



Established 1926

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of Archstone Foundation:

We have audited the accompanying statement of financial position of Archstone Foundation (a nonprofit California corporation) as of June 30, 2007 and 2006, and the related statements of activities, and cash flows for the years 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 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 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 also 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 audits provide 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 Archstone Foundation as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Long Beach, California  
September 10, 2007

# Statement of Financial Position

June 30

	2007	2006
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,229,991	\$ 536,127
Investments	137,752,174	122,192,400
Prepaid expenses	5,000	8,845
Property and equipment, net	22,956	34,281
Other assets	5,681	5,681
<b>TOTAL ASSETS</b>	<b>\$139,015,802</b>	<b>\$122,777,334</b>
<b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 12,594	34,155
Accrued expenses	99,280	60,044
Accrued excise tax	30,000	
Grants payable	1,406,509	599,164
Deferred compensation	351,815	249,824
	1,900,198	943,187
COMMITMENTS (Notes 4, 5 and 6)		
UNRESTRICTED NET ASSETS	137,115,604	121,834,147
<b>TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS</b>	<b>\$139,015,802</b>	<b>\$122,777,334</b>

# Statement of Activities

For the Year Ended June 30

	2007	2006
<b>REVENUE AND SUPPORT</b>		
Investment income	\$ 5,168,078	\$ 3,777,830
<b>EXPENSES</b>		
Program expense	5,989,193	5,148,301
Management and general	1,823,575	1,503,819
	\$ 7,812,768	\$ 6,652,120
CHANGE IN UNRESTRICTED NET ASSETS BEFORE REALIZED AND UNREALIZED NET GAIN (LOSS) ON INVESTMENTS	( 2,644,690)	( 2,874,290)
REALIZED AND UNREALIZED NET GAIN (LOSS) ON INVESTMENTS	17,926,147	7,997,390
CHANGE IN UNRESTRICTED NET ASSETS	15,281,457	5,123,100
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	121,834,147	116,711,047
<b>UNRESTRICTED NET ASSETS AT END OF YEAR</b>	<b>\$137,115,604</b>	<b>\$121,834,147</b>

# Statement of Cash Flows

For the Year Ended June 30

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in unrestricted net assets	\$ 15,281,457	\$ 5,123,100
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	11,325	15,300
Realized and unrealized net (gain) loss on investments	( 17,926,147)	( 7,997,390)
(Increase) decrease in:		
Prepaid expenses	3,845	( 228)
Increase in:		
Grants payable	807,345	261,343
Accrued excise tax	30,000	
Accounts payable, accrued expenses, and deferred compensation	119,666	112,108
Net Cash Used In Operating Activities	<u>( 1,672,509)</u>	<u>( 2,485,767)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	( 9,633,627)	( 9,772,434)
Proceeds from sale of investments	12,000,000	12,250,000
Purchases of equipment		( 1,783)
Net Cash Provided By Investing Activities	<u>2,366,373</u>	<u>2,475,783</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	693,864	( 9,984)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>536,127</u>	<u>546,111</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,229,991</u>	<u>\$ 536,127</u>

The accompanying notes are an integral part of these statements.

# Notes to the Financial Statements

## Note 1 — Summary of Significant Accounting Policies

### Nature of Business

Archstone Foundation (the Foundation) was established on September 20, 1985 to support charitable community activities in the areas of health and health care delivery. On July 1, 1999, the Foundation changed its tax status from a public charity to a private foundation. The primary source of funding for the Foundation's charitable activities is investment income generated from its investment portfolio.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Concentration of Credit Risk

The Foundation maintains cash and cash equivalents with financial institutions in excess of federally insured limits.

### Cash and Cash Equivalents

Cash and cash equivalents include cash held in checking accounts and all highly liquid investments with original maturities of three months or less.

### Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss is included in revenue and support. Realized and unrealized gains and losses on investments are reported as a separate component of the change in unrestricted net assets.

### Property and Equipment

Property and equipment is stated at cost. Depreciation and amortization is provided on the straight-line method over the estimated useful lives of the assets, which range from two to five years. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the lease term.

Repairs and maintenance, including the replacement of minor items, are expensed as incurred, while major additions and betterments that extend the useful lives of the assets are capitalized.

### Grants Payable

The Foundation reports grants payable at the date the grant is approved by the Board of Directors. Grants payable to be paid over a period of more than one year are discounted using a risk-free rate applicable at the end of the fiscal year.

### Fair Value of Financial Instruments

Investments and grants payable are reported at fair value. The carrying amount of cash, other assets, and accounts payable approximates fair value because of the relatively short-term nature of these financial instruments.

### Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and the corresponding provisions of the California Revenue and Taxation Code. Accordingly, no provision for taxes based on income has been included in the accompanying financial statements.

### Excise Taxes

The Internal Revenue Code imposes an excise tax on Section 501(e)(3) private foundations at the rate of 2% on the net investment income, which is paid by the Foundation in quarterly estimated installments. A reduced rate of 1% will apply if distributions from the Foundation exceed a certain required payout level based on a formula provided under the Internal Revenue Code. Excise tax expense is included in management and general expenses and was approximately \$67,000 and \$37,000 for the years ended June 30, 2007 and 2006, respectively.

## Note 2 — Investments

The composition of investments, stated at fair value, is as follows:

	June 30	
	2007	2006
Equity mutual funds	\$108,265,864	\$ 98,762,824
Corporate obligations	29,486,310	23,429,576
	<u>\$137,752,174</u>	<u>\$122,192,400</u>

The composition of investment return for cash and cash equivalents and investments is as follows:

	For the Year Ending June 30	
	2007	2006
Interest income, net of investment fees	\$ 5,168,078	\$ 3,777,830
Net realized gains on sale of investments	3,274,596	1,703,511
Net unrealized gains on investments	14,651,551	6,293,879
	<u>17,926,147</u>	<u>7,997,390</u>
	<u>\$ 23,094,225</u>	<u>\$ 11,775,220</u>

## Note 3 — Property and Equipment

A summary of property and equipment is as follows:

	June 30	
	2007	2006
Furniture and fixtures	\$ 174,748	\$ 174,748
Leasehold improvements	12,486	12,486
	<u>187,234</u>	<u>187,234</u>
Less: accumulated depreciation and amortization	( 164,278)	( 152,953)
	<u>\$ 22,956</u>	<u>\$ 34,281</u>

## Note 4 — Grants Payable

At June 30, 2007, all grants payable are payable in less than one year and are undiscounted. In addition, the Foundation has awarded approximately \$4.3 million in conditional grants payable over the next four years based on the awardees ability to meet certain requirements, as defined in the grant.

## Note 5 — Employee Benefit Plans

### Defined Contribution Plan

The Foundation maintains a 403(b) defined contribution plan for all employees with at least one year of service. The Foundation matches employee contributions up to the current IRS limits. The Foundation contributed approximately \$63,000 and \$51,000 for the years ended June 30, 2007 and 2006, respectively.

### Deferred Compensation Plan

The Foundation has a deferred compensation plan covering key executives whose annual compensation exceeds \$75,000 per year and whose participation in the plan is approved by the Board of Directors. Participants are 100% vested in the plan at all times. The Foundation makes annual contributions of 10% of each member's annual salary up to an annual threshold of \$15,000 per employee for the calendar years ending 2007 and 2006. Contributions to the plan were approximately \$52,000 and \$39,000 for the years ended June 30, 2007 and 2006, respectively.

## Note 6 — Leases

The Foundation has entered into various operating leases for the use of office space and equipment.

Rent expense, including obligations under month-to-month agreements, totaled approximately \$107,000 and \$104,000 for the years ended June 30, 2007 and 2006, respectively.

Future minimum rental payments under operating agreements that have initial or remaining noncancelable lease terms in excess of one year at June 30, 2007 are as follows:

Year Ending June 30	
2008	\$ 103,669
2009	106,174
2010	108,163
2011	107,905
2012	110,603
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	\$ 536,514



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