



**FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

CONTENTS

Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities.....	3
Statement of Cash Flows	4
Notes to the Financial Statements.....	5-12



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Archstone Foundation

We have audited the accompanying statement of financial position of Archstone Foundation (the Foundation) (a nonprofit California corporation) as of June 30, 2009 and 2008, 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, 2009 and 2008, 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.

A handwritten signature in black ink that reads "Windes & McClaughry". The signature is written in a cursive, flowing style.

Long Beach, California
August 26, 2009

ARCHSTONE FOUNDATION
STATEMENT OF FINANCIAL POSITION

ASSETS

	June 30,	
	2009	2008
ASSETS		
Cash and cash equivalents	\$ 613,538	\$ 957,691
Dividends receivable		784,586
Investments	85,904,465	118,816,035
Prepaid expenses	42,973	17,163
Property and equipment, net	12,398	9,482
Other assets	5,681	5,681
TOTAL ASSETS	\$ 86,579,055	\$ 120,590,638

LIABILITIES AND UNRESTRICTED NET ASSETS

LIABILITIES		
Accounts payable	\$ 114,678	\$ 117,597
Accrued expenses	125,057	110,734
Accrued excise tax		106,709
Grants payable	388,922	1,179,303
Deferred compensation	348,320	368,720
	976,977	1,883,063
COMMITMENTS (Notes 5, 6, and 7)		
UNRESTRICTED NET ASSETS	85,602,078	118,707,575
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 86,579,055	\$ 120,590,638

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

ARCHSTONE FOUNDATION
STATEMENT OF ACTIVITIES

	For the Year Ended June 30,	
	2009	2008
REVENUE AND SUPPORT		
Investment loss	(\$ 27,082,693)	(\$ 11,157,237)
EXPENSES		
Program expense	4,284,955	5,313,343
Management and general	1,737,849	1,937,449
	6,022,804	7,250,792
CHANGE IN UNRESTRICTED NET ASSETS	(33,105,497)	(18,408,029)
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	118,707,575	137,115,604
UNRESTRICTED NET ASSETS AT END OF YEAR	\$ 85,602,078	\$ 118,707,575

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

ARCHSTONE FOUNDATION
STATEMENT OF CASH FLOWS

	For the Year Ended June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	(\$ 33,105,497)	(\$ 18,408,029)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	25,310	13,474
Realized and unrealized net loss on investments	27,121,679	15,369,114
Loss on disposition of property and equipment	2,349	
(Increase) decrease in:		
Dividends receivable	784,586	(784,586)
Prepaid expenses	(25,810)	(12,163)
Increase (decrease) in:		
Accounts payable, accrued expenses, and deferred compensation	(8,996)	133,362
Accrued excise tax	(106,709)	76,709
Grants payable	(790,381)	(227,206)
Net Cash Used In Operating Activities	(6,103,469)	(3,839,325)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(111,377,849)	(179,118,073)
Proceeds from sale of investments	117,167,740	182,685,098
Purchases of property and equipment	(30,575)	
Net Cash Provided By Investing Activities	5,759,316	3,567,025
NET CHANGE IN CASH AND CASH EQUIVALENTS	(344,153)	(272,300)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	957,691	1,229,991
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 613,538	\$ 957,691

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

ARCHSTONE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

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.

Financial Statement Presentation

The Foundation applies Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. As of June 30, 2009 and 2008 the Foundation had no temporarily or permanently restricted net assets.

Use of Estimates and Assumptions

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. Given the current economic environment and risks in the banking industry, there is risk that these deposits may not be readily available or may not be covered by insurance.

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.

ARCHSTONE FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Investments

Investments in equity and debt securities are measured at fair value in the statement of financial position based on the net asset value of shares held by the Foundation at year end. Investment income or loss, as well as realized and unrealized gains and losses, are included in revenue and support.

Property and Equipment

Property and equipment is stated at cost. Depreciation and amortization is provided on the double declining balance method based on the estimated useful lives of the assets, which range from two to five years. Leasehold improvements are amortized using the double declining balance based on 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.

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.

ARCHSTONE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Excise Taxes

The Internal Revenue Code imposes an excise tax on Section 501(c)(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 \$163,000 for the year ended June 30, 2008.

Recent Accounting Pronouncements

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. Upon adoption of FIN 48, the Foundation will be required to recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being recognized. Additionally, previously recognized tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first financial reporting period in which that threshold is no longer met. Changes in recognition or measurement will be reflected in the period in which the change in judgment occurs.

On December 30, 2008, FASB Staff Position FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, deferred the effective date of FIN 48 for certain nonpublic enterprises, including nonprofit entities, for annual financial statements for periods beginning on or after December 15, 2008. As a result, the Foundation has elected to defer the adoption of FIN 48. The Foundation currently recognizes the effect of income tax positions only if such positions are probable of being sustained. The Foundation is currently evaluating the effect, if any, of the adoption of FIN 48.

ARCHSTONE FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

The Foundation adopted FASB Statement No. 157, *Fair Value Measurements* (SFAS 157), on July 1, 2008 for fair value measurements of financial assets and liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS 157 defines fair value, establishes a market-based framework for measuring fair value, and expands disclosure about fair value measurements. The adoption of SFAS 157 did not have a material effect on the Foundation’s activities or financial position. The Foundation has added the required disclosures in Note 3 of the financial statements.

The Foundation invests in funds available to institutional investors. While the underlying equity and fixed income securities are publicly traded instruments, the institutional funds are not publicly traded. Therefore, the funds do not meet the definition of Level 1 data inputs. The equity and fixed income funds have been classified as Level 2 data inputs. The underlying assets of the real estate investment trust meet the definition of Level 2 data.

NOTE 2 – Investments

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

	June 30,	
	2009	2008
Equity mutual funds	\$ 66,166,903	\$ 88,708,756
Corporate and governmental obligations	<u>19,737,562</u>	<u>30,107,279</u>
	<u>\$ 85,904,465</u>	<u>\$ 118,816,035</u>

ARCHSTONE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 2 – Investments (Continued)

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

	For the Year Ended June 30,	
	2009	2008
Investment income, net of investment fees	\$ 38,986	\$ 4,211,877
Net realized gains (losses) on sale of investments	(10,843,571)	25,390,568
Net unrealized losses on investments	(16,278,108)	(40,759,682)
	(27,121,679)	(15,369,114)
	(\$ 27,082,693)	(\$ 11,157,237)

Investment fees totaled \$407,071 and \$239,461 for the years ended June 30, 2009 and 2008, respectively.

NOTE 3 – Fair Value Measurements

SFAS 157 disclosures include a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- 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 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

ARCHSTONE FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 – Fair Value Measurements (Continued)

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2009:

	<u>Assets at Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Equity mutual funds	\$ 66,166,903	\$ 11,211,733	\$ 54,955,170	–
Corporate and and governmental obligations	<u>19,737,562</u>	<u> </u>	<u>19,737,562</u>	<u> </u> –
Total	<u>\$ 85,904,465</u>	<u>\$ 11,211,733</u>	<u>\$ 74,692,732</u>	<u> </u> None

NOTE 4 – Property and Equipment

A summary of property and equipment is as follows:

	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
Furniture and fixtures	\$ 140,471	\$ 174,748
Leasehold improvements	<u>12,486</u>	<u>12,486</u>
	152,957	187,234
Less accumulated depreciation and amortization	(<u>140,559</u>)	(<u>177,752</u>)
	<u>\$ 12,398</u>	<u>\$ 9,482</u>

ARCHSTONE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

NOTE 5 – Grants Payable

At June 30, 2009, all grants payable are payable in less than one year and are undiscounted. In addition, the Foundation has awarded approximately \$2.0 million in conditional grants payable over the next three years based on the awardees ability to meet certain requirements, as defined in the grant.

NOTE 6 – 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 Internal Revenue Service limits. The Foundation contributed approximately \$74,000 and \$70,000 for the years ended June 30, 2009 and 2008, 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 2009 and 2008. Contributions to the plan were approximately \$57,000 and \$55,000 for the years ended June 30, 2009 and 2008, respectively.

NOTE 7 – Leases

The Foundation has entered into various operating leases for the use of office space and equipment expiring through July 2012.

Rent expense, including obligations under month-to-month agreements, totaled approximately \$112,000 and \$104,000 for the years ended June 30, 2009 and 2008, respectively.

ARCHSTONE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 7 – Leases (Continued)

Future minimum rental payments under operating agreements that have initial or remaining noncancellable lease terms in excess of one year at June 30, 2009 are as follows:

<u>Year Ending June 30,</u>	
2010	\$ 108,163
2011	114,263
2012	110,603
2013	<u>9,236</u>
	<u>\$ 342,265</u>