

HORIZONS FOUNDATION

REPORT ON AUDIT OF FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

**Ghaffari, Zaragoza and Setchko LLP
CERTIFIED PUBLIC ACCOUNTANTS**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Horizons Foundation
San Francisco, California

We have audited the accompanying statement of financial position of Horizons Foundation as of December 31, 2003, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 basic 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 audit provides 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 Horizons Foundation as of December 31, 2003, and the changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Ghaffari, Zaragoza & Setchko LLP

March 26, 2004
Oakland, California

Horizons Foundation

Statement of Financial Position At December 31, 2003

ASSETS

Current Assets:

Cash and cash equivalents (Note 3)	\$220,648
Investments (Note 4)	1,573,074
Grants receivable	631,013
Other receivables	23,078
Prepaid expenses	<u>13,255</u>

Total Current Assets 2,461,068

Investments restricted for long-term purposes (Note 4)	916,826
Property and equipment (Note 5)	30,752
Deposits and other assets (Note 6)	<u>17,524</u>

Total Assets \$3,426,170

LIABILITIES AND NET ASSETS

LIABILITIES

Current Liabilities:

Grants payable	\$370,421
Accounts payable and accrued expenses	36,135
Accrued vacation	13,800
Deferred revenue	<u>1,325</u>

Total Current Liabilities 421,681

Total Liabilities 421,681

NET ASSETS

Unrestricted	1,551,340
Temporarily restricted (Note 7)	536,323
Permanently restricted	<u>916,826</u>

Total Net Assets 3,004,489

Total Liabilities and Net Assets \$3,426,170

See notes to financial statements

Horizons Foundation

Statement of Activities
Year Ended December 31, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support:				
Contributions from individuals	\$299,839	\$0	\$0	\$299,839
Foundation and corporation grants	11,920	1,133,850	0	1,145,770
Special event revenue and contribution	117,351	(30,000)	0	87,351
Special event direct expense	(29,272)	0	0	(29,272)
Bequests	46,262	0	0	46,262
Net assets released from restrictions:				
Purpose accomplished	1,286,651	(1,286,651)	0	0
Total support	1,732,751	(182,801)	0	1,549,950
Revenue:				
Fees for services	65,180	0	0	65,180
Rental income	22,775	0	0	22,775
Interest and dividends	66,484	0	0	66,484
Net gain on investments	288,809	0	0	288,809
Other income	1,026	0	0	1,026
Total revenue	444,274	0	0	444,274
Total Support and Revenue	2,177,025	(182,801)	0	1,994,224
Expenses:				
Program services:				
Grantmaking	1,378,257	0	0	1,378,257
Capacity Building	100,291	0	0	100,291
Promoting Philanthropy	135,992	0	0	135,992
Total program services	1,614,540	0	0	1,614,540
Supporting services:				
Management and general	175,183	0	0	175,183
Fundraising	201,203	0	0	201,203
Total supporting services	376,386	0	0	376,386
Total Expenses	1,990,926	0	0	1,990,926
Change in net assets	186,099	(182,801)	0	3,298
Net assets at beginning of year, restated (Note 8)	1,365,241	719,124	916,826	3,001,191
Net assets at end of year	\$1,551,340	\$536,323	\$916,826	\$3,004,489

See notes to financial statements

Horizons Foundation

Statement of Cash Flows Year Ended December 31, 2003

Cash flows from operating activities:

Change in net assets	\$3,298
Adjustments to reconcile change in net assets to cash from operating activities:	
Depreciation	23,873
Donated securities	(53,384)
Net gain from investments	(288,809)
(Increase) decrease in operating assets:	
Receivables	2,812
Prepays	(2,819)
Deposits	(502)
Increase (decrease) in operating liabilities:	
Grants payable	131,221
Accounts payable and accrued expenses	<u>33,761</u>
Net cash used by operating activities	<u>(150,549)</u>
Cash flows from investing activities:	
Purchase of investments	(309,471)
Proceeds from sale and maturities of investments	388,973
Purchase of equipment	<u>(4,117)</u>
Net cash provided by investing activities	<u>75,385</u>
Net decrease in cash and cash equivalents	(75,164)
Cash and cash equivalents at beginning of year	<u>295,812</u>
Cash and cash equivalents at end of year	<u><u>\$220,648</u></u>

See notes to financial statements

Horizons Foundation

Statement of Functional Expenses
Year Ended December 31, 2003

	Program Services			Supporting Services		Total
	Grant-making	Capacity Building	Promoting Philanthropy	Management & General	Fundraising	
Grants	\$1,164,900	\$0	\$0	\$0	\$0	\$1,164,900
Salaries	75,591	34,898	63,702	26,585	54,974	255,750
Payroll taxes	6,632	2,497	4,220	1,956	3,713	19,018
Employee health benefits	8,848	3,332	5,630	2,610	4,954	25,374
Employee retirement benefits (Note 9)	2,474	932	1,574	730	1,385	7,095
Workers compensation	1,989	749	1,266	587	1,114	5,705
Staff development	105	39	67	31	304	546
Recruitment	0	0	0	294	147	441
Total personnel	95,639	42,447	76,459	32,793	66,591	313,929
Audit and accounting	24,562	0	0	106,984	0	131,546
Other professional services	5,508	17,893	300	0	33,035	56,736
Computer consulting	4,031	1,614	13,020	1,732	3,642	24,039
Writing/editing	1,660	780	1,054	1,363	18,505	23,362
Design consulting	1,712	3,700	1,237	1,406	9,533	17,588
Coaching	0	7,900	0	0	0	7,900
Management consulting	1,036	1,194	51	1,565	1,380	5,226
Mailhouse	267	125	494	219	2,271	3,376
Payroll service	0	0	0	2,564	0	2,564
Interpreters	0	1,208	0	0	0	1,208
Total professional services	38,776	34,414	16,156	115,833	68,366	273,545
Rent	32,053	12,069	20,395	9,456	17,944	91,917
Printing/copying	5,431	1,817	3,274	3,009	20,422	33,953
Meeting supplies	631	488	350	900	0	2,369
Depreciation	8,325	3,135	5,297	2,456	4,660	23,873
Postage/delivery	1,983	674	1,970	735	12,564	17,926
Investment fees	16,607	0	0	116	0	16,723
Telephone	2,819	1,062	1,794	832	1,578	8,085
Promotion	1,779	710	3,131	853	1,217	7,690
Insurance	1,574	593	1,002	464	881	4,514
Office supplies	1,546	582	984	456	866	4,434
Meals	107	311	68	349	1,818	2,653
Computer supplies	1,377	543	876	546	909	4,251
Bank fees	510	0	0	2,906	0	3,416
Internet	649	297	881	488	682	2,997
Maintenance and repair	1,000	377	637	295	560	2,869
Books, dues and subscriptions	571	215	1,252	168	319	2,525
Out-of-town travel	630	237	401	186	865	2,319
Local travel	213	5	33	233	493	977
Merchant services fees	302	0	0	1,834	0	2,136
Equipment rental	212	80	135	62	118	607
Permits and licenses	18	7	11	35	10	81
Other expenses	605	228	886	178	340	2,237
Total other expenses	78,942	23,430	43,377	26,557	66,246	238,552
Total expenses	\$1,378,257	\$100,291	\$135,992	\$175,183	\$201,203	\$1,990,926

See notes to financial statements

HORIZONS FOUNDATION

Notes to Financial Statements
Year Ended December 31, 2003

Note 1 - Organization

Horizons Foundation (the foundation) is a public community foundation created in 1980. The foundation is dedicated to serving the lesbian, gay, bisexual and transgender (LGBT) community primarily within the nine-county San Francisco Bay Area. The foundation's principal objectives are to encourage philanthropic activism within and for the LGBT community and to provide financial and technical assistance for nonprofit organizations serving the LGBT community.

The foundation's office is located in San Francisco, California, and its activities are primarily supported by grants and contributions from private foundations, corporations and individuals.

Note 2 – Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies followed in the preparation of the accompanying financial statements:

- a) Accrual Method of Accounting – The financial statements of the foundation have been prepared using the accrual method of accounting.
- b) Basis of Presentation – Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, current support and net assets of the foundation and changes therein are classified and reported as follows:

Unrestricted net assets at December 31, 2003 represent net assets that are not subject to donor-imposed stipulations including \$1,659,718 in donor advised funds. Although grant recommendations are accepted from the donors or other advisors of these funds, the foundation has variance power; that is, the ultimate discretion over the use of these funds lies with the Board of Directors. Thus, such funds represent unrestricted net assets to the foundation. *Unrestricted support for the year ended December 31, 2003* on the statement of activities represent current income of the organization that was either received without restrictions, or spent during the period in accomplishment of restricted purposes or time. Therefore the unrestricted column in the statement of activities represents results of foundation's operations during the current period with a surplus of \$186,099 for the year.

HORIZONS FOUNDATION

Notes to Financial Statements
Year Ended December 31, 2003

Note 2 – Summary of Significant Accounting Policies (Continued)

Temporarily restricted net assets at December 31, 2003 represent net assets subject to donor-imposed stipulations that may or will be met either by actions of the foundation and/or the passage of time. *Temporarily restricted support for the year ended December 31, 2003* on the statement of activities represent current commitments received from donors with purpose or time restrictions and those spent during the period for such restricted purposes and/or time. Therefore the temporarily restricted column on the statement of activities represents only receipt and release of temporarily restricted donations and grants.

Permanently restricted net assets at December 31, 2003 are restricted by the donor for investment in perpetuity, and the foundation does not have the right to invade the original principal. The income from such invested assets, including net realized and unrealized gains is available to support the activities of the foundation.

- c) Cash and Cash Equivalents – For purposes of the statement of cash flows, the foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.
- d) Investments – The foundation carries investments in marketable securities with readily determinable fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.
- e) Fixed Assets and Depreciation – All acquisitions of property and equipment in excess of \$500 are capitalized. Fixed assets are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is provided over the estimated useful lives of the assets, generally 3-7 years, using the straight-line method of depreciation.
- f) Allocation of Expenses – The foundation allocates two types of costs to its program and supporting activities: shared and communications. Shared costs are allocated based on the number of full-time equivalent positions in each activity; communications costs are allocated based on the ratio of each activity's direct cost to total direct cost of all activities, excluding grants.
- g) Grants – Grants are recorded as expenses when they are approved by the Board of Directors.

HORIZONS FOUNDATION

Notes to Financial Statements
Year Ended December 31, 2003

Note 2 – Summary of Significant Accounting Policies (Continued)

- h) Restricted Resources – The foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets in the statement of activities.

The foundation reports gifts of fixed assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Absent explicit donor stipulations about how long those long-lived assets must be maintained, the foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

- i) Income Tax Status – The foundation is recognized as a public charity exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, whereby only unrelated business income, as defined by Section 512(a)(1) of the Internal Revenue Code and similar code section of the California Revenue and Taxation Code, is subject to income tax. Management believes that all of the foundation's activities were directly related to its exempt purpose, thus the accompanying financial statements do not include any provision for income taxes.
- j) Use of Estimates – Management of the foundation has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

Note 3 – Concentrations of Credit Risk

Financial instruments that potentially subject the foundation to concentrations of credit risk consist primarily of cash and cash equivalents. Cash and cash equivalents held in one financial institution were all uninsured.

HORIZONS FOUNDATION

Notes to Financial Statements
Year Ended December 31, 2003

Note 4 – Investments

Investments consisted of the following:

	<u>Cost</u> <u>at 12/31/03</u>	<u>Fair Value</u> <u>at 12/31/03</u>	<u>Fair Value</u> <u>at 12/31/02</u>
Money market funds	\$54,033	\$54,033	\$50,012
Common funds	2,504,082	2,395,173	2,177,189
Equity securities	40,694	40,694	8
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	\$2,598,809	\$2,489,900	\$2,227,209
Investments restricted for long-term purposes:	(916,826)	(916,826)	(916,826)
	-----	-----	-----
Current investments	<u>\$1,681,983</u>	<u>\$1,573,074</u>	<u>\$1,310,383</u>

Note 5 – Property and Equipment

Property and equipment, at December 31, 2003, consisted of:

Furniture and equipment	\$129,333
Leasehold improvements	2,363
Accumulated depreciation	(100,944)

	<u>\$30,752</u>

Note 6 – Life Insurance Policy

The foundation is the owner and beneficiary of a life insurance policy. The cash surrender value of the policy was \$9,903 at December 31, 2003, which is recorded as other assets on the statement of financial position.

HORIZONS FOUNDATION

Notes to Financial Statements
Year Ended December 31, 2003

Note 7 – Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2003 were available for the following purposes:

Grantmaking	\$226,515
Capacity building and promoting philanthropy	175,565
General operating expenses	50,000
2004 annual event	50,000
Contra Costa Safer Schools	34,244

	\$536,324
	=====

Note 8 – Prior Period Adjustments

Unrestricted net assets at December 31, 2002 were restated to 1) recognize the full amount of an unconditional temporarily restricted commitment in the amount of \$750,000 over three years from a private foundation received prior to December 31, 2002; previously only \$250,000 of this commitment was recorded as income; 2) reclassify temporarily restricted funds in the amount of \$55,781 which were reported as an unrestricted donation when received; 3) reclassify \$20,693 in temporarily restricted earnings from funds held in perpetuity; 4) restate permanently restricted contributions at their historic dollar value; and 5) reclassify \$422,879 in permanently restricted funds received in prior years which were reported as unrestricted net assets. The effect of these changes was as follows:

	<u>As stated</u>	<u>Adjustment</u>	<u>As restated</u>
Grants Receivable	\$ 140,000	\$ 500,000	\$ 640,000
Unrestricted net assets	\$2,129,388	\$(764,147)	\$1,365,241
Temporarily restricted net assets	\$142,651	\$576,473	\$719,124
Permanently restricted net assets	\$229,152	\$687,674	\$916,826

Note 9 – Retirement Plan

The foundation provides a defined contribution retirement plan under section 403(b) of the Internal Revenue Code to its employees. Total contributions by the foundation to this plan during the year ended December 31, 2003 were \$7,096.

HORIZONS FOUNDATION

Notes to Financial Statements
Year Ended December 31, 2003

Note 10 - Commitments under Operating Lease

The foundation leases its office space under a non-cancelable operating lease agreement expiring on October 31, 2004. The minimum future payments on this lease arrangement at December 31, 2003 were \$76,210 payable during the year ending December 31, 2004.

Total rent payments under the above operating lease arrangement during for the year ended December 31, 2003 were \$91,917.

The foundation sub-leases parts of its office space to other agencies including other nonprofit agencies serving the LGBT community on a month-to-month basis. The rents received for the year ended December 31, 2003 were \$22,775.