



FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

For the Years Ended December 31, 2004 and 2003



HEBERGER
& MERRITT INC
Certified Public Accountants

**FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)**

Years Ended December 31, 2004 and 2003

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Fresno Regional Foundation

We have audited the accompanying Statement of Financial Position of Fresno Regional Foundation, (a California non-profit corporation) as of December 31, 2004 and 2003, and the related Statements of Agency and Trust Funds Liability, Activities, Functional Expenses, and Cash Flows for the years then ended. These financial statements are the responsibility of Fresno Regional 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 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 Fresno Regional Foundation at December 31, 2004 and 2003, and the changes in its net assets, agency and trust funds liability, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

May 24, 2005

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION
Years Ended December 31, 2004 and 2003

		<u>ASSETS</u>	
		2004	2003
Cash and Cash Equivalents		\$ 1,347,467	\$ 1,561,106
Accounts Receivable		16,307	25,240
Prepaid Expenses and Other Assets		16,376	17,248
Interest in Net Assets of Supporting Organization		5,439,630	3,210,237
Investment Securities		12,375,061	10,001,950
Land Held for Sale		517,216	517,216
Property and Equipment, Net		11,139	22,728
Total Assets		<u>\$ 19,723,196</u>	<u>\$ 15,355,725</u>
		<u>LIABILITIES AND NET ASSETS</u>	
Accounts Payable		\$ 46,110	\$ 2,818
Accrued Liabilities		4,226	8,737
Grants Payable		1,500	33,000
Agency and Trust Funds		3,890,224	3,069,123
Total Liabilities		3,942,060	3,113,678
Net Assets:			
Unrestricted		7,708,738	4,059,654
Temporarily Restricted		5,862,310	3,657,003
Permanently Restricted		2,210,088	4,525,390
Total Net Assets		15,781,136	12,242,047
Total Liabilities and Net Assets		<u>\$ 19,723,196</u>	<u>\$ 15,355,725</u>

See Independent Auditors' Report and Notes to the Financial Statements.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
STATEMENT OF AGENCY AND TRUST FUNDS LIABILITY
Years Ended December 31, 2004 and 2003

Balance, December 31, 2002	\$ 2,794,266
Contributions	17,999
Investment Income (Expense):	
Interest and Dividends	89,791
Investment Gains	329,007
Expenses	(19,013)
Administrative Assessments Paid to the Fresno Regional Foundation	(52,480)
Gifts and Grants Made	<u>(90,447)</u>
Balance, December 31, 2003	\$ 3,069,123
Contributions	6,775
Grant Income	1,981,000
Investment Income (Expense):	
Interest and Dividends	122,194
Investment Gains	254,745
Expenses	(13,249)
Administrative Assessments Paid to the Fresno Regional Foundation	(61,996)
Gifts and Grants Made	<u>(1,468,368)</u>
Balance, December 31, 2004	<u><u>\$ 3,890,224</u></u>

See Independent Auditors' Report and Notes to the Financial Statements.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
STATEMENT OF ACTIVITIES
Year Ended December 31, 2004

		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Support:					
Gifts and Contributions		\$ 3,330,146	\$ 2,406,647	\$ -	\$ 5,736,793
Interest and Dividends		409,452	71,327	-	480,779
Administrative Assessments		228,045	-	-	228,045
Investment Gains		299,658	141,298	-	440,956
Grant Income		581,655	-	-	581,655
Other		22,063	-	-	22,063
Net Assets Released from Restrictions		2,729,267	(413,965)	(2,315,302)	-
	Total Revenues and Support	7,600,286	2,205,307	(2,315,302)	7,490,291
Costs and Expenses:					
Program Services		3,197,008	-	-	3,197,008
Non-Profit Advancement Center		121,815	-	-	121,815
Teaching Fellows		296,744	-	-	296,744
Westside Tule Enterprise Community		80,454	-	-	80,454
General and Administrative		219,424	-	-	219,424
Fundraising		35,757	-	-	35,757
	Total Costs and Expenses	3,951,202	-	-	3,951,202
	Change in Net Assets	3,649,084	2,205,307	(2,315,302)	3,539,089
	Net Assets, Beginning of Year	4,059,654	3,657,003	4,525,390	12,242,047
	Net Assets, End of Year	\$ 7,708,738	\$ 5,862,310	\$ 2,210,088	\$ 15,781,136

See Independent Auditors' Report and Notes to the Financial Statements.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
STATEMENT OF ACTIVITIES
Year Ended December 31, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Support:				
Gifts and Contributions	\$ 3,525,899	\$ 13,881	\$ 120	\$ 3,539,900
Interest and Dividends	272,768	66,311	-	339,079
Administrative Assessments	228,274	-	-	228,274
Investment Gains	641,472	385,062	-	1,026,534
Grant Income	315,331	-	-	315,331
Other	159,623	-	-	159,623
Net Assets Released from Restrictions	196,726	(196,726)	-	-
Total Revenues and Support	5,340,093	268,528	120	5,608,741
Costs and Expenses:				
Program Services	2,020,125	-	-	2,020,125
Non-Profit Advancement Center	117,657	-	-	117,657
Youth Network Services	243,428	-	-	243,428
General and Administrative	219,897	-	-	219,897
Fundraising	40,971	-	-	40,971
Total Costs and Expenses	2,642,078	-	-	2,642,078
Change in Net Assets	2,698,015	268,528	120	2,966,663
Net Assets, Beginning of Year	1,361,639	3,388,475	4,525,270	9,275,384
Net Assets, End of Year	\$ 4,059,654	\$ 3,657,003	\$ 4,525,390	\$ 12,242,047

See Independent Auditors' Report and Notes to the Financial Statements.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2004

			Non-Profit				General		
		Program	Advancement	Teaching			and	FRF	Total
		Services	Center	Fellows	WTEC		Administrative	Fundraising	Expenses
Salaries		\$ 36,263	\$ 64,938	\$ -	\$ -		\$ 82,416	\$ 13,187	\$ 196,804
Payroll Taxes and Related		10,467	22,191	-	-		20,190	3,806	56,654
Workman's Compensation		925	1,659	-	-		2,102	336	5,022
Temporary Staffing		2,416	251	-	-		5,492	879	9,038
Total Personnel Costs		50,071	89,039	-	-		110,200	18,208	267,518
									-
Accounting and Audit		4,944	-	-	-		11,235	1,798	17,977
Administrative Assessments		129,319	-	3,327	3,550		-	-	136,196
Education and Training		514	-	-	5,650		1,169	187	7,520
Fees and Memberships		1,446	403	-	1,231		3,286	526	6,892
Gifts and Grants		2,936,012	-	-	-		-	-	2,936,012
Insurance		1,684	-	-	-		3,828	613	6,125
Investment Management Services		33,548	-	-	-		-	-	33,548
Legal Fees		609	-	-	-		1,384	221	2,214
Library		-	985	-	300		-	-	1,285
Marketing		4,094	2,250	-	-		9,306	1,489	17,139
Office Supplies		1,172	-	-	1,188		2,663	426	5,449
Other		18,039	16,275	261,662	5,866		40,999	6,633	349,474
Postage		1,075	-	-	911		2,443	391	4,820
Printing		1,555	181	-	1,560		3,533	565	7,394
Project Consultants		-	7,587	31,755	52,626		-	-	91,968
Rent and Related		7,965	3,600	-	3,240		18,102	2,896	35,803
Telephone		1,271	-	-	277		2,889	462	4,899
Travel and Auto		828	(325)	-	4,055		1,882	301	6,741
Sub-Total		3,144,075	30,956	296,744	80,454		102,719	16,508	3,671,456
									-
Total Expenses Before Depreciation		3,194,146	119,995	296,744	80,454		212,919	34,716	3,938,974
Depreciation		2,862	1,820	-	-		6,505	1,041	12,228
Total Costs and Expenses		\$ 3,197,008	\$ 121,815	\$ 296,744	\$ 80,454		\$ 219,424	\$ 35,757	\$ 3,951,202

See Independent Auditors' Report and Notes to the Financial Statements.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2003

	Non-Profit			General		Total
	Program Services	Advancement Center	Youth Network Services	and Administrative	Fundraising	
Salaries	\$ 37,205	\$ 64,890	\$ 121,136	\$ 88,345	\$ 13,950	\$ 196,804
Payroll Taxes and Related	9,073	13,403	13,145	21,545	3,402	53,744
Workman's Compensation	695	1,578	2,938	1,651	261	5,022
Temporary Staffing	1,026	-	-	2,434	384	9,037
Total Personnel Costs	47,999	79,871	137,219	113,975	17,997	264,607
Accounting and Audit	4,702	-	3,917	11,165	1,763	21,547
Administrative Assessments	121,823	-	25,510	-	-	147,333
Education and Training	1,036	-	6,287	2,463	389	10,175
Fees and Memberships	1,094	338	111	2,597	410	4,550
Gifts and Grants	1,798,271	-	31,500	-	-	1,829,771
Insurance	2,664	-	68	6,325	999	10,056
Investment Management Services	15,358	-	-	36,469	5,759	57,586
Legal Fees	3,937	-	-	1,716	271	5,924
Library	-	2,182	1,921	-	-	4,103
Marketing	2,502	9,500	3,122	5,941	7,185	28,250
Office Supplies	1,075	399	3,517	2,556	404	7,951
Other	6,450	10,530	216	5,318	840	23,354
Postage	515	328	2,981	1,221	193	5,238
Printing	132	2,776	2,200	313	49	5,470
Project Consultants	-	2,983	-	-	-	2,983
Rent and Related	6,963	4,500	18,213	16,534	2,611	48,821
Telephone	1,250	86	-	2,967	468	4,771
Travel and Auto	1,279	2,271	6,646	3,037	480	13,713
Sub-Total	1,969,051	35,893	106,209	98,622	21,821	2,231,596
Total Expenses Before Depreciation	2,017,050	115,764	243,428	212,597	39,818	2,628,657
Depreciation	3,075	1,893	-	7,300	1,153	13,421
Total Costs and Expenses	<u>\$ 2,020,125</u>	<u>\$ 117,657</u>	<u>\$ 243,428</u>	<u>\$ 219,897</u>	<u>\$ 40,971</u>	<u>\$ 2,642,078</u>

See Independent Auditors' Report and Notes to the Financial Statements.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
STATEMENT OF CASH FLOWS
Years Ended December 31, 2004 and 2003

	2004	2003
Cash Flows From Operating Activities:		
Change in Net Assets	\$ 3,539,089	\$ 2,966,663
Adjustments to Reconcile Changes in Net Assets to		
Net Cash Provided By (Used In) Operating Activities:		
Depreciation and Amortization	12,228	13,421
Investment Gains	(440,956)	(1,026,534)
Donated Securities	-	(1,595,580)
Donated Land	-	(517,216)
Increase in Net Assets of Supporting Organization	(2,229,393)	(113,595)
Changes in operating assets and liabilities:		
Accounts Receivable	8,933	15,437
Prepaid Expenses and Other Assets	872	(4,833)
Accounts and Grants Payable	11,792	(256,455)
Accrued Liabilities	(4,511)	(2,634)
Agency and Trust Funds	821,101	274,857
Net Cash Provided By (Used In) Operating Activities	1,719,155	(246,469)
Cash Flows Provided By (Used In) Investing Activities:		
Agency and Trust Funds	(821,101)	(274,857)
Purchase of Property and Equipment	(639)	(7,155)
Purchase of Investment Securities	(4,487,104)	(3,540,417)
Proceeds From Sales of Investment Securities	3,376,050	4,985,296
Net Cash Provided By (Used In) Investing Activities	(1,932,794)	1,162,867
Increase (Decrease) in Cash and Cash Equivalents	(213,639)	916,398
Cash and Cash Equivalents, Beginning of Year	1,561,106	644,708
Cash and Cash Equivalents, End of Year	\$ 1,347,467	\$ 1,561,106

See Independent Auditors' Report and Notes to the Financial Statements.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003

Note 1 - Organization and Operations

The Fresno Regional Foundation (the "Foundation") is a California non-profit foundation formed in 1966 for the purpose of improving the quality of life in the Central San Joaquin Valley. It promotes and encourages charitable giving, provides grants to qualified organizations and projects, and administers funds established by donors and others for the benefit of the community. The Foundation is primarily supported by contributions and grants from the general public, private foundations and investment earnings.

The Foundation administers approximately 113 separate funds established by businesses and individuals for various charitable purposes. Funds provided to the Foundation by such donors are administered in accordance with the terms established by the donors and/or the Foundation's Board of Governors, as appropriate. The Foundation generally assesses each fund a monthly annual administration fee based on the fund's average balance.

In addition, the Foundation also conducts various community service and similar programs such as the Westside Tule Enterprise Community, the operation of the Non-Profit Advancement Center, the California Management Assistant Partnership and Youth Network Services. Such programs are conducted on behalf of and are funded by the California Endowment, the Packard Foundation and the Irvine Foundation, and others. The Fresno Regional Foundation receives administrative fees to conduct these programs.

Note 2 - Summary of Significant Accounting Policies

Donations and Grants

Donations and Grants are recorded as Unrestricted, Temporarily Restricted, or Permanently Restricted depending on the existence or nature of donor-imposed restrictions. Donations and grants, including unconditional promises to give are recorded in the year the contribution is made or received. When a donor restriction expires, either when a stipulated time restriction ends or a 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. Donations received and expended in the same fiscal year are recorded as unrestricted funds.

Permanently restricted funds consist of amounts donated by specific individuals with the understanding that the amounts contributed shall be maintained in perpetuity. Generally, investment earnings, including capital appreciation, on the Foundation's permanent funds are available to fund various Foundation activities. Investment earnings and investment gains and losses are classified as temporarily restricted or unrestricted income as appropriate.

See Independent Auditors' Report.

**FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003**

Note 2 - Summary of Significant Accounting Policies (Continued)

Agency and Trust Funds

The Foundation has also received funds with donor-imposed restrictions for which it does not have either a unilateral right to redirect the funds to other uses (“variance power”) or significant involvement in the determination of specific beneficiaries. Such funds are not considered contributions and are recorded as Agency and Trust Fund liabilities. Changes in the Agency and Trust Fund Liabilities are reported separately and are not included in the Foundation’s Statement of Activities.

Charitable Remainder Trusts

The Foundation records as contributions residual amounts from charitable remainder and other trusts, in which it is named as a remainder beneficiary only when significant donor imposed restrictions or conditions have been met, and such contributions are actually received.

Investments Securities

The Foundation maintains master trust and brokerage accounts for the investment of Agency and Trust Funds and certain of its Net Assets. All of the Foundation investment securities are available for sale. Investment income and expenses, including realized and unrealized gains and losses, are generally allocated to the individual funds based on their relative fair market values. Investment income, including unrealized gains and losses, interest, dividends and related items are recognized in the Statement of Activities or credited to the Agency and Trust Funds liability, as appropriate, as they are incurred. The Foundation’s investment managers or advisors state such investments at their estimated fair market values.

Cash and Cash Equivalents

Cash and cash equivalents consist of various demand and interest bearing accounts on deposit with insured financial and brokerage institutions. The Foundation considers all investments with a maturity of three months or less to be cash equivalents.

Land Held For Sale

Land held for sale is stated at its estimated fair value on the date donated, as determined by real estate sales options applicable to the land and/or the Foundation’s real estate consultant, less any sales option deposits collected.

See Independent Auditors’ Report.

**FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003**

Note 2 - Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost or, if donated, at the estimated fair value at the date of donation. All assets acquired by the Foundation whose initial value or cost exceeds \$1,000 are capitalized and depreciated. Depreciation and amortization are recorded using the straight-line method over estimated useful lives of 5 to 7 years.

Tax Exempt Status

The Foundation has qualified as a not-for-profit organization and has been granted tax-exempt status pursuant to Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d).

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.

Advertising

The Foundation expenses all marketing and promotion costs as incurred. Total marketing and promotion costs for the years ended December 31, 2004 and 2003 were \$17,139 and \$28,250, respectively.

Reclassifications

Certain reclassifications have been made to the 2003 financial statement in order to conform to the presentation shown. Such reclassifications had no effect on working capital, net assets, or change in net assets. The Foundation determined that certain balances in the amount of \$59,602 that had previously been classified as Unrestricted Funds were Permanently Restricted. These balances were reclassified at December 31, 2002.

See Independent Auditors' Report.

**FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003**

Note 2 - Summary of Significant Accounting Policies (Continued)

Functional Classification of Expenses

The costs of providing the Foundations' various charitable and general services have been summarized on a functional basis in the Statement of Activities. Accordingly, direct and indirect expenses have been allocated to program services or other activities based on their specific identification or the personnel utilized in the function.

Interest in Net Assets of Supporting Organization

The Foundation accounts for its interests in qualifying Supporting Organizations using the equity method of accounting. The Foundation's Interest in the Net Assets of Supporting Organization is increased when the Supporting Organization receives donations or has operating income or gains. Its interest is decreased when the Supporting Organization incurs costs, expenses or makes donations to the Foundation or other qualifying charitable organizations. Changes in the Interest in Net Assets of Supporting Organizations are considered changes in the Foundation's Temporarily Restricted Funds. When the Supporting Organization makes donations to the Foundation, such amounts are expected to be re-classified, where appropriate, to Unrestricted Funds.

Note 3 - Property and Equipment, Net

Property and equipment consists of the following at December 31,

	<u>2004</u>	<u>2003</u>
Furniture, Fixtures and Office Equipment	\$ 113,017	\$ 112,379
Leasehold Improvements	14,892	14,892
Less: Accumulated Depreciation	<u>(116,770)</u>	<u>(104,543)</u>
	<u>\$ 11,139</u>	<u>\$ 22,728</u>

Depreciation expense for the years ended December 31, 2004 and 2003 were \$12,228 and \$13,421, respectively.

See Independent Auditors' Report.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003

Note 4 – Investment Securities

Investment securities consist of the following at December 31,

	2004		2003	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Fixed Income	\$ 2,979,734	\$ 2,984,834	\$ 2,683,267	\$ 2,690,482
Domestic Equities	7,581,460	8,418,067	6,143,064	6,514,388
International Equities	822,320	972,160	746,696	765,224
Real Estate Investment Trusts	-	-	31,856	31,856
Total Investments	\$11,383,514	\$ 12,375,061	\$ 9,604,883	\$10,001,950

At December 31, 2004, approximately \$11,375,000 of the Foundation’s investment securities, and approximately \$1,094,000 of its cash and cash equivalents, were held in custodial accounts at SEI Private Trust Company. These custodial accounts are managed by SEI Investments (“SEI”), an independent investment management and advisory firm. The investment securities, cash and cash equivalents are invested primarily in SEI sponsored mutual funds and investment pools. SEI provides insurance to protect the Foundation’s custodial account balances from SEI’s 1) errors and omissions, an aggregate of \$50,000,000 applicable to all accounts, including the Foundation’s or 2) employees’ dishonesty, a total of \$40,000,000 per occurrence. These custodial accounts are not insured by the Securities Investor Protection Corporation (“SIPC”) or the Federal Deposit Insurance Corporation (“FDIC”).

At December 31, 2004, approximately \$1,048,000 of the Foundation’s funds, including approximately \$48,000 of cash and cash equivalents, was held by UBS Financial Services, Inc. (“UBS”), an independent investment management and advisory firm. The funds with UBS are invested primarily in preferred securities. The funds with UBS are covered by a combination of insurance provided by SIPC and private insurance provided by UBS.

Note 5 – Retirement Plan

The Foundation maintains a non-contributory defined contribution retirement plan for eligible employees administered by Prime America Shareholder Services. An employee becomes eligible to participate after completing one year of service. The Foundation contributes to the plan a discretionary amount to be divided equally among eligible employees. The Foundation’s contributions for the years ended December 31, 2004 and 2003 were \$18,750 and \$12,500, respectively.

See Independent Auditors’ Report.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003

Note 6 - Lease Commitment

The Foundation has entered into a two-year extension of its administrative office lease as of September 1, 2004, and it is now set to expire August 31, 2006. Monthly rent expense is \$2,493, including janitorial and utilities. Monthly rent is subject to annual adjustments based on changes in the landlord's cost of operations. The future commitments related to this lease consist of the following at December 31,

2005	\$ 29,919
2006	<u>19,946</u>
	\$ <u>49,865</u>

Rent expense for the years ended December 31, 2004 and 2003 was \$35,803 and \$31,608 respectively.

Note 7 - Restricted Net Assets

Temporarily restricted net assets are available for the following activities at December 31,

<u>Programs</u>	<u>2004</u>	<u>2003</u>
Health and Human Services	\$ 17,584	\$ 16,269
Visually Handicapped Services	46,484	43,009
Scholarships	292,721	117,907
Other Community Services	65,891	251,431
Parks and Musical Organizations	-	18,150
Interest in Supporting Organizations	<u>5,439,630</u>	<u>3,210,237</u>
Total	\$ <u>5,862,310</u>	\$ <u>3,657,003</u>

Permanently restricted net assets are dedicated to the following activities at December 31,

<u>Programs</u>	<u>2004</u>	<u>2003</u>
Scholarships	\$ 180,242	\$ 180,242
Other Community Services	102,910	2,418,212
Parks and Musical Organizations	<u>1,926,936</u>	<u>1,926,936</u>
Total	\$ <u>2,210,088</u>	\$ <u>4,525,390</u>

During the year ended December 31, 2004, the Foundation and a donor of previously contributed permanently restricted funds jointly agreed to remove such restriction. As a result, \$2,263,616 of permanently restricted funds was reclassified as Donor Advised Unrestricted Funds.

See Independent Auditors' Report.

**FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003**

Note 8 - Charitable Remainder and Other Trusts

The Foundation is named as a remainder beneficiary of at least five charitable remainder and other trusts administered by other trustees. The balances in the trusts and the income thereon, are available in various amounts to the life beneficiaries. In several cases, the donors have the right to change the beneficiary prior to their demise. Any balances remaining in the trusts upon the demise of the life beneficiaries may be distributed to the Foundation and other named beneficiaries. Amounts ultimately available to the Foundation from these trusts are dependent upon future events and cannot reasonably be determined. Such amounts are recognized as donations when received by the Foundation.

In January 2003, the Foundation met the donor imposed restrictions on one charitable remainder trust and ultimately received an undivided interest in Land Held for Sale with an assigned value of \$537,216. In June 2003, the Foundation received a \$20,000 option payment for the possible future sale of a portion of this land.

Note 9 - Corporate Conversion

The Foundation was advised by its legal counsel that the corporate form of organization for community foundations had certain governance and other advantages over the trust form of organization. The Foundation's Board of Governors then approved a change in the form of the Foundation's organization and a non-profit corporation was formed for this purpose. The Foundation petitioned the Superior Court of California for authorization to transfer its net assets from the Trust to the Corporation. On November 18, 2002, the Court approved the transfer of substantially all of the net assets from the Trust to the Corporation and that transfer was completed shortly thereafter. All remaining assets of the Trust were transferred to the Corporation in 2003 following receipt of approvals from tax authorities. Concurrent with the change, the Foundation executed new agreements with certain of its donors to obtain a unilateral right to redirect donor funds ("variance power"). Obtaining such variance power is consistent with current Internal Revenue Service regulations.

See Independent Auditors' Report.

**FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003**

Note 10 – Interests in Net Assets of Supporting Organizations

The Foundation is the named beneficiary of two Supporting Organizations. One of the Supporting Organizations was funded in 2002 and the other is to be funded upon the demise of the donor. Supporting Organizations are established by certain donors in connection with sponsoring not-for-profit organizations similar to the Foundation. Supporting Organizations have independent Boards of Directors with a majority of the members appointed by the Fresno Regional Foundation.

The Lyles Foundation was established in October 2002 as a not-for-profit charitable trust and Supporting Organization to the Fresno Regional Foundation. The Indenture, which established the Lyles Foundation Trust, specifically states that it was organized to support the charitable activities of the Fresno Regional Foundation. Immediately following its organization, and again in 2004, the Lyles Foundation Trust received donations consisting of shares of stock in a privately held business that has an “S” election in effect for Federal and State of California income tax purposes. Future sales of the donated stock by the Lyles Foundation Trust as well as its share of the private company’s annual earnings give rise to an Unrelated Business Income Tax (“UBIT”). For this reason, the value of the donations for financial reporting purposes has been adjusted to reflect an estimated deferred tax liability. Any UBIT incurred is paid directly by the Lyles Foundation Trust.

At December 31, the net assets of this supporting organization consisted of the following:

	<u>2004</u>	<u>2003</u>
Cash	\$ 3,983	\$ 5,469
Mutual Funds	293,366	421,868
Lyles Diversified, Inc. Stock	5,599,222	2,993,922
Other Assets	12,767	3,791
Accounts Payable	(14,546)	(22,345)
Deferred Taxes	<u>(455,162)</u>	<u>(192,468)</u>
Total	\$ <u>5,439,630</u>	\$ <u>3,210,237</u>

The Silkwood Foundation was established in 2001 as a not-for-profit charitable trust and Supporting Organization to the Fresno Regional Foundation. However, its donor has not yet funded this Supporting Organization.

See Independent Auditors’ Report.