

**LEGACY ENDOWMENT...  
THE COMMUNITY FOUNDATION**

**FINANCIAL STATEMENTS**

**\* \* \* \* \***

**June 30, 2010**

**LEGACY ENDOWMENT . . . THE COMMUNITY FOUNDATION**

**AUDITED FINANCIAL STATEMENTS**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Legacy Endowment... The Community Foundation  
Fallbrook, California

We have audited the accompanying statement of financial position of Legacy Endowment... The Community Foundation (a non-profit organization) as of June 30, 2010 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.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Legacy Endowment... The Community Foundation as of June 30, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Polito Eppich Associates LLP*

October 26, 2010  
Vista, California

**LEGACY ENDOWMENT . . . THE COMMUNITY FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents (Note B)	\$ 137,712	\$ 68,103	\$ 480,590	\$ 686,405
Trustee fee receivable (Note C)	26,569	0	0	26,569
Investment securities (Notes B & E)	1,241,130	970,159	6,839,758	9,051,047
Property and equipment, net (Note D)	12,508	0	0	12,508
Total assets	<u>\$ 1,417,919</u>	<u>\$ 1,038,262</u>	<u>\$ 7,320,348</u>	<u>\$ 9,776,529</u>
 <b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
Trustee fee payable	\$ 26,569	\$ 0	\$ 0	\$ 26,569
Funds held as agency funds (Note G)	863,646	0	0	863,646
Pending grant distributions	65,910	0	0	65,910
Liabilities under charitable trust agreements (Note F)	638,714	0	0	638,714
Total liabilities	<u>1,594,839</u>	<u>0</u>	<u>0</u>	<u>1,594,839</u>
<b>NET ASSETS (Notes B &amp; H)</b>	<u>(176,920)</u>	<u>1,038,262</u>	<u>7,320,348</u>	<u>8,181,690</u>
Total liabilities and net assets	<u>\$ 1,417,919</u>	<u>\$ 1,038,262</u>	<u>\$ 7,320,348</u>	<u>\$ 9,776,529</u>

The accompanying notes are an integral part of these financial statements.

**LEGACY ENDOWMENT . . . THE COMMUNITY FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	Unrestricted Operating	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:				
Contributions	\$ 3,800	\$ 0	\$ 10,458	\$ 14,258
Trustee fees	104,684	0	0	104,684
Dividends and interest	0	227,254	0	227,254
Realized gains and losses	0	146,463	0	146,463
Unrealized gains and losses	461,452	177,736	0	639,188
Other income	1,653	0	0	1,653
Net assets released from restrictions	383,896	(383,896)	0	0
Total support and other revenues	<u>955,485</u>	<u>167,557</u>	<u>10,458</u>	<u>1,133,500</u>
Expenses:				
Program services	383,896	0	0	383,896
Management and general	120,325	0	0	120,325
Total expenses	<u>504,221</u>	<u>0</u>	<u>0</u>	<u>504,221</u>
Change in net assets	451,264	167,557	10,458	629,279
Net assets at beginning of year	(12,909)	1,412,548	6,152,772	7,552,411
Prior period adjustment (Note K)	(615,275)	(541,843)	1,157,118	0
Net assets at end of year	<u>\$ (176,920)</u>	<u>\$ 1,038,262</u>	<u>\$ 7,320,348</u>	<u>\$ 8,181,690</u>

The accompanying notes are an integral part of these financial statements.

**LEGACY ENDOWMENT . . . THE COMMUNITY FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**June 30, 2010**

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Cash flows from operating activities	
Increase in net assets	\$ 629,279
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	6,253
Net realized and unrealized gains on investment securities	(785,651)
Change in operating assets and liabilities:	
Receivables	(1,709)
Accounts payable	1,269
Pending grant distributions	41,491
Agency funds	(167,664)
Deferred gift liability	5,067
Net cash used in operating activities	<u>(271,665)</u>
Cash flow from investing activities:	
Purchase of investment securities	(1,975,116)
Sales/redemption of investment securities	2,462,943
Net cash provided by investing activities:	<u>487,827</u>
Cash flow from financing activities:	
Net cash provided by financing activities:	<u>0</u>
Net increase in cash and cash equivalents	216,162
Cash and cash equivalents, beginning	<u>470,243</u>
Cash and cash equivalents, ending	<u><u>\$ 686,405</u></u>
Cash and cash equivalents:	
Cash	106,084
Money market accounts held with investments	580,321
Total cash and cash equivalents	<u><u>\$ 686,405</u></u>

The accompanying notes are an integral part of these financial statements.

**LEGACY ENDOWMENT ... THE COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE A - ORGANIZATION**

Legacy Endowment ... The Community Foundation (the "Foundation") is a public nonprofit endowment foundation dedicated to promoting philanthropic giving through facilitating Gifts, Charitable Remainder Trusts, and Endowments. The Foundation is a neutral facilitator of philanthropy for individuals, families, businesses, and organizations that want to preserve and enhance a higher quality of life, now and for generations to come. The Foundation administers and manages restricted and unrestricted charitable gifts, including endowment funds and pass-through funds, whereby grants are made to charitable institutions and nonprofit organizations.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial statement presentation

Financial statement presentation follows the recommendations of generally accepted accounting principles for not-for-profit organizations. Under this guidance, the Foundation is required to report 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, based on the following criteria:

*Unrestricted net assets* represent expendable funds available for operations that are not otherwise limited by donor restrictions.

*Temporarily restricted net assets* consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Foundation may spend the funds or recognize the support.

*Permanently restricted net assets* represent those assets contributed to the Foundation where the original dollar value is to remain in perpetuity as a permanent endowment of the Foundation. The Foundation's bylaws provide for variance power, which, under certain unanticipated circumstances, allows for the modification of restrictions.

Cash and equivalents

The Foundation considers all financial instruments with maturity of three months or less to be cash and cash equivalents.

Restricted cash

Restricted cash consists of funds temporarily restricted for Foundation purposes.

Fixed assets

The Foundation's policy is to capitalize purchases at cost if over \$1,000. Donated property is capitalized at its estimated fair market value at the time of donation. Depreciation is recorded using the straight-line method over the estimated useful lives of the capitalized assets.

**LEGACY ENDOWMENT ... THE COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments

The Foundation follows the provisions of generally accepted accounting principles for investments held by not-for-profit organizations. Under this guidance, investments in equity securities with readily determinable fair market values and all debt securities should be reported at fair market value with gains and losses included in the statement of activities.

Investments acquired by gift are recorded at their fair market value at the date of the gift. The Foundation's policy is to liquidate all gifts of investment as timely as possible taking into consideration the impact on the market price.

Investments are made according to the Investment Policy Statement adopted by the Foundation's Board. These guidelines provide for investments in cash, fixed income (domestic and foreign), equity (domestic and foreign) and alternative assets. Outside parties are contracted by the Foundation for the purpose of providing investment management and consulting.

Investments consisted of marketable securities described as follows:

*Marketable securities* consisted of global equity securities, other global debt securities, and alternative investments recorded at fair market value. Realized gains or losses on the sale of marketable securities are calculated using the specific-identification method. Unrealized gains and losses represent the change in the fair market value of the individual investments for the year or since the acquisition date if acquired during the year and are recorded as a component of unrestricted net assets or temporarily restricted until those amounts are appropriated for expenditure by the Foundation, except to the extent required by the donor to be held in perpetuity.

Grants payable

The Foundation records a liability for grants when they have been approved by the Board of Directors. Grants which are conditional are recorded as liabilities when the conditions to the grants have been substantially met. Grants payable are typically expected to be paid out within one year of the approval date.

Deferred gifts

The Foundation is trustee of several charitable remainder trusts whose assets are recognized in the period in which the contract is executed. The assets received are recognized at fair value when received. Annuity payment liabilities are recognized as the lesser of the value of the assets in the trusts or, the present value of future cash flows expected to be paid to the lifetime beneficiary based on current life expectancy tables at a discount rate equal to the original rate of return on the investment contracted with the donor at the time of the gift.

**LEGACY ENDOWMENT ... THE COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributions

Under generally accepted accounting principles for not-for-profit organizations, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. Income earned within the permanently restricted funds, which has not yet been expended for its designated purpose is also carried as temporarily restricted. If a restricted purpose is fulfilled in the same period in which the contribution is received, the Foundation reports the support as unrestricted in accordance with generally accepted accounting principles.

Estimates

The preparation of 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.

Income tax status

Legacy Endowment ... The Community Foundation (the "Foundation") is a nonprofit organization. Accordingly, the Foundation is not subject to income taxes under current provisions of the Internal Revenue Code Section 501(c)(3).

Agency funds

The Foundation follows the provisions of generally accepted accounting principles regarding *Transfers of Assets to a Not for Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, for transactions in which the Foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets or both to another entity that is specified by the donor. The guidance specifically requires that if a Not for Profit Organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as the acceptance of a liability. The Foundation refers to such funds as agency funds.

The Foundation maintains variance power and legal ownership of the agency funds and as such continues to report the funds as assets of the Foundation. However a liability has been established for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the NPOs.

**LEGACY ENDOWMENT ... THE COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE C – TRUSTEE FEE RECEIVABLE**

Trustee fee receivable of \$26,569 represents unpaid trustee fees due to the Foundation from the trusts and other funds managed by the Foundation at June 30, 2010. The fees have been reflected as an expense to the trusts and the trust assets are reported net of the fees. Management believes the fees are fully collectible and have not recorded an allowance for doubtful accounts.

**NOTE D – PROPERTY AND EQUIPMENT**

Property and equipment for the year ended June 30, 2010 follow:

Software	\$	31,269
Accumulated depreciation		<u>(18,761)</u>
Total	\$	<u>12,508</u>

Depreciation expense for the year ended June 30, 2010 was \$6,253.

**NOTE E – INVESTMENT AND FAIR VALUE DISCLOSURES**

Investments at fair value consisted of the following at June 30, 2010:

Corporate securities	\$	3,127,684
Mutual funds		2,620,651
Corporate obligations		2,073,791
Government obligations		906,184
Hedge funds		<u>322,737</u>
Total investments	\$	<u>9,051,047</u>

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

**LEGACY ENDOWMENT ... THE COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE E – INVESTMENT AND FAIR VALUE DISCLOSURES (Continued)**

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Foundation has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The observable inputs should be developed based on the best information available in the circumstances and may include the Foundation’s own data.)

The following table presents the Foundation’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Domestic equity securities	3,127,684	0	0	3,127,684
Corporate obligations	2,073,791	0	0	2,073,791
Government obligations	906,184	0	0	906,184
Mutual funds	2,620,651	0	0	2,620,651
Hedge funds	0	0	322,737	322,737
Total	<u>\$ 8,728,310</u>	<u>\$ 0</u>	<u>\$ 322,737</u>	<u>\$ 9,051,047</u>

Investments are stated at fair market value which is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Alternative investments are less liquid than the Foundation’s other investments. The Foundation’s investment policy is to maximize return with a minimal amount of risk. The use of alternative investments furthers that objective.

Money market mutual funds are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Marketable securities including publicly traded investments such as domestic and foreign equity, mutual funds and government and corporate obligations that trade on an active exchange are classified within Level 1.

**LEGACY ENDOWMENT ... THE COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE E – INVESTMENT AND FAIR VALUE DISCLOSURES (Continued)**

The following table discloses the summary of changes in the fair value of the Foundation's level 3 investments:

	Hedge funds
Balance June 30, 2009	\$ 306,033
Realized and unrealized gains (losses)	16,704
Balance June 30, 2010	\$ 322,737

**NOTE F – DEFERRED GIFT LIABILITIES**

The Foundation serves as trustee for various charitable remainder trusts. Included in the deferred gifts liability at June 30, 2010 are the net present value of the future payments of charitable trusts of approximately \$638,714. Under the terms of these agreements, the Foundation makes distributions to income beneficiaries for a given term of the life of the beneficiaries. At the end of the term or upon the death of the income beneficiaries, assets remaining in the trust will be transferred to the remaining charitable beneficiary. The Foundation records the assets held in these trusts at fair value based on current quoted market values, records a liability for the respective agreements at the estimated discounted value of the amounts due to the income beneficiaries and records contribution revenue for the differences between the two values. The present value of payments to beneficiaries under these agreements is calculated using discount rates in existence at the date of the gift.

Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in investment income. The Foundation did not receive any new charitable trusts for which it serves as the trustee during the fiscal year 2010.

**NOTE G – AGENCY FUNDS**

At June 30, 2010 the Foundation was the owner of seven agency funds with a combined value of \$863,646. The following table summarizes activity in such funds for the year ended June 30, 2010:

Agency Fund Balances:

<b>Foundational</b>	
Beginning balance	\$ 760,632
Amounts raised	90,891
Interest and dividends	18,784
Realized gains (losses) – net	11,623
Unrealized gains (loss) – net	65,061
Grants	(234,899)
Investment fees and expenses – net	(15,464)
Foundational agency funds	696,628

**LEGACY ENDOWMENT ... THE COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE G – AGENCY FUNDS (Continued)**

<b>Operational</b>	
Beginning balance	\$ 272,941
Amounts raised	0
Interest and dividends	4,937
Realized gains (losses) – net	2,478
Unrealized gains (loss) – net	12,596
Grants	(122,119)
Investment fees and expenses – net	<u>(3,815)</u>
Operational agency partner funds	<u>167,018</u>
Total Agency Funds	<u>\$ 863,646</u>

**NOTE H - ENDOWMENTS**

Generally accepted accounting principles provide guidance on the net asset classification of donor-restricted endowment funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). The Board of Directors of the Foundation interprets UPMIFA as requiring the preservation of the fair value of the original gifts as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation considers the following factors in making a determination to invest or appropriate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

**LEGACY ENDOWMENT ... THE COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE H – ENDOWMENTS (Continued)**

The Foundation has investment and spending policies for endowment assets designed to provide a predictable stream of funding for operations and granting. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under the investment policy, as approved by the Board, the endowment assets are invested in a manner which attempts to achieve reasonable rate of return consistent with the risk levels established by the Investment Committee for all permanently restricted endowment assets. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Changes in endowment net assets follow:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets June 30, 2009	\$ (728,367)	\$ 96,578	\$ 7,309,890	\$ 6,678,101
Contributions	0	0	10,458	10,458
Investment income (loss):				
Interest and dividends (net of fees)	0	203,221	0	70,349
Realized and unrealized gains (losses)	461,452	203,221	0	664,673
Grants paid	0	(162,226)	0	162,226
Endowment net assets June 30, 2010	<u>\$ (266,915)</u>	<u>\$ 207,922</u>	<u>\$ 7,320,348</u>	<u>\$ 7,261,355</u>

At June 30, 2010 the accumulated gains and losses of the endowment fund resulted in a negative balance of approximately \$267,000; this amount is reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations, however disbursements from principal are allowed as long as they are deemed to be prudent.

Endowment funds are maintained in pooled investment portfolios. Interest, dividends, and realized and unrealized gains and losses in the investment pools are allocated monthly to the endowment funds in proportion to each fund's share in the investment pools. Each fund's value is established at the end of each fiscal year and the Board decides on the prudent amount to be distributed not to exceed 4.5% of the fund assets.

**NOTE I – CONCENTRATIONS**

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

**LEGACY ENDOWMENT ... THE COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE I – CONCENTRATIONS (Continued)**

The Foundation maintains cash balances at banks located in San Diego. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation. At times, balances may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes that the Foundation is not exposed to any significant credit risk with respect to its cash and cash equivalents.

The Foundation invests in various investment securities, including U.S government securities, corporate debt instruments, corporate stocks and various alternative investments. Investment securities, in general, are subject to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

**NOTE J – COMMITMENTS**

The Foundation entered into a one year lease, with a two year extension option, for office space in Fallbrook, California expiring January 2011. Monthly lease payments are \$675 with a 3% scheduled increase for subsequent extensions. Rent expense for the year ended June 30, 2010 was \$8,100.

**NOTE K – PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 2010, the Foundation discovered prior period errors in accounting for certain endowment funds in accordance with UPMIFA and generally accepted accounting principles. Endowment fund balances were not affected, but rather the errors were of classification of fund balances in the categories of permanently restricted, temporarily restricted, and unrestricted net assets. Permanently restricted net assets were understated by \$1,157,118, temporarily restricted net assets were overstated by \$541,843 and unrestricted net assets were overstated by \$615,275.

**NOTE L – SUBSEQUENT EVENTS**

The Foundation has evaluated subsequent events through October 26, 2010, which is the date of the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to June 30, 2010 that would require adjustment to, or disclosure in these financial statements.