



(A CALIFORNIA NON-PROFIT CORPORATION)

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2007 and 2006 (Restated)



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

Years Ended December 31, 2007 and 2006 (Restated)

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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) as of December 31, 2007 and 2006 (restated-see Note 11), 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 as of December 31, 2007 and 2006, 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.

August 28, 2008

**FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION
December 31, 2007 and 2006**

ASSETS

	<u>2007</u>	<u>Restated 2006</u>
Cash and Cash Equivalents	\$ 4,918,758	\$ 2,015,099
Certificates of Deposit	299,970	499,588
Investment Securities	18,153,496	14,325,680
Grant Receivable	851,850	145,000
Bequest Receivable	1,760,000	1,082,500
Assessment Fees and Other Receivables	135,524	12,455
Prepaid Expenses and Other Assets	18,595	16,633
Land Held for Sale	3,940,816	156,816
Interest in Net Assets of Supporting Organization	15,048,496	8,004,676
Property and Equipment, Net	<u>38,350</u>	<u>50,567</u>
Total Assets	<u>\$ 45,165,855</u>	<u>\$ 26,309,014</u>

LIABILITIES AND NET ASSETS

Accounts Payable	\$ 2,989	\$ 26,471
Accrued Expenses	18,130	17,518
Grants Payable	7,500	139,000
Agency and Trust Funds	<u>642,124</u>	<u>482,311</u>
Total Liabilities	670,743	665,300
Net Assets:		
Unrestricted	17,545,868	10,656,435
Temporarily Restricted	20,837,832	11,332,431
Permanently Restricted	<u>6,111,412</u>	<u>3,654,848</u>
Total Net Assets	<u>44,495,112</u>	<u>25,643,714</u>
Total Liabilities and Net Assets	<u>\$ 45,165,855</u>	<u>\$ 26,309,014</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, 2007 and 2006

Balance, December 31, 2005, Restated	\$ 463,523
Contributions	6,800
Grant Income	429,014
Investment Income (Expense):	
Interest and Dividends	31,129
Investment Gains	19,081
Expenses	(1,897)
Administrative Assessments Paid to the Fresno Regional Foundation	(24,258)
Gifts and Grants Made	<u>(441,081)</u>
Balance, December 31, 2006, Restated	\$ 482,311
Contributions	139,788
Grant Income	330,781
Investment Income (Expense):	
Interest and Dividends	37,712
Investment Losses	(757)
Expenses	(2,149)
Administrative Assessments Paid to the Fresno Regional Foundation	(19,116)
Gifts and Grants Made	<u>(326,446)</u>
Balance, December 31, 2007	<u><u>\$ 642,124</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, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Support:				
Gifts and Contributions	\$ 11,434,215	\$ 7,540,209	\$ 2,456,564	\$ 21,430,988
Interest and Dividends	533,213	461,868	-	995,081
Administrative Assessments	354,341	-	-	354,341
Investment Gains (Losses), Net	(676,902)	17,197	-	(659,705)
Grant Income	135,000	1,905,000	-	2,040,000
Total Revenues and Support before Net Assets Released from Restrictions	<u>11,779,867</u>	<u>9,924,274</u>	<u>2,456,564</u>	<u>24,160,705</u>
Net Assets Released from Restrictions	<u>418,873</u>	<u>(418,873)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support after Reclassification of Net Assets Released From Restrictions	12,198,740	9,505,401	2,456,564	24,160,705
Costs and Expenses:				
Program Services	4,996,845	-	-	4,996,845
Supporting Services	143,880	-	-	143,880
Fundraising	168,582	-	-	168,582
Total Costs and Expenses	<u>5,309,307</u>	<u>-</u>	<u>-</u>	<u>5,309,307</u>
Change in Net Assets	6,889,433	9,505,401	2,456,564	18,851,398
Net Assets, Beginning of Year, Restated	<u>10,656,435</u>	<u>11,332,431</u>	<u>3,654,848</u>	<u>25,643,714</u>
Net Assets, End of Year	<u><u>\$ 17,545,868</u></u>	<u><u>\$ 20,837,832</u></u>	<u><u>\$ 6,111,412</u></u>	<u><u>\$ 44,495,112</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>Restated Total</u>
Revenues and Support:				
Gifts and Contributions	\$ 3,351,487	\$ 2,682,309	\$ 1,155,750	\$ 7,189,546
Interest and Dividends	530,697	441,339	-	972,036
Administrative Assessments	342,575	-	-	342,575
Investment Gains, Net	165,616	202,485	-	368,101
Grant Income	10,000	-	-	10,000
Other Income	1,177	-	-	1,177
Total Revenues and Support before Net Assets Released from Restrictions	<u>4,401,552</u>	<u>3,326,133</u>	<u>1,155,750</u>	<u>8,883,435</u>
Net Assets Released from Restrictions	<u>1,660,518</u>	<u>(1,644,017)</u>	<u>(16,501)</u>	<u>-</u>
Total Revenue and Support after Reclassification of Net Assets Released From Restrictions	6,062,070	1,682,116	1,139,249	8,883,435
Costs and Expenses:				
Program Services	4,997,674	-	-	4,997,674
Supporting Services	163,701	-	-	163,701
Fundraising	239,027	-	-	239,027
Total Costs and Expenses	<u>5,400,402</u>	<u>-</u>	<u>-</u>	<u>5,400,402</u>
Change in Net Assets	661,668	1,682,116	1,139,249	3,483,033
Net Assets, Beginning of Year, Restated	<u>9,994,767</u>	<u>9,650,315</u>	<u>2,515,599</u>	<u>22,160,681</u>
Net Assets, End of Year, Restated	<u>\$ 10,656,435</u>	<u>\$ 11,332,431</u>	<u>\$ 3,654,848</u>	<u>\$ 25,643,714</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, 2007

	Program Services	Supporting Services	Fundraising	Total Expenses
Salaries	\$ 181,930	\$ 75,261	\$ 84,992	\$ 342,183
Payroll Taxes and Benefits	37,639	15,570	17,584	70,793
Workman's Compensation	2,454	1,015	1,147	4,616
Total Personnel Costs	<u>222,023</u>	<u>91,846</u>	<u>103,723</u>	<u>417,592</u>
Accounting and Audit	10,899	4,509	5,092	20,500
Administrative Assessments	282,895	-	-	282,895
Board Receptions	1,040	430	486	1,956
Capacity Building	16,411	6,789	7,667	30,867
Education and Training	1,116	462	521	2,099
Fees and Memberships	7,349	3,040	3,433	13,822
Gifts, Grants and Program Events	4,302,004	-	-	4,302,004
Insurance	4,713	1,950	2,202	8,865
Investment Management Services	64,141	-	-	64,141
Legal Fees	8,979	3,714	4,194	16,887
Marketing and Advertising	-	-	6,098	6,098
Meeting, Luncheons, Dinners	1,674	692	782	3,148
Office Supplies	15,346	6,348	7,169	28,863
Other	8,166	3,378	3,814	15,358
Postage	401	166	188	755
Printing	10,327	4,272	4,825	19,424
Project Consultants	5,201	2,151	2,429	9,781
Rent and Related	22,831	9,445	10,666	42,942
Taxes & Licenses	101	42	47	190
Telephone	1,357	562	634	2,553
Travel and Auto	2,138	885	999	4,022
Web Related	789	327	369	1,485
Sub-Total	<u>4,767,878</u>	<u>49,162</u>	<u>61,615</u>	<u>4,878,655</u>
Total Expenses Before Depreciation	4,989,901	141,008	165,338	5,296,247
Depreciation	6,944	2,872	3,244	13,060
Total Costs and Expenses	<u>\$ 4,996,845</u>	<u>\$ 143,880</u>	<u>\$ 168,582</u>	<u>\$ 5,309,307</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	Restated 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	277,266	-	-	277,266
Board Receptions	220	96	84	400
Capacity Building	-	-	-	-
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	4,332,822	-	-	4,332,822
Insurance	4,602	2,008	1,757	8,367
Investment Management Services	68,750	-	-	68,750
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
Taxes and Licenses	-	-	-	-
Telephone	2,131	930	814	3,875
Travel and Auto	2,149	938	821	3,908
Web Related	-	-	-	-
Sub-Total	<u>4,777,214</u>	<u>67,502</u>	<u>154,850</u>	<u>4,999,566</u>
Total Expenses Before Depreciation	4,993,837	162,027	237,562	5,393,426
Depreciation	<u>3,837</u>	<u>1,674</u>	<u>1,465</u>	<u>6,976</u>
Total Costs and Expenses	<u>\$ 4,997,674</u>	<u>\$ 163,701</u>	<u>\$ 239,027</u>	<u>\$ 5,400,402</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, 2007 and 2006

	2007	Restated 2006
Cash Flows From Operating Activities:		
Change in Net Assets	\$ 18,851,398	\$ 3,483,033
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Depreciation	13,060	6,976
(Gain) Loss on Sale of Property and Equipment	358	(1,177)
Investment (Gains) Losses	659,705	(368,101)
Donated Securities	(1,211,438)	(982,690)
Donated Land	(3,784,000)	-
Interest in Net Assets of Supporting Organization	(7,043,820)	(2,020,949)
Changes in Operating Assets and Liabilities:		
Grants Receivable	(706,850)	215,000
Bequest Receivable	(677,500)	(1,082,500)
Assessment Fees and Other Receivables	(123,069)	(2,667)
Prepaid Expenses and Other Assets	(1,962)	8,643
Accounts and Grants Payable	(154,982)	3,945
Accrued Expenses	612	12,778
Agency and Trust Funds	159,813	18,787
Net Cash Provided By (Used In) Operating Activities	5,981,325	(708,922)
Cash Flows Provided By (Used In) Investing Activities:		
Agency and Trust Funds	(159,813)	(18,787)
Proceeds From Sale of Property and Equipment	-	1,177
Purchase of Property and Equipment	(1,201)	(52,490)
Purchase of Investment Securities	(8,878,114)	(10,249,418)
Proceeds From Sales of Investment Securities	5,961,462	9,650,219
Net Cash Used In Investing Activities	(3,077,666)	(669,299)
Increase (Decrease) in Cash and Cash Equivalents	2,903,659	(1,378,221)
Cash and Cash Equivalents, Beginning of Year	2,015,099	3,393,320
Cash and Cash Equivalents, End of Year	\$ 4,918,758	\$ 2,015,099

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, 2007 and 2006 (Restated)

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, 2007 and 2006 (Restated)

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 the lesser of net realizable value or its estimated fair value on the date donated, as determined by real estate sales options applicable to the land, formal real estate appraisals 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 non-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, 2007 and 2006 (Restated)

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. The Foundation did not receive any donated services during 2007. During the year ended December 31, 2006, the Foundation received and recognized approximately \$3,700 of donated services.

Marketing and Advertising

The Foundation expenses all marketing and advertising costs as incurred. Total marketing and advertising costs for the years ended December 31, 2007 and 2006 was \$6,098 and \$16,667, respectively.

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, losses or make donations to the Foundation or other qualifying charitable organizations. Increases in the Foundation's Interest in Net Assets of Supporting Organizations are considered contributions and included with the Foundation's Temporarily Restricted Funds. When the Supporting Organization makes donations to the Foundation, such amounts are generally classified as Unrestricted Funds. Decreases, if any, in the Foundation's Interest in Net Assets of Supporting Organizations are deemed to be investment losses. None of the Foundation's Supporting Organizations have ever incurred a decrease in Net Assets.

See Independent Auditor's Report.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2007 and 2006 (Restated)

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

Note 3 – Property and Equipment, Net

Property and equipment consists of the following at December 31,

	2007	2006
Furniture, Fixtures and Office Equipment	\$ 106,647	\$ 106,366
Less: Accumulated Depreciation	68,297	55,799
Total Property and Equipment, Net	\$ 38,350	\$ 50,567

Depreciation expense for the years ended December 31, 2007 and 2006 was \$13,060 and \$6,976 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, 2007 and 2006 were \$15,205 and \$18,750 respectively.

Note 5 – Lease Commitment

The Foundation entered into a new lease agreement for its administrative office in 2006. Monthly rent expense is \$3,646 including janitorial and utilities. The aggregate future commitment remaining on this lease is \$178,654 and is set to expire February 2012. Amounts due under the total lease are as follows: \$43,752 each year from 2007 through 2011, and \$3,646 due in 2012.

Office rent expense for the years ended December 31, 2007 and 2006 was \$42,554 and \$42,801 respectively.

See Independent Auditor’s Report.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2007 and 2006 (Restated)

Note 6 – Investment Securities

Investment securities consist of the following at December 31,

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Fixed Income	\$ 9,237,303	\$ 9,212,146	\$ 5,607,503	\$ 5,564,837
Domestic Equities	6,434,633	6,771,654	5,323,849	6,542,675
International Equities	2,215,143	2,169,696	2,012,095	2,218,168
Total Investments	\$ 17,887,079	\$ 18,153,496	\$ 12,943,447	\$ 14,325,680

At December 31, 2007, approximately \$15,833,000 of the Foundation's funds, including approximately \$956,000 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 manages the Foundation's funds in accordance with an Investment Policy established by the Foundation's Investment Committee after considering the Foundation's needs for near term financial resources, appropriate asset allocations and diversification. SEI provides insurance to protect the Foundation's custodial account balances from SEI's 1) errors and omissions, an aggregate of \$75,000,000 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, 2007, approximately \$1,553,000 of the Foundation's funds, including approximately \$1,230,000 of cash and cash equivalents and \$300,000 of certificates of deposit, were 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.

At December 31, 2007, approximately \$5,919,000 of the Foundation's funds, including approximately \$2,666,000 of cash and cash equivalents was held by Lehman Brothers, an independent investment management and advisory firm. The funds with Lehman Brothers are covered by a combination of insurance provided by SIPC and private insurance provided by Lehman Brothers.

The Foundation also maintains cash balances in various accounts with other financial institutions. No amounts were in excess of insurance coverages at December 31, 2007. At December 31, 2006, amounts in excess of insurance provided by either the FDIC or SIPC were approximately \$397,000.

The cumulative gain on investments at ended December 31, 2007 and 2006 was \$266,417 and \$1,382,233, respectively.

See Independent Auditor's Report.

FRESNO REGIONAL FOUNDATION
(A CALIFORNIA NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2007 and 2006 (Restated)

Note 7 – Restricted Net Assets

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

<u>Programs</u>	<u>2007</u>	<u>2006</u>
Arts and Culture	\$ 224,547	\$ 132,269
Community Development	74,439	-
Donor Advised Funds	1,509	-
Health and Human Services	3,664,891	1,237,244
Interest in Supporting Organizations	15,048,496	8,004,676
Other Community Services	1,017,035	233,783
Parks and Musical Organizations	38,984	5,112
Scholarships	711,992	1,665,790
Visually Handicapped Services	55,939	53,557
	<u>\$ 20,837,832</u>	<u>\$ 11,332,431</u>

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

<u>Programs</u>	<u>2007</u>	<u>2006</u>
Community Development	\$ 1,760,000	\$ -
Donor Advised Funds	696,564	-
Other Community Services	1,227,991	1,227,991
Parks and Musical Organizations	1,926,936	1,926,936
Scholarships	499,921	499,921
	<u>\$ 6,111,412</u>	<u>\$ 3,654,848</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/or 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 non-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 non-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 2006 and 2007, the Lyles Foundation Trust received donations consisting of shares of stock in privately held businesses that had 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:

	2007	2006
Cash and Cash Equivalents	\$ 94,554	\$ 365,524
Investment Securities	483,896	41,115
Lyles Diversified, Inc., Common Stock	8,907,316	8,155,527
Lyles United, LLC, Member Interest	6,318,100	-
Pelco Sales, Inc., Common Stock	568,521	-
Accounts Payable	(129,524)	(9,955)
Unrelated Business Income Tax:		
Current	(707,227)	(89,744)
Deferred	(487,140)	(457,791)
Total	\$ 15,048,496	\$ 8,004,676

The Silkwood Foundation was established in 2001 as a non-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

In 2006, the Foundation was notified it was named as one of the beneficiaries of an estate. The Foundation has received certain amounts bequested by the estate and has recorded those amounts as donations in the year received. The complete accounting and marshalling of assets of the estate have not yet been completed. Remaining amounts ultimately available to the Foundation from this estate are dependent upon future events and valuations assessments and cannot be reasonably determined at this time. Such amounts will be recognized as donations when actually distributed to the Foundation by the estate.

Note 11 – Restatement

During 2007, the Foundation determined that three of its Funds had been misclassified in prior financial statements. Two Funds were originally established in 1994 in an agreement between the Foundation and Blue Cross of California. Those Funds are to be expended for, among other things, medical care training programs, recruitment, training, and retention of primary care physicians in the Central California area.

The two Funds were originally classified as Agency and Trust Funds. However, at the time of the contribution, the Foundation was granted sole authority to determine the ultimate recipients of the Funds and thus received a variance power with respect to the Funds. The Funds should have been classified as Temporarily Restricted Funds and not as Agency and Trust Funds.

Another Fund was established during 2006 when the Foundation was notified it was one of several beneficiaries of an estate. At the time of the bequest, the Foundation classified the Fund as Temporarily Restricted as the monies had not yet been disbursed to the Foundation in that year. Subsequently in 2007, the Foundation received additional information regarding the terms of the bequest, in which the Fund should have been classified as Permanently Restricted. The terms of the bequest require that the Foundation establish a permanent endowment fund to support education and leadership training for economically disadvantaged youth.

These misclassifications were identified during the 2007 financial statement audit. The Foundation's financial statements for 2006 have been restated to properly present the misclassified funds. As of December 31, 2006, the restatements had the net effect of decreasing the Foundation's Agency and Trust Funds Liability by \$2,260,686 and decreasing the Foundation's Unrestricted Net Assets, increasing Temporarily Restricted Net Assets, and increasing Permanently Restricted Net Assets by \$73,250, \$1,178,186, and \$1,155,750, respectively.

See Independent Auditor's Report.