



**(A CALIFORNIA NON-PROFIT CORPORATION)**

FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2006 and 2005



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

Years Ended December 31, 2006 and 2005

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HEBERGER  
& MERRITT INC  
Certified Public Accountants

A Professional Corporation

## 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) at December 31, 2006 and 2005, 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, 2006 and 2005, 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.

*Heberger & Merritt*

July 12, 2007

**FRESNO REGIONAL FOUNDATION  
(A CALIFORNIA NON-PROFIT CORPORATION)  
STATEMENT OF FINANCIAL POSITION  
December 31, 2006 and 2005**

ASSETS

	<u>2006</u>	<u>2005</u>
Cash and Cash Equivalents	\$ 2,015,099	\$ 3,393,320
Certificates of Deposit	499,588	799,111
Investment Securities	14,325,680	12,057,380
Grant Receivable	145,000	360,000
Bequest Receivable	1,082,500	-
Assessment Fees and Other Receivables	12,455	9,788
Prepaid Expenses and Other Assets	16,634	25,277
Land Held for Sale	156,816	156,816
Interest in Net Assets of Supporting Organization	8,004,676	5,983,727
Property and Equipment, Net	<u>50,567</u>	<u>5,053</u>
Total Assets	<u>\$ 26,309,015</u>	<u>\$ 22,790,472</u>

LIABILITIES AND NET ASSETS

Accounts Payable	\$ 26,472	\$ 23,236
Accrued Liabilities	17,518	4,740
Grants Payable	139,000	138,291
Agency and Trust Funds	<u>2,742,997</u>	<u>2,707,113</u>
Total Liabilities	2,925,987	2,873,380
Net Assets:		
Unrestricted	10,729,686	9,994,770
Temporarily Restricted	10,154,244	7,406,723
Permanently Restricted	<u>2,499,098</u>	<u>2,515,599</u>
Total Net Assets	<u>23,383,028</u>	<u>19,917,092</u>
Total Liabilities and Net Assets	<u>\$ 26,309,015</u>	<u>\$ 22,790,472</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, 2006 and 2005**

Balance, December 31, 2004	\$ 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	\$ 2,707,113
Contributions	19,169
Grant Income	416,647
Investment Income (Expense):	
Interest and Dividends	182,590
Investment Gains	148,140
Expenses	(15,018)
Administrative Assessments Paid to the Fresno Regional Foundation	(70,336)
Gifts and Grants Made	<u>(645,308)</u>
Balance, December 31, 2006	<u><u>\$ 2,742,997</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, 2006**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues and Support:</b>				
Gifts and Contributions	\$ 3,351,487	\$ 3,838,060	\$ -	\$ 7,189,547
Interest and Dividends	603,946	216,627	-	820,573
Administrative Assessments	342,575	-	-	342,575
Investment Gains	165,615	73,425	-	239,040
Grant Income	10,000	-	-	10,000
Other Income	1,177	-	-	1,177
Net Assets Released from Restrictions	<u>1,397,092</u>	<u>(1,380,591)</u>	<u>(16,501)</u>	<u>-</u>
<b>Total Revenues and Support</b>	<b>5,871,892</b>	<b>2,747,521</b>	<b>(16,501)</b>	<b>8,602,912</b>
<b>Costs and Expenses:</b>				
Program Services	4,734,248	-	-	4,734,248
Supporting Services	163,701	-	-	163,701
Fundraising	<u>239,027</u>	<u>-</u>	<u>-</u>	<u>239,027</u>
<b>Total Costs and Expenses</b>	<b><u>5,136,976</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>5,136,976</u></b>
<b>Change in Net Assets</b>	<b>734,916</b>	<b>2,747,521</b>	<b>(16,501)</b>	<b>3,465,936</b>
<b>Net Assets, Beginning of Year</b>	<b><u>9,994,770</u></b>	<b><u>7,406,723</u></b>	<b><u>2,515,599</u></b>	<b><u>19,917,092</u></b>
<b>Net Assets, End of Year</b>	<b><u><u>\$ 10,729,686</u></u></b>	<b><u><u>\$ 10,154,244</u></u></b>	<b><u><u>\$ 2,499,098</u></u></b>	<b><u><u>\$ 23,383,028</u></u></b>

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>
<b>Revenues and Support:</b>				
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 Income	31,989	-	-	31,989
Net Assets Released from Restrictions	<u>366,692</u>	<u>(366,692)</u>	<u>-</u>	<u>-</u>
 Total Revenues and Support	 6,144,716	 729,674	 590	 6,874,980
 <b>Costs and Expenses:</b>				
Program Services	3,530,804	-	-	3,530,804
Supporting Services	202,524	-	-	202,524
Fundraising	<u>77,505</u>	<u>-</u>	<u>-</u>	<u>77,505</u>
 Total Costs and Expenses	 <u>3,810,833</u>	 <u>-</u>	 <u>-</u>	 <u>3,810,833</u>
 Change in Net Assets	 2,333,883	 729,674	 590	 3,064,147
 Net Assets, Beginning of Year, Restated	 <u>7,660,887</u>	 <u>6,677,049</u>	 <u>2,515,009</u>	 <u>16,852,945</u>
 Net Assets, End of Year	 <u><u>\$ 9,994,770</u></u>	 <u><u>\$ 7,406,723</u></u>	 <u><u>\$ 2,515,599</u></u>	 <u><u>\$ 19,917,092</u></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, 2006**

	Program Services	Supporting Services	Fundraising	Total Expenses
Salaries	\$ 170,677	\$ 74,477	\$ 65,168	\$ 310,322
Payroll Taxes and Related	42,525	18,556	16,237	77,318
Workman's Compensation	2,666	1,163	1,019	4,848
Temporary Staffing	755	329	288	1,372
Total Personnel Costs	<u>216,623</u>	<u>94,525</u>	<u>82,712</u>	<u>393,860</u>
Accounting and Audit	4,253	8,505	4,252	17,010
Administrative Assessments	231,188	-	-	231,188
Board Receptions	220	96	84	400
Education and Training	1,512	660	577	2,749
Fees and Memberships	5,346	2,333	2,040	9,719
Gifts, Grants and Program Events	4,127,842	-	-	4,127,842
Insurance	4,602	2,008	1,757	8,367
Investment Management Services	56,382	-	-	56,382
Legal Fees	-	5,800	-	5,800
Marketing and Advertising	-	-	16,667	16,667
Meeting, Luncheons, Dinners	4,791	2,396	40,727	47,914
Office Supplies	20,256	8,839	7,734	36,829
Other	7,003	393	482	7,878
Postage	1,959	855	747	3,561
Printing	8,538	3,726	3,259	15,523
Project Consultants	9,261	18,522	64,826	92,609
Rent and Related	26,355	11,501	10,063	47,919
Telephone	2,131	930	814	3,875
Travel and Auto	2,149	938	821	3,908
Sub-Total	<u>4,513,788</u>	<u>67,502</u>	<u>154,850</u>	<u>4,736,140</u>
Total Expenses Before Depreciation	4,730,411	162,027	237,562	5,130,000
Depreciation and Amortization	<u>3,837</u>	<u>1,674</u>	<u>1,465</u>	<u>6,976</u>
Total Costs and Expenses	<u>\$ 4,734,248</u>	<u>\$ 163,701</u>	<u>\$ 239,027</u>	<u>\$ 5,136,976</u>

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

**FRESNO REGIONAL FOUNDATION**  
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**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2005**

	Program Services	Supporting Services	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><u>\$ 3,530,804</u></u>	<u><u>\$ 202,524</u></u>	<u><u>\$ 77,505</u></u>	<u><u>\$ 3,810,833</u></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, 2006 and 2005**

	2006	2005
Cash Flows From Operating Activities:		
Change in Net Assets	\$ 3,465,936	\$ 3,064,147
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Depreciation and Amortization	6,976	7,006
Gain on Sale of Property and Equipment	(1,177)	-
Investment Gains	(239,040)	(241,810)
Donated Securities	(982,690)	(146,437)
Interest in Net Assets of Supporting Organization	(2,020,949)	(544,097)
Changes in Operating Assets and Liabilities:		
Grants Receivable	215,000	(360,000)
Bequest Receivable	(1,082,500)	-
Assessment Fees and Other Receivables	(2,667)	6,519
Prepaid Expenses and Other Assets	8,643	(8,901)
Accounts and Grants Payable	3,945	113,917
Accrued Liabilities	12,778	515
Agency and Trust Funds	35,884	(111,303)
	(579,861)	1,779,556
Net Cash Provided By (Used In) Operating Activities		
Cash Flows Provided By (Used In) Investing Activities:		
Agency and Trust Funds	(35,884)	111,303
Proceeds From Sale of Property and Equipment	1,177	-
Purchase of Property and Equipment	(52,490)	(920)
Purchase of Investment Securities	(10,361,382)	(5,820,293)
Proceeds From Sales of Investment Securities	9,650,219	5,592,165
Proceeds From Sale of Real Estate	-	384,042
	(798,360)	266,297
Net Cash Provided By (Used In) Investing Activities		
Increase (Decrease) in Cash and Cash Equivalents	(1,378,221)	2,045,853
Cash and Cash Equivalents, Beginning of Year	3,393,320	1,347,467
Cash and Cash Equivalents, End of Year	\$ 2,015,099	\$ 3,393,320

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, 2006 and 2005**

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 150 separate donor 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 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.

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, 2006 and 2005**

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 separate donor funds based on their relative fair 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 occur. The Foundation's investment managers or advisors state such investments at their estimated fair 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, 2006 and 2005**

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.

Donated In-Kind Gifts and Services

Donated in-kind gifts are recognized as contributions if they have ascertainable fair values and are able to be realized in cash or other liquid assets. Donated services are recognized as contributions if they 1) significantly enhance non-financial assets or 2) involve a service that would otherwise have been purchased and whose values can be objectively measured. During the year ended December 31, 2006, the Foundation received and recognized approximately \$3,700 of donated legal fees and rent. There were no such donations in 2005.

Marketing and Advertising

The Foundation expenses all marketing and advertising costs as incurred. Total marketing and advertising costs for the years ended December 31, 2006 and 2005 were \$16,667 and \$3,305, 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 resources utilized in the function. Supporting services consist principally of general, administrative and management costs not directly allocable to Program Services or Fundraising Activities.

Interest in Net Assets of Supporting Organizations

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 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 generally reclassified to Unrestricted Funds.

See Independent Auditor's Report.

**FRESNO REGIONAL FOUNDATION  
(A CALIFORNIA NON-PROFIT CORPORATION)  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2006 and 2005**

Note 3 – Property and Equipment, Net

Property and equipment consists of the following at December 31,

	2006	2005
Furniture, Fixtures and Office Equipment	\$ 106,366	\$ 113,937
Leasehold Improvements	-	14,892
	106,366	128,829
Less: Accumulated Depreciation	55,799	123,776
Total Property and Equipment, Net	\$ 50,567	\$ 5,053

Depreciation and amortization expense for the years ended December 31, 2006 and 2005 were \$6,976 and \$7,006 respectively.

Note 4 – Retirement Plan

The Foundation maintains a 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, 2006 and 2005 were \$18,750 each.

Note 5 – Lease Commitment

The Foundation entered into a new lease agreement for its administrative office. Monthly rent expense is \$2,445, including janitorial and utilities. The aggregate future commitment remaining on this lease is \$149,145 and is set to expire February 2012. Amounts due under the total lease are as follows: \$29,340 each year from 2007 through 2011, and \$2,445 due in 2012.

Rent expense for the years ended December 31, 2006 and 2005 were \$42,801 and \$30,160 respectively.

See Independent Auditor's Report.

**FRESNO REGIONAL FOUNDATION**  
**(A CALIFORNIA NON-PROFIT CORPORATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended December 31, 2006 and 2005**

Note 6 – Investment Securities

Investment securities consist of the following at December 31,

	2006		2005	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Fixed Income	\$ 5,607,503	\$ 5,564,837	\$ 3,365,920	\$ 4,097,795
Domestic Equities	5,323,849	6,542,675	5,626,772	6,278,094
International Equities	2,012,095	2,218,168	1,419,597	1,681,491
Total Investments	\$ 12,943,447	\$ 14,325,680	\$ 10,412,289	\$ 12,057,380

At December 31, 2006, approximately \$14,325,000 of the Foundation’s investment securities, and approximately \$233,000 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 \$60,000,000 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, 2006, approximately \$994,000 of the Foundation’s cash and cash equivalents was held by UBS Financial Services (“UBS”), an independent investment management and advisory firm. The funds with UBS are covered by a combination of insurance provided by SIPC and private insurance provided by UBS.

At December 31, 2006, approximately \$786,000 of the Foundation’s funds, including approximately \$286,000 of cash and cash equivalents and \$500,000 of certificates of deposit, was held by Morgan Stanley, an independent investment management and advisory firm. The funds with Morgan Stanley are covered by a combination of insurance provided by FDIC and private insurance provided by Morgan Stanley.

The Foundation also maintains cash balances in various accounts with other financial institutions. At December 31, 2006, amounts in excess of insurance provided by either the FDIC or SIPC were approximately \$397,000. No amounts were in excess of these insurances at December 31, 2005.

See Independent Auditor’s Report.

**FRESNO REGIONAL FOUNDATION**  
**(A CALIFORNIA NON-PROFIT CORPORATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended December 31, 2006 and 2005**

Note 7 – Restricted Net Assets

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

<u>Programs</u>	<u>2006</u>	<u>2005</u>
Arts and Culture	\$ 132,269	\$ -
Health and Human Services	59,057	40,789
Visually Handicapped Services	53,557	48,704
Scholarships	1,665,790	335,598
Parks and Musical Organizations	5,112	-
Other Community Services	233,783	997,905
Interest in Supporting Organizations	8,004,676	5,983,727
	<u>\$ 10,154,244</u>	<u>\$ 7,406,723</u>

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

<u>Programs</u>	<u>2006</u>	<u>2005</u>
Scholarships	\$ 499,921	\$ 506,532
Other Community Services	72,241	82,131
Parks and Musical Organizations	1,926,936	1,926,936
	<u>\$ 2,499,098</u>	<u>\$ 2,515,599</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 the donor's conditions are met and/or when received by the Foundation.

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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 Boards of Directors with a majority of the members appointed by the Fresno Regional Foundation and the balance being selected by the donor.

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 2005 and 2006, 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. The value of the stock is determined by an independent business valuation expert upon donation and annually thereafter.

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

	<u>2006</u>	<u>2005</u>
Cash and Cash Equivalents	\$ 365,524	\$ 26,757
Mutual Funds	41,115	35,554
Lyles Diversified, Inc. Stock	8,155,527	6,576,053
Accounts Payable	(9,955)	(9,450)
Taxes Payable	(89,744)	(161,626)
Deferred Taxes	<u>(457,791)</u>	<u>(483,561)</u>
Total	<u>\$ 8,004,676</u>	<u>\$ 5,983,727</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.

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Note 10 – Bequests

During 2006, the Foundation was notified it was named as one of the beneficiaries of an estate. Objective amounts to be received under the bequest of \$1,082,500 have been recorded as a Bequest Receivable. However, other amounts will also be received that have not yet been recognized as a donation since the estate's accounting and marshalling of assets has not yet been completed. Amounts ultimately available to the Foundation from this estate are dependent upon future events and valuation assessments cannot be reasonably determined at this time. Such amounts will be recognized as donations when actually distributed to the Foundation by the estate.

See Independent Auditor's Report.