

**(4) Grants Payable**

At June 30, 2001, the Foundation had outstanding grants payable expected to be paid as follows:

Year:	2002	\$2,073,039
	2003	1,508,483
	2004	489,988
	2005	28,785
		<u>4,100,295</u>
	Less discount	(197,502)
Present value of grants payable		<u>\$3,902,793</u>

Grants payable were discounted using a risk-free rate applicable to the year in which the grant was made (4.52% and 6.31% at June 30, 2001 and 2000, respectively).

**(5) Employee Benefit Plans**

**(a) 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 15% of a participant's total annual compensation. The Foundation contributed approximately \$19,000 for each of the plan years ended June 30, 2001 and 2000.

**(b) Deferred Compensation Plan**

The Foundation has a deferred compensation plan covering key executives whose annual compensation exceeds \$60,000 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 \$8,500 and \$8,000 per employee for calendar years ending 2001 and 2000 respectively. Contributions to the plan were approximately \$13,000 and \$8,000 for the years ended June 30, 2001 and 2000, respectively.

**(6) Lease Agreement**

The Foundation entered into five-year operating lease agreement in April 1997 for office space. Monthly payments under the lease arrangement will be approximately \$7,000 per month. The lease will expire on July 31, 2002. Rent expense totaled approximately \$81,000 and \$78,000 for the years ended June 30, 2001 and 2000, respectively.



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**Independent Auditors' Report**

The Board of Directors  
Archstone Foundation:

We have audited the accompanying statements of financial position of Archstone Foundation (a nonprofit California corporation) as of June 30, 2001 and 2000 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Archstone 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 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 audits provide 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, 2001 and 2000 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.

**KPMG LLP**

KPMG, LLP  
August 10, 2001

**Statements of Financial Position**

	2001	2000
<b>Assets</b>		
Cash and cash equivalents	\$ 16,649	93,448
Investments, at fair value (note 3)	122,010,321	142,839,978
Other assets	171,905	67,683
<b>Total assets</b>	<b>\$ 122,198,875</b>	<b>143,001,109</b>
<b>Liabilities and Unrestricted Net Assets</b>		
Accounts payable	\$ 36,233	40,696
Grants payable (note 4)	3,902,793	4,431,589
Deferred compensation (note 5)	61,950	57,504
<b>Total liabilities</b>	<b>4,000,976</b>	<b>4,529,789</b>
Unrestricted net assets	118,197,899	138,471,320
<b>Total liabilities and unrestricted net assets</b>	<b>\$ 122,198,875</b>	<b>143,001,109</b>

See accompanying notes to financial statements.



## Statement of Activities

	2001	2000
Revenue and support – interest and dividend income (note 3)	\$ 3,142,134	3,288,042
Expenses		
Program expense	4,994,568	3,883,094
Management and general	1,304,087	1,727,712
Investment management		144,884
Total expenses	6,298,655	5,755,690
Change in net assets before net realized and unrealized gain (loss) on investments	(3,156,521)	(2,467,648)
Net realized and unrealized gain (loss) on investments (note 3)	(17,116,900)	15,757,426
Increase (decrease) in unrestricted net assets	(20,273,421)	13,289,778
Unrestricted net assets at beginning of year	138,471,320	125,181,542
Unrestricted net assets at end of year	\$ 118,197,899	138,471,320

See accompanying notes to financial statements.

## Statements of Cash Flows

### Cash flows from operating activities:

	2001	2000
Increase (decrease) in unrestricted net assets	\$ (20,273,421)	13,289,778
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash used in operating activities:		
Depreciation	19,355	21,620
Net realized and unrealized loss (gain) on investments	(17,116,900)	(15,757,426)
Changes in operating assets and liabilities:		
Accrued interest receivable		243,000
Other assets	(102,819)	5,126
Grants payable	(528,796)	(1,285,011)
Accounts payable and deferred compensation	(17)	(13,312)
Net cash used in operating activities	(3,768,798)	(3,496,225)

### Cash flows from investing activities:

	2001	2000
Purchase of investments	(15,781,365)	(51,071,090)
Proceeds from sale of investments	19,494,122	51,622,571
Purchase of equipment	(20,758)	(4,436)
Net cash provided by investing activities	3,691,999	547,045
Net decrease in cash and cash equivalents	(76,799)	(2,949,180)
Cash and cash equivalents at beginning of year	93,448	3,042,628
Cash and cash equivalents at end of year	\$ 16,649	93,448
Supplemental disclosure of cash flow information—cash paid for excise taxes	\$ 219,565	251,026

See accompanying notes to financial statements.

## Notes to Financial Statements

### (1) General Purpose and Activities

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 portfolio income.

### (2) Significant Accounting Policies

#### (a) Cash Equivalents

The Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less and all investments in money market funds to be cash equivalents.

#### (b) Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements 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 increase (decrease) in unrestricted net assets.

#### (c) Grants Payable

The Foundation reports grants payable at the date the grant is approved by the Board of Directors. Grants payable to be paid in future years are discounted using a risk-free rate applicable to the year in which the grant is made.

#### (d) 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.

#### (e) 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 and no provision for taxes based on income has been included in the accompanying financial statements.

#### (f) 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 was approximately \$63,000 and \$282,000

for the years ended June 30, 2001 and 2000, respectively. Included in other assets for the year ended June 30, 2001 is approximately \$126,000 in prepaid excise taxes. California imposes no such excise tax.

#### (g) Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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) New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No.133, Accounting for Derivative Instruments and Hedging Activities (SFAS No.133). SFAS No.133 requires that an entity recognize all derivatives and measure those instruments at fair value. SFAS No.133 is effective for fiscal years beginning after June 15, 2000. Pursuant to SFAS No.137, the Foundation is required to adopt SFAS No.133 effective July 1, 2000. The impact of SFAS No.133 on the Foundation's financial statements is not material.

### (3) Investments

The composition of investments, stated at fair value, at June 30 is as follows:

	2001	2000
Equity mutual funds	\$ 91,540,837	87,050,901
Common stock	—	21,690,651
Corporate obligations	30,469,484	34,098,426
	\$ 122,010,321	142,839,978

The composition of investment return (loss) for cash and cash equivalents and investments for the years ended June 30 is as follows:

	2001	2000
Interest and dividend income	\$ 3,142,134	3,288,042
Net realized gains on sale of investments	957,532	13,585,476
Net unrealized gain (loss) on investments	(18,074,432)	2,171,950
Net realized and unrealized gain (loss)	(17,116,900)	15,757,426
	\$ (13,974,766)	19,045,468