advised amounts for which grant recommendations of the respective donors are accepted for consideration, subject to final approval by the Foundation's board of directors.

Temporarily Restricted – Temporarily restricted amounts represent deferred gifts in the form of trusts and annuities that are subject to passage of time. The Foundation is the remainderman on charitable remainder trusts held by others on the Foundation's behalf. The value of the charitable remainder trusts is recorded as temporarily restricted based on the present value of the amounts the Foundation expects to receive using a discount rate of 5.8%.

(c) *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash and highly liquid investments with maturities, when acquired, of three months or less.

(d) *Concentration of Credit Risk*

The Foundation invests its excess cash in various types of marketable securities and money market funds. The Foundation has established guidelines relative to diversification and maturities that maximize safety and liquidity within acceptable risk levels. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

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(with summarized comparative information for 2005)

(e) Investments

Investments consist of marketable securities. Marketable securities consist of U.S. government securities and debt and equity securities. Equity securities with readily determinable values and all debt securities are carried at fair value. Fair value is determined by quoted market prices.

(f) Due to Other Agencies

The Foundation receives contributions on behalf of unaffiliated not-for-profit agencies, which are not reflected in the Foundation's statement of activities as they do not represent contributions to the Foundation. The amounts due to the other agencies totaled \$7,192,359 at December 31, 2006.

(g) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Income Tax Status

The Foundation is exempt from income taxes under the current provisions of Internal Revenue Code Section 501(c)(3) and Section 23701(d) of the California Franchise Tax Code and is generally not subject to federal or state income taxes. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in the furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements as a whole.

(i) Earnings on Discretionary Funds

Funds are maintained within the investment portfolio. Interest, dividends, and realized and unrealized gains and losses in the investment pools are allocated monthly to the discretionary funds in proportion to each fund's share in the investment pools.

(j) Summarized Information

The accompanying financial statements include certain summarized comparative information in total but not by net asset class derived from the Foundation's 2005 financial statements. This summarized comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements as of and for the year ended December 31, 2005, from which the summarized comparative information was derived.

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(k) Reclassification

Certain reclassifications have been made to the 2005 financial data to conform to the 2006 presentation.

(2) Investments

(a) Marketable Securities

Marketable securities consist of the following at December 31, 2006:

Mutual funds:		
Domestic equities	\$	13,979,575
Foreign equities		3,730,653
Fixed income		<u>4,412,034</u>
Total investments		22,122,262
Less investments held for other agencies		<u>7,192,359</u>
	\$	<u><u>14,929,903</u></u>

(b) Summary of Return on Investment

The following schedule summarizes the return on investment and its classification in the statement of activities for the year ended December 31, 2006:

Interest and dividend income	\$	521,136
Net realized and unrealized gains and losses on investments, net		<u>1,317,920</u>
Total return on investment	\$	<u><u>1,839,056</u></u>

(3) Contributions Receivable

Contributions receivable consist of the following at December 31, 2006:

Pledges receivable	\$	30,899
Stock gift receivable		7,192
Charitable remainder trusts		<u>1,046,725</u>
	\$	<u><u>1,084,816</u></u>

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(4) Other Assets

Other assets consist of the following at December 31, 2006:

Fixed assets, net of accumulated depreciation of \$39,931	\$	6,068
Prepaid Expenses		<u>6,574</u>
	\$	<u><u>12,642</u></u>

(5) Real Estate

The Foundation holds title to a 22-acre parcel of undeveloped land in Rancho Santa Fe, which is to be held by the Foundation in perpetuity as open space. The value of this parcel has not been included within the accompanying financial statements as the land has no value due to the nature of the circumstances under which it is held.

(6) Due to Other Agencies

The amounts due to other agencies as of December 31, 2006 consist of the following:

Cash and cash equivalents	\$	2,015
Investments		7,186,316
Contributions receivable		<u>4,028</u>
	\$	<u><u>7,192,359</u></u>