

HORIZONS FOUNDATION

REPORT ON AUDIT OF FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2005
WITH COMPARATIVE TOTALS FOR THE
YEAR ENDED DECEMBER 31, 2004**

**Ghaffari Zaragoza 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, 2005, 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. The prior year summarized comparative information has been derived from the financial statements for the year ended December 31, 2004 and, in our report dated May 18, 2005, we expressed an unqualified opinion on those financial statements.

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, 2005, 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 LLP

April 17, 2006
Oakland, California

Horizons Foundation

Statement of Financial Position At December 31, 2005 with Comparative Totals at December 31, 2004

	2005	2004 (Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 3)	\$838,885	\$283,357
Investments (Note 4)	1,514,287	1,685,002
Grants receivable	706,440	390,675
Pledges receivable, net of \$0 in allowance	50,475	0
Other receivables	10,040	6,605
Prepaid expenses	12,128	2,695
Total Current Assets	3,132,255	2,368,334
Grants receivable beyond one year, net of \$0 in allowance	55,000	0
Investments restricted for long-term purposes (Note 4)	2,376,226	916,826
Property and equipment (Note 5)	18,635	28,748
Deposits and other assets (Note 6)	17,820	18,536
Total Assets	\$5,599,936	\$3,332,444
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities:		
Grants payable	\$406,570	\$166,749 [^]
Accounts payable and accrued expenses	18,447	25,567
Accrued vacation	23,378	13,334
Total Current Liabilities	448,395	205,650
Grants payable beyond one year (Note 7)	25,000	0
Total Liabilities	473,395	205,650
NET ASSETS		
Unrestricted	2,194,532	1,699,805
Temporarily restricted (Note 8)	555,783	460,163
Permanently restricted	2,376,226	966,826
Total Net Assets	5,126,541	3,126,794
Total Liabilities and Net Assets	\$5,599,936	\$3,332,444

See notes to financial statements

Horizons Foundation

Statement of Activities
Year Ended December 31, 2005 with Comparative Totals for the
Year Ended December 31, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005 Total	2004 Total (Restated)
Support:					
Contributions from individuals	\$1,337,268	\$0	\$51,400	\$1,388,668	\$460,673
Foundation and corporation grants	150,440	1,261,080	0	1,411,520	905,810
Bequests (Note 9)	165,218	0	1,358,000	1,523,218	130,624
Special event revenue and contribution	213,615	0	0	213,615	115,789
Special event direct expense	(122,569)	0	0	(122,569)	(29,198)
Special event, net	91,046	0	0	91,046	86,591
In-kind contributions	0	0	0	0	14,162
Net assets released from restrictions:					
Purpose accomplished	1,165,460	(1,165,460)	0	0	0
Total support	2,909,432	95,620	1,409,400	4,414,452	1,597,860
Revenue:					
Fees for services	65,625	0	0	65,625	65,290
Rental income	10,597	0	0	10,597	15,275
Interest and dividends	66,972	0	0	66,972	63,691
Net gain on investments	27,461	0	0	27,461	177,238
Other income	3,710	0	0	3,710	1,599
Total revenue	174,365	0	0	174,365	323,093
Total Support and Revenue	3,083,797	95,620	1,409,400	4,588,817	1,920,953
Expenses:					
Program services:					
Grantmaking	1,601,218	0	0	1,601,218	1,139,292
Capacity Building	88,026	0	0	88,026	134,272
Promoting Philanthropy	172,857	0	0	172,857	155,982
Total program services	1,862,101	0	0	1,862,101	1,429,546
Supporting services:					
Management and general	268,107	0	0	268,107	153,707
Fundraising	458,862	0	0	458,862	215,395
Total supporting services	726,969	0	0	726,969	369,102
Total Expenses	2,589,070	0	0	2,589,070	1,798,648
Change in net assets	494,727	95,620	1,409,400	1,999,747	122,305
Net assets at beginning of year, restated (Note 10)	1,699,805	460,163	966,826	3,126,794	3,004,489
Net assets at end of year	<u>\$2,194,532</u>	<u>\$555,783</u>	<u>\$2,376,226</u>	<u>\$5,126,541</u>	<u>\$3,126,794</u>

See notes to financial statements

Horizons Foundation

Statement of Cash Flows
Year Ended December 31, 2005 with Comparative Totals
for the Year Ended December 31, 2004

	2005	2004 Restated
Cash flows from operating activities:		
Change in net assets	\$1,999,747	\$122,305
Adjustments to reconcile change in net assets to cash from operating activities:		
Depreciation	14,831	24,257
Donated equipment	0	(14,162)
Net gain from investments	(27,461)	(177,238)
Contributions restricted for long-term purposes	(1,409,400)	0
(Increase) decrease in operating assets:		
Receivables	(424,675)	256,811
Prepays	(9,433)	10,560
Deposits	716	(1,012)
Increase (decrease) in operating liabilities:		
Grants payable	264,821	(203,672)
Accounts payable and accrued expenses	2,924	(11,034)
Deferred revenue	0	(1,325)
	412,070	5,490
Cash flows from investing activities:		
Purchase of investments	(5,629,379)	(411,466)
Proceeds from sale and maturities of investments	4,368,155	476,776
Purchase of equipment	(4,718)	(8,091)
	(1,265,942)	57,219
Cash flows from financing activities:		
Permanently restricted contributions received	1,409,400	0
	1,409,400	0
Net increase in cash and cash equivalents	555,528	62,709
Cash and cash equivalents at beginning of year	283,357	220,648
Cash and cash equivalents at end of year	\$838,885	\$283,357
Supplemental data:		
Received donated equipment	\$0	\$14,162

See notes to financial statements

Horizons Foundation

Statement of Functional Expenses
 Year Ended December 31, 2005 with Comparative Totals for the
 Year Ended December 31, 2004

	Program Services			Supporting Services			2005 Total	2004 Total (Restated)
	Grant- making	Capacity Building	Promoting Philanthropy	Management & General	Fundraising	Shared Expenses		
Grants	\$1,380,112	\$0	\$0	\$0	\$0	\$0	\$1,380,112	\$911,754
Salaries	91,028	46,693	61,097	129,200	147,610	50,267	525,895	337,925
Payroll taxes	6,876	3,527	4,615	9,759	11,150	3,797	39,724	26,313
Employee benefits (Note 11)	9,801	5,028	6,579	13,911	15,894	5,412	56,625	44,413
Total personnel	107,705	55,248	72,291	152,871	174,654	59,476	622,244	408,651
Professional services	39,811	14,104	18,831	13,824	88,780	30,564	205,914	221,233
Supplies	665	910	4,855	3,875	4,732	28,691	43,728	17,356
Rent	0	0	0	0	0	56,993	56,993	89,613
Equipment rental and maintenance	0	0	0	3,821	0	6,861	10,682	2,918
Insurance	0	0	0	0	0	4,254	4,254	5,398
Telephone	130	0	12	40	169	6,067	6,418	7,544
Postage	551	322	7,548	515	12,477	12,136	33,549	14,642
Printing	2,118	0	24,289	1,318	29,799	36,745	94,269	50,295
Promotion	0	0	5,323	0	15,051	34,063	54,437	7,152
Travel	259	20	223	3,724	11,289	14	15,529	9,022
Investment fees	16,680	0	0	0	0	0	16,680	17,872
Other fees	4,714	0	0	8,426	602	484	14,226	8,054
Other expenses	154	78	914	1,512	12,519	27	15,204	2,887
Depreciation	0	0	0	0	0	14,831	14,831	24,257
Allocation of shared expenses	48,319	17,344	38,571	78,181	108,790	(291,206)	0	(0)
Total other expenses	113,401	32,778	100,566	115,236	284,208	(59,476)	586,714	478,243
Total expenses - 2005	\$1,601,218	\$88,026	\$172,857	\$268,107	\$458,862	\$0	\$2,589,070	
Total expenses - 2004	\$1,139,292	\$134,272	\$155,982	\$153,707	\$215,395	\$0		\$1,798,648

See notes to financial statements

HORIZONS FOUNDATION

Notes to Financial Statements Year Ended December 31, 2005 with Comparative Totals For the Year Ended December 31, 2004

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) 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.
- b) Investments – The Foundation carries investments in marketable securities with readily determinable fair values in the statement of financial position. The Foundation's investments are primarily held in Tides Common Trust fund. Such pooled funds are generally separate entities with their own administrative requirements and tax identification number. The written plan establishing the fund is a trust agreement that specifies the operational and administrative aspects of the fund. The interests held in the fund by participating accounts are called units and represent a proportionate ownership interest in all assets held by the fund. These pools offer the advantage of investment diversification, which is difficult to achieve when investing small amounts individually. Valuations of pooled funds are scheduled as necessary by the portfolio manager, according to a variety of parameters, but happen at least monthly and as frequently as daily. Valuation incorporates the results of various reviews and information. These funds may not be traded or transferred otherwise. Unrealized gains and losses are included in the change in unrestricted net assets in the accompanying statement of activities.

HORIZONS FOUNDATION

Notes to Financial Statements Year Ended December 31, 2005 with Comparative Totals For the Year Ended December 31, 2004

- c) Grants and Pledges Receivable - Grants and pledges receivable represent unconditional commitments receivable in future periods stated at the net realizable amount that management expects to collect.
- d) Fixed Assets and Depreciation – All acquisitions of property and equipment in excess of \$1,000 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 three to seven years, using the straight-line method of depreciation.
- e) 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.
- f) 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 represent net assets that are not subject to donor-imposed stipulations including \$2,165,361 and \$1,812,310 at December 31, 2005 and 2004, respectively, 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* on the statement of activities represents 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 \$494,727 and \$148,465 for the years ended December 31, 2005 and 2004, respectively.

HORIZONS FOUNDATION

Notes to Financial Statements Year Ended December 31, 2005 with Comparative Totals For the Year Ended December 31, 2004

Temporarily restricted net assets 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** on the statement of activities represents 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 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.

- g) Basis of Accounting – The financial statements of the Foundation have been prepared using the accrual method of accounting.
- 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) 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.
- j) Grants to Others – Grants are recorded as expenses when they are approved by the Board of Directors.

HORIZONS FOUNDATION

Notes to Financial Statements Year Ended December 31, 2005 with Comparative Totals For the Year Ended December 31, 2004

- k) 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.
- l) Comparative Totals - The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2004, from which the summarized information was derived.

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 and investments. Uninsured cash and cash equivalents were held in checking and money market accounts in the amount of \$814,963 and \$436,385 at December 31, 2005 and 2004, respectively.

Note 4 – Investments

Investments consisted of the following:

	Cost at 12/31/05	Fair Value at 12/31/05	Fair Value at 12/31/04
Money market funds	\$2,607,594	\$2,607,594	\$56,209
Tides common fund	1,318,697	1,277,956	2,513,933
Equity securities	4,963	4,963	31,686
	-----	-----	-----
	\$3,931,254	\$3,890,513	\$2,601,828
Investments restricted for long-term purposes	(2,376,226)	(2,376,226)	(916,826)
	-----	-----	-----
Current investments	<u>\$1,555,028</u>	<u>\$1,514,287</u>	<u>\$1,685,002</u>

The Foundation converted its donor-advised fund program to a web-based platform at the end of December 2005. A new brokerage account was opened as part of the conversion. Program

HORIZONS FOUNDATION

Notes to Financial Statements
 Year Ended December 31, 2005 with Comparative Totals
 For the Year Ended December 31, 2004

funds previously invested in the Tides common fund were transferred to a money market fund in the new brokerage account, before transfer to a variety of investment funds in early 2006.

Note 5– Property and Equipment

Property and equipment consisted of:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Furniture and equipment	\$81,532	\$140,476
Software	11,111	11,111
Leasehold improvements	4,613	2,363
Accumulated depreciation	(78,621)	(125,202)
	-----	-----
	<u>\$18,635</u>	<u>\$28,748</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 \$11,127 and \$10,515 at December 31, 2005 and 2004, respectively, which is recorded as other assets on the statement of financial position.

Note 7 – Grants Payable

Long term grants are payable during the year ending December 31, 2007.

Note 8 – Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Grantmaking	\$3,822	\$55,822
Capacity building and promoting philanthropy	150,812	168,352
General operating expenses of future periods	295,212	270,693
Contra Costa Safer Schools	105,937	15,296
	-----	-----
	<u>\$555,783</u>	<u>\$510,163</u>

HORIZONS FOUNDATION

Notes to Financial Statements Year Ended December 31, 2005 with Comparative Totals For the Year Ended December 31, 2004

Note 9 – Conditional Promise to Give

The Foundation received notification that it has been named as a supported organization of a supporting foundation in accordance with the provisions of an irrevocable trust. During 2004, the supporting foundation received one hundred percent interest in voting stock of a business owned by the individual who setup the trust. Upon sale of the business, the supporting foundation received \$94,598 in cash and two interest-bearing notes in the amount of \$1,534,000, secured by interest in the stock of that business. According to the trust, the board of trustees of the supporting foundation has one hundred percent power to distribute funds to Horizons Foundation as they deem necessary.

During 2004, Horizons Foundation received notification from the board of trustees of the supporting foundation of their intention to distribute during 2004 and the subsequent years, 85% of the initial cash received upon sale of the business as well as 85% of the interest and principle payments on the notes, as payments are received by the supporting foundation. While the accompanying financial statements include the cash received in each year as contributions, it does not include the future years' commitment, since the management considers the commitment conditional upon collection of funds by the supporting foundation.

Note 10 – Correction of Error

During 2005, management discovered that a permanently restricted contribution in the amount of \$50,000 received in 1987, had been erroneously classified as temporarily restricted net assets. Therefore at December 31, 2004, the temporarily restricted net assets were decreased by \$50,000 and permanently restricted net assets were increased by the same amount. The correction of this error had no impact on previous or current year's total change in net assets.

Note 11 – 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 years ended December 31, 2005 and 2004 were \$7,840 & \$7,645, respectively.

HORIZONS FOUNDATION

Notes to Financial Statements
Year Ended December 31, 2005 with Comparative Totals
For the Year Ended December 31, 2004

Note 12 - Commitments under Operating Lease

The Foundation leases its office space and certain equipment under non-cancelable operating lease arrangement expiring at various times through 2010. The minimum future payments on these lease arrangement at December 31, 2005 were as follows:

Year ending December 31, 2006	\$70,693
Year ending December 31, 2007	72,585
Year ending December 31, 2008	72,054
Year ending December 31, 2009	73,208
Year ending December 31, 2010	996

	<u><u>\$289,536</u></u>

Total rental payments under the above operating lease arrangements during for the years ended December 31, 2005 and 2004 were \$60,423 and \$0, respectively.

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 years ended December 31, 2005 and 2004 were \$10,597 and \$15,275, respectively.

Note 13 – Line of Credit

The Foundation has a secured line of credit from a financial institution in the amount of \$250,000. The security for this line of credit includes all equipment, inventory, accounts and investments and the annual interest rate is prime rate of the bank plus 1%. The line was accessed twice during the year ended December 31, 2004 and not accessed during the year ended December 31, 2005. The balance of this line of credit was \$0 at December 31, 2005 and 2004.

