



FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2005 and 2004



HEBERGER
& MERRITT INC
Certified Public Accountants

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

Years Ended December 31, 2005 and 2004

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fresno Regional Foundation
Fresno, California

We have audited the accompanying Statement of Financial Position of Fresno Regional Foundation, (a California non-profit corporation) as of December 31, 2005 and 2004 (restated-see Note 10), and the related Statements of Agency and Trust Fund 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, 2005 and 2004, and the changes in its net assets, agency and trust fund liability, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11, in 2005, the Foundation changed its method of reporting certain scholarship funds, effective December 31, 2003.

March 27, 2006

**FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION
Years Ended December 31, 2005 and 2004**

ASSETS

	<u>2005</u>	<u>Restated 2004</u>
Cash and Cash Equivalents	\$ 3,393,320	\$ 1,347,467
Certificates of Deposit	799,111	-
Grants Receivable	360,000	-
Accounts Receivable	9,788	16,307
Prepaid Expenses and Other Assets	25,277	16,376
Interest in Net Assets of Supporting Organization	5,983,727	5,439,630
Investment Securities	12,057,380	12,375,061
Land Held for Sale	156,816	517,216
Property and Equipment, Net	<u>5,053</u>	<u>11,139</u>
 Total Assets	 <u>\$ 22,790,472</u>	 <u>\$ 19,723,196</u>

LIABILITIES AND NET ASSETS

Accounts Payable	\$ 23,236	\$ 46,110
Accrued Liabilities	4,740	4,225
Grants Payable	138,291	1,500
Agency and Trust Funds	<u>2,707,113</u>	<u>2,818,416</u>
 Total Liabilities	 2,873,380	 2,870,251
 Net Assets:		
Unrestricted	9,994,770	7,660,887
Temporarily Restricted	7,406,723	6,677,049
Permanently Restricted	<u>2,515,599</u>	<u>2,515,009</u>
 Total Net Assets	 <u>19,917,092</u>	 <u>16,852,945</u>
 Total Liabilities and Net Assets	 <u>\$ 22,790,472</u>	 <u>\$ 19,723,196</u>

See Independent Auditor's Report and Notes to the Financial Statements.

**FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
STATEMENT OF AGENCY AND TRUST FUND LIABILITY
Years Ended December 31, 2005 and 2004**

Balance, December 31, 2003, Restated	\$ 2,742,790
Contributions	800
Grant Income	135,031
Investment Income (Expense):	
Interest and Dividends	93,216
Investment Gains	173,553
Expenses	(9,554)
Administrative Assessments Paid to the Fresno Regional Foundation	(52,642)
Gifts and Grants Made	<u>(264,778)</u>
Balance, December 31, 2004, Restated	\$ 2,818,416
Contributions	21,552
Grant Income	444,054
Investment Income (Expense):	
Interest and Dividends	104,957
Investment Gains	91,527
Expenses	(13,268)
Administrative Assessments Paid to the Fresno Regional Foundation	(74,486)
Gifts and Grants Made	<u>(685,639)</u>
Balance, December 31, 2005	<u><u>\$ 2,707,113</u></u>

See Independent Auditor's Report and Notes to the Financial Statements.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
STATEMENT OF ACTIVITIES
Year Ended December 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Support:				
Gifts and Contributions	\$ 4,973,754	\$ 605,178	\$ 590	\$ 5,579,522
Interest and Dividends	246,799	125,363	-	372,162
Administrative Assessments	293,524	-	-	293,524
Investment Gains	31,958	118,325	-	150,283
Grant Income	200,000	247,500	-	447,500
Other	31,989	-	-	31,989
Net Assets Released from Restrictions	366,692	(366,692)	-	-
Total Revenues and Support	6,144,716	729,674	590	6,874,980
Costs and Expenses:				
Program Services	3,530,804	-	-	3,530,804
General and Administrative	202,524	-	-	202,524
Fundraising	77,505	-	-	77,505
Total Costs and Expenses	3,810,833	-	-	3,810,833
Change in Net Assets	2,333,883	729,674	590	3,064,147
Net Assets, Beginning of Year, Restated	7,660,887	6,677,049	2,515,009	16,852,945
Net Assets, End of Year	\$ 9,994,770	\$ 7,406,723	\$ 2,515,599	\$ 19,917,092

See Independent Auditor's Report and Notes to the Financial Statements.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Restated Total</u>
Revenues and Support:				
Gifts and Contributions	\$ 4,263,113	\$ 2,411,997	\$ 625	\$ 6,675,735
Interest and Dividends	173,857	99,664	-	273,521
Administrative Assessments	-	-	-	-
Investment Gains	300,941	221,209	-	522,150
Grant Income	-	1,981,000	-	1,981,000
Other	-	-	-	-
Net Assets Released from Restrictions	<u>4,058,032</u>	<u>(1,742,730)</u>	<u>(2,315,302)</u>	<u>-</u>
Total Revenues and Support	8,795,943	2,971,140	(2,314,677)	9,452,406
Costs and Expenses:				
Program Services	4,920,208	-	-	4,920,208
General and Administrative	195,986	-	-	195,986
Fundraising	51,624	-	-	51,624
Total Costs and Expenses	<u>5,167,818</u>	<u>-</u>	<u>-</u>	<u>5,167,818</u>
Change in Net Assets	3,628,125	2,971,140	(2,314,677)	4,284,588
Net Assets, Beginning of Year, Restated	<u>4,032,762</u>	<u>3,705,909</u>	<u>4,829,686</u>	<u>12,568,357</u>
Net Assets, End of Year	<u>\$ 7,660,887</u>	<u>\$ 6,677,049</u>	<u>\$ 2,515,009</u>	<u>\$ 16,852,945</u>

See Independent Auditor's Report and Notes to the Financial Statements.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2005

	Program Services	General and Administrative	Fundraising	Total Expenses
Salaries	\$ 122,390	\$ 95,069	\$ 35,375	\$ 252,834
Payroll Taxes and Related	35,350	23,721	8,827	67,898
Workman's Compensation	2,327	1,815	675	4,817
Temporary Staffing	1,040	1,216	453	2,709
Total Personnel Costs	<u>161,107</u>	<u>121,821</u>	<u>45,330</u>	<u>328,258</u>
Accounting and Audit	4,462	9,138	3,400	17,000
Administrative Assessments	179,277	-	-	179,277
Board Receptions	275	563	210	1,048
Education and Training	64	131	49	244
Fees and Memberships	4,787	3,833	1,426	10,046
Gifts, Grants and Program Events	3,053,971	-	-	3,053,971
Insurance	4,813	3,439	1,280	9,532
Investment Management Services	41,264	-	-	41,264
Legal Fees	-	3,118	-	3,118
Library	1,020	-	-	1,020
Licenses	50	103	38	191
Marketing and Advertising	-	-	3,305	3,305
Meeting, Luncheons, Dinners	882	1,358	505	2,745
Office Supplies	6,999	9,053	3,369	19,421
Other	189	386	144	719
Postage	1,578	1,491	555	3,624
Printing	2,518	5,156	1,919	9,593
Project Consultants	28,303	14,209	5,287	47,799
Rent and Related	14,926	11,513	4,284	30,723
Strategic Plan	14,450	11,280	4,197	29,927
Telephone	2,217	1,543	574	4,334
Travel and Auto	4,486	1,408	524	6,418
Web Related	66	134	50	250
Sub-Total	<u>3,366,597</u>	<u>77,856</u>	<u>31,116</u>	<u>3,475,569</u>
Total Expenses Before Depreciation	3,527,704	199,677	76,446	3,803,827
Depreciation and Amortization	<u>3,100</u>	<u>2,847</u>	<u>1,059</u>	<u>7,006</u>
Total Costs and Expenses	<u>\$ 3,530,804</u>	<u>\$ 202,524</u>	<u>\$ 77,505</u>	<u>\$ 3,810,833</u>

See Independent Auditor's Report and Notes to the Financial Statements.

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

	Program Services	General and Administrative	Fundraising	Restated Total Expenses
Salaries	\$ 101,201	\$ 82,416	\$ 13,187	\$ 196,804
Payroll Taxes and Related	32,658	20,190	3,806	56,654
Workman's Compensation	2,584	2,102	336	5,022
Temporary Staffing	2,667	5,492	879	9,038
Total Personnel Costs	<u>139,110</u>	<u>110,200</u>	<u>18,208</u>	<u>267,518</u>
Accounting and Audit	4,944	11,235	1,798	17,977
Administrative Assessments	145,551	-	-	145,551
Education and Training	514	1,169	187	1,870
Fees and Memberships	1,849	3,286	526	5,661
Gifts, Grants and Program Events	4,498,029	-	-	4,498,029
Insurance	1,684	3,828	613	6,125
Investment Management Services	28,599	-	-	28,599
Legal Fees	-	2,214	-	2,214
Library	985	-	-	985
Marketing and Advertising	-	-	17,139	17,139
Office Supplies	4,241	9,637	1,542	15,420
Other	2,113	4,800	768	7,681
Postage	1,075	2,443	391	3,909
Printing	1,736	3,533	565	5,834
Project Consultants	39,342	-	-	39,342
Rent and Related	11,565	18,102	2,896	32,563
Strategic Plan	32,415	14,263	5,187	51,865
Telephone	1,271	2,889	462	4,622
Travel and Auto	503	1,882	301	2,686
Sub-Total	<u>4,776,416</u>	<u>79,281</u>	<u>32,375</u>	<u>4,888,072</u>
Total Expenses Before Depreciation	4,915,526	189,481	50,583	5,155,590
Depreciation and Amortization	4,682	6,505	1,041	12,228
Total Costs and Expenses	<u>\$ 4,920,208</u>	<u>\$ 195,986</u>	<u>\$ 51,624</u>	<u>\$ 5,167,818</u>

See Independent Auditor's Report and Notes to the Financial Statements.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
STATEMENT OF CASH FLOWS
Years Ended December 31, 2005 and 2004

	2005	Restated 2004
Cash Flows From Operating Activities:		
Change in Net Assets	\$ 3,064,147	\$ 4,284,588
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Depreciation and Amortization	7,006	12,228
Investment Gains	(241,810)	(695,309)
Donated Securities	(146,437)	-
Increase in Net Assets of Supporting Organization	(544,097)	(2,229,393)
Changes in operating assets and liabilities:		
Accounts and Grants Receivable	(353,481)	8,933
Prepaid Expenses and Other Assets	(8,901)	872
Accounts and Grants Payable	113,917	11,792
Accrued Liabilities	515	(4,512)
Agency and Trust Funds	(111,303)	75,626
	1,779,556	1,464,825
Cash Flows Provided By (Used In) Investing Activities:		
Agency and Trust Funds	111,303	(75,626)
Purchase of Property and Equipment	(920)	(639)
Purchase of Investment Securities	(5,820,293)	(4,978,226)
Proceeds From Sales of Investment Securities	5,592,165	3,376,050
Proceeds From Sale of Real Estate	384,042	-
	266,297	(1,678,441)
Increase (Decrease) in Cash and Cash Equivalents	2,045,853	(213,616)
Cash and Cash Equivalents, Beginning of Year	1,347,467	1,561,083
Cash and Cash Equivalents, End of Year	\$ 3,393,320	\$ 1,347,467

See Independent Auditor's Report and Notes to the Financial Statements.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004

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, investment earnings and fees from services as a fiscal agent.

The Foundation administers approximately 128 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 Directors, as appropriate. The Foundation generally assesses each fund a monthly administration fee based on the fund’s average balance.

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 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.

Agency and Trust Funds

The Foundation also serves as a fiscal agent for third party donors that conduct various community programs. As a fiscal agent, the Foundation has 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.

See Independent Auditor’s Report.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

Investment 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's 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 Statements of Activities or 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 an original 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.

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).

See Independent Auditor's Report.

**FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004**

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

Marketing and Advertising

The Foundation expenses all marketing and promotion costs as incurred. Total marketing and promotion costs for the years ended December 31, 2005 and 2004 were \$3,305 and \$17,139, respectively.

Functional Classification of Expenses

The costs of providing the Foundation's 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 Organizations

The Foundation accounts for its interests in qualifying Supporting Organizations using the equity method of accounting, as it does not control them. The Foundation's Interest in the Net Assets of Supporting Organizations is increased when the Supporting Organizations receive donations or has operating income or gains. Its interest is decreased when the Supporting Organizations incur 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 reclassified, where appropriate, to Unrestricted Funds.

Non-Profit Advancement Center

The Foundation's Non-Profit Advancement Center Program ended in 2005. Information on this program has been included in Program Services in the Statement of Functional Expenses.

See Independent Auditor's Report.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004

Note 3 – Property and Equipment, Net

Property and equipment consists of the following at December 31,

	<u>2005</u>	<u>2004</u>
Furniture, Fixtures and Office Equipment	\$ 113,937	\$ 113,017
Leasehold Improvements	14,892	14,892
Less: Accumulated Depreciation	<u>(123,776)</u>	<u>(116,770)</u>
	<u>\$ 5,053</u>	<u>\$ 11,139</u>

Depreciation and amortization expense for the years ended December 31, 2005 and 2004 were \$7,006 and \$12,228 respectively.

Note 4 – 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 an annual discretionary amount to be divided equally among eligible employees. The Foundation's contributions for the years ended December 31, 2005 and 2004 were \$18,750 each.

Note 5 – Lease Commitment

The Foundation's current lease of its administrative office is 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 aggregate future commitment remaining on this lease for 2006 is \$19,946.

Rent expense for the years ended December 31, 2005 and 2004 were \$30,160 and \$31,659 respectively.

See Independent Auditor's Report.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004

Note 6 – Investment Securities

Investment securities consist of the following at December 31,

	2005		2004	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Fixed Income	\$ 3,365,920	\$ 4,097,796	\$ 2,979,734	\$ 2,984,834
Domestic Equities	5,626,772	6,278,094	7,581,460	8,418,067
International Equities	1,419,597	1,681,490	822,320	972,160
Total Investments	\$ 10,412,289	\$ 12,057,380	\$ 11,383,514	\$ 12,375,061

At December 31, 2005, approximately \$11,078,000 of the Foundation’s investment securities, and approximately \$1,796,000 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, 2005, approximately \$965,000 of the Foundation’s funds, including approximately \$49,000 of cash and cash equivalents, was held by UBS Financial Services (“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.

At December 31, 2005, approximately \$2,305,000 of the Foundation’s funds, including approximately \$1,505,000 of cash and cash equivalents, was held by Morgan Stanley, an independent investment management and advisory firm. The funds with Morgan Stanley are invested primarily in money market funds and certificates of deposit. The funds with Morgan Stanley are covered by a combination of insurance provided by FDIC and private insurance provided by Morgan Stanley.

See Independent Auditor’s Report.

**FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004**

Note 7 – Restricted Net Assets

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

<u>Programs</u>	<u>2005</u>	<u>2004</u>
Health and Human Services	\$ 40,789	\$ 17,584
Visually Handicapped Services	48,704	46,484
Scholarships	335,598	337,199
Other Community Services	997,905	836,152
Interest in Supporting Organizations	<u>5,983,727</u>	<u>5,439,630</u>
	<u>\$ 7,406,723</u>	<u>\$ 6,677,049</u>

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

<u>Programs</u>	<u>2005</u>	<u>2004</u>
Scholarships	\$ 506,532	\$ 505,942
Other Community Services	82,131	82,131
Parks and Musical Organizations	<u>1,926,936</u>	<u>1,926,936</u>
	<u>\$ 2,515,599</u>	<u>\$ 2,515,009</u>

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 donor's conditions are met and/or when received by the Foundation.

See Independent Auditor's Report.

**FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004**

Note 9 – Interest 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 Board 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 and 2005, 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>2005</u>	<u>2004</u>
Cash	\$ 26,757	\$ 3,983
Mutual Funds	35,554	293,366
Lyles Diversified, Inc. Stock	6,576,053	5,599,222
Other Assets	-	12,767
Accounts Payable	(9,450)	(14,546)
Taxes Payable	(161,626)	-
Deferred Taxes	<u>(483,561)</u>	<u>(455,162)</u>
Total	<u>\$ 5,983,727</u>	<u>\$ 5,439,630</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 Auditor’s Report.

**FRESNO REGIONAL FOUNDATION
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Note 10 – Restatement

In 2005, the Foundation determined that two of its funds that had received significant contributions during 2004 had been mis-classified. One Fund (“MPA”) that received \$703,255 incorrectly classified the net proceeds as an Agency and Trust Fund receipt rather than a Temporarily Restricted Fund Contribution, while a second fund (“WTEC”) that received \$135,031 incorrectly classified those proceeds as a Temporarily Restricted Fund Contribution rather than as an Agency and Trust Fund receipt.

The MPA fund was originally established in 1993 as part of a fiscal agency agreement between the Foundation and the MPA. In 1996, the MPA ceased operations and the Foundation was named as its successor. When the Foundation was named as successor, it did not have any funds that belonged to the MPA. As successor, the Foundation was named to receive any future monies that might have been due the MPA and was assigned the power to distribute such monies pursuant to a competitive grant making process in which the Foundation would determine the ultimate recipients of any future monies. Since the Foundation received the unilateral right to determine the recipients of any future MPA monies received, it should have classified the 2004 proceeds as Temporarily Restricted Fund Contributions and not as Agency and Trust Fund receipts.

Another fund (“WTEC”) was established to account for \$135,031 that the Foundation received in 2004 pursuant to a fiscal agency relationship between WTEC and the U.S. Department of Agriculture (“Donor”). As fiscal agent, the Foundation did not receive from the Donor a unilateral right to determine the recipients of the funds provided and should have classified the 2004 proceeds as an Agency and Trust Fund receipt and not as a Temporarily Restricted Fund Contributions.

Subsequent to their receipt both the MPA and WTEC funds earned investment income, disbursed amounts in accordance with Donor stipulations and/ or paid administrative assessments to the Foundation.

These classification errors were identified during the 2005 financial statement audit. The Foundation’s financial statements for 2004 have been restated to properly present the 2004 MPA and WTEC fund transactions. As of December 31, 2004, the restatement had the net effect of decreasing the Foundation’s Agency and Trust Funds Liability by \$715,684 and increasing the Foundation’s Net Assets at that date by the same amount.

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Note 11 – Change in Accounting Principle

In 2005, the Foundation changed its method of reporting certain scholarship funds for which it had not been granted a specific variance power but where it had significant discretion and involvement in the determination of the scholarship fund recipients. Previously, the Foundation reported such scholarship funds as Agency and Trust Funds since it lacked a specific variance power. However, those funds where the original donors possess no further advisory or executory responsibilities and had assigned the tasks of identifying, qualifying and otherwise determining scholarship recipients to the Foundation have been reclassified as Temporarily and Permanently Restricted Funds. This classification is consistent with the Foundation's reporting of other scholarship funds where it performs the same or similar activities but for which it did have a specific variance power.

In order to consistently report the Foundation's activities on scholarship funds, it elected to conform its method of reporting on scholarship funds where it exercised a *de facto* variance power with the reporting of those scholarship funds where it had a specific variance power. Management of the Foundation believes the new method is preferable to its prior practice since its scholarship funds activities will now be reported on a uniform basis. This change in accounting principle has been retrospectively applied by restating the balances of the Foundation's Agency and Trust Funds and Permanently Restricted Funds at December 31, 2003. The effect of this change has been to decrease Agency and Trust Funds in the amount of \$326,310, a decrease to Unrestricted Funds by \$26,892, and an increase to Temporarily and Permanently Restricted Funds by \$48,906 and \$304,296, respectively at December 31, 2003.

See Independent Auditor's Report.