

HORIZONS FOUNDATION

REPORT ON AUDIT OF FINANCIAL STATEMENTS

**YEARS ENDED
DECEMBER 31, 2009 AND 2008**

**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 statements of financial position of Horizons Foundation as of December 31, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years 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 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 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 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 Horizons Foundation as of December 31, 2009 and 2008, and the changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Ghaffari Zaragoza LLP

July 9, 2010
Oakland, California

Horizons Foundation

Statements of Financial Position At December 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents (Note 3) | \$ 1,075,459 | \$ 740,434 |
| Investments (Note 4) | 3,025,367 | 3,169,408 |
| Grants receivable (Note 5) | 344,830 | 366,006 |
| Pledges receivable | 4,983 | - |
| Other receivables | 46,371 | 13,823 |
| Prepaid expenses | 19,859 | 4,216 |
| | <hr/> | <hr/> |
| Total Current Assets | 4,516,869 | 4,293,887 |
| Grants receivable beyond one year (Note 5) | 164,025 | 144,804 |
| Investments restricted for long-term purposes (Note 4) | 3,698,465 | 3,243,843 |
| Property and equipment (Note 6) | - | 4,629 |
| Deposits and other assets (Note 7) | 17,841 | 17,599 |
| | <hr/> | <hr/> |
| Total Assets | <u>\$ 8,397,200</u> | <u>\$ 7,704,762</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Grants payable | \$ 110,000 | \$ 201,000 |
| Accounts payable and accrued expenses | 34,397 | 22,379 |
| Accrued vacation | 28,271 | 26,543 |
| | <hr/> | <hr/> |
| Total Current Liabilities and Total Liabilities | 172,668 | 249,922 |
| NET ASSETS | | |
| Unrestricted | 2,640,023 | 2,329,781 |
| Temporarily restricted (Note 8) | 1,562,759 | 1,193,674 |
| Permanently restricted (Note 9) | 4,021,750 | 3,931,385 |
| | <hr/> | <hr/> |
| Total Net Assets | 8,224,532 | 7,454,840 |
| | <hr/> | <hr/> |
| Total Liabilities and Net Assets | <u>\$ 8,397,200</u> | <u>\$ 7,704,762</u> |

See notes to financial statements

Horizons Foundation

Statements of Activities
Years Ended December 31, 2009 and 2008

| | Year Ended December 31, 2009 | | | | Year Ended December 31, 2008 | | | |
|--|------------------------------|------------------------|------------------------|------------------|------------------------------|------------------------|------------------------|--------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| SUPPORT | | | | | | | | |
| Contributions from individuals | \$ 1,146,864 | \$ - | \$ 10,365 | \$ 1,157,229 | \$ 2,226,929 | \$ 69,000 | \$ 12,952 | \$ 2,308,881 |
| Foundation and corporation grants | 102,000 | 1,371,000 | 80,000 | 1,553,000 | 114,177 | 1,845,810 | - | 1,959,987 |
| Bequests (Note 10) | 6,952 | - | - | 6,952 | 81,714 | - | - | 81,714 |
| Net assets released from restrictions: | | | | | | | | |
| Purpose accomplished | 1,001,915 | (1,001,915) | - | - | 1,215,597 | (1,215,597) | - | - |
| Total Support | 2,257,731 | 369,085 | 90,365 | 2,717,181 | 3,638,417 | 699,213 | 12,952 | 4,350,582 |
| REVENUE | | | | | | | | |
| Fees for services | 35,000 | - | - | 35,000 | 45,000 | - | - | 45,000 |
| Interest and dividends | 122,996 | - | - | 122,996 | 194,284 | - | - | 194,284 |
| Net gain (loss) from investments | 718,617 | - | - | 718,617 | (1,378,869) | - | - | (1,378,869) |
| Other income | 29,525 | - | - | 29,525 | 32,684 | - | - | 32,684 |
| Total Revenue | 906,138 | - | - | 906,138 | (1,106,901) | - | - | (1,106,901) |
| Total Support and Revenue | 3,163,869 | 369,085 | 90,365 | 3,623,319 | 2,531,516 | 699,213 | 12,952 | 3,243,681 |
| EXPENSES | | | | | | | | |
| Program Services: | | | | | | | | |
| Grantmaking | 2,073,133 | - | - | 2,073,133 | 2,578,207 | - | - | 2,578,207 |
| Capacity building | 14,244 | - | - | 14,244 | 58,908 | - | - | 58,908 |
| Promoting philanthropy | 129,458 | - | - | 129,458 | 120,967 | - | - | 120,967 |
| Total program Services | 2,216,835 | - | - | 2,216,835 | 2,758,082 | - | - | 2,758,082 |
| Supporting Services: | | | | | | | | |
| Management and general | 287,913 | - | - | 287,913 | 355,124 | - | - | 355,124 |
| Fundraising | 348,879 | - | - | 348,879 | 376,300 | - | - | 376,300 |
| Total Supporting Services | 636,792 | - | - | 636,792 | 731,424 | - | - | 731,424 |
| Total Expenses | 2,853,627 | - | - | 2,853,627 | 3,489,506 | - | - | 3,489,506 |
| Change in net assets | 310,242 | 369,085 | 90,365 | 769,692 | (957,990) | 699,213 | 12,952 | (245,825) |
| Net assets at beginning of year | 2,329,781 | 1,193,674 | 3,931,385 | 7,454,840 | 3,287,771 | 494,461 | 3,918,433 | 7,700,665 |
| Net assets at end of year | \$ 2,640,023 | \$ 1,562,759 | \$ 4,021,750 | \$ 8,224,532 | \$ 2,329,781 | \$ 1,193,674 | \$ 3,931,385 | \$ 7,454,840 |

See notes to financial statements

Horizons Foundation

Statements of Cash Flows Years Ended December 31, 2009 and 2008

| | 2009 | 2008 |
|--|-------------|-------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$769,692 | (\$245,825) |
| Adjustments to reconcile change in net assets to cash from operating activities: | | |
| Depreciation | 4,629 | 7,608 |
| Net gain (loss) from investments | (718,617) | 1,378,869 |
| Contributions restricted for long-term purposes | (90,365) | (12,952) |
| (Increase) decrease in operating assets: | | |
| Receivables | (35,576) | (286,956) |
| Prepays | (15,643) | (27) |
| Deposits | (242) | 258 |
| Increase (decrease) in operating liabilities: | | |
| Grants payable | (91,000) | 135,000 |
| Accounts payable and accrued expenses | 13,746 | (19,503) |
| Net cash provided (used) by operating activities | (163,376) | 956,472 |
| Cash flows from investing activities: | | |
| Purchase of investments | (1,860,744) | (6,736,036) |
| Proceeds from sale and maturities of investments | 2,268,780 | 6,242,789 |
| Net cash provided (used) by investing activities | 408,036 | (493,247) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings | 275,000 | 280,000 |
| Principal payments on borrowings | (275,000) | (416,000) |
| Permanently restricted contributions received | 90,365 | 12,952 |
| Net cash provided (used) by financing activities | 90,365 | (123,048) |
| Net increase in cash and cash equivalents | 335,025 | 340,177 |
| Cash and cash equivalents at beginning of year | 740,434 | 400,257 |
| Cash and cash equivalents at end of year | \$1,075,459 | \$740,434 |
| Supplemental information: | | |
| Interest paid | \$6,372 | \$6,307 |

See notes to financial statements

Horizons Foundation

Statement of Functional Expenses
Year Ended December 31, 2009

| | Program Services | | | Supporting Services | | | Total |
|----------------------------------|---------------------|-------------------|------------------------|----------------------|-------------------|-----------------|---------------------|
| | Grant-making | Capacity Building | Promoting Philanthropy | Management & General | Fundraising | Shared Expenses | |
| Grants | \$ 1,797,674 | \$ 14,244 | \$ - | \$ - | \$ - | \$ - | \$ 1,811,918 |
| Salaries | 155,523 | - | 40,646 | 71,564 | 184,027 | 44,018 | 495,778 |
| Payroll taxes | 12,380 | - | 3,236 | 5,697 | 14,649 | 3,504 | 39,466 |
| Employee benefits (Note 11) | 10,237 | - | 4,623 | 6,744 | 23,989 | 5,631 | 51,224 |
| Total personnel | 178,140 | - | 48,505 | 84,005 | 222,665 | 53,153 | 586,468 |
| Professional services | \$ 30,758 | \$ - | \$ - | \$ 145,620 | \$ 31,356 | \$ 1,109 | \$ 208,843 |
| Supplies | 737 | - | 8,008 | 181 | 23,494 | 4,453 | 36,873 |
| Rent | - | - | - | - | - | 74,907 | 74,907 |
| Equipment rental and maintenance | - | - | - | 1,574 | 2,694 | 19,681 | 23,949 |
| Insurance | - | - | - | 4,761 | - | 2,320 | 7,081 |
| Telephone | 197 | - | 111 | 281 | 52 | 6,655 | 7,296 |
| Postage | 112 | - | 136 | 20 | 3,385 | 5,357 | 9,010 |
| Printing | - | - | 1,325 | - | 3,738 | 3,301 | 8,364 |
| Promotion | - | - | 775 | - | 1,699 | 13,760 | 16,234 |
| Travel | 1,625 | - | 302 | 229 | 2,732 | 1,454 | 6,342 |
| Investment fees | 16,034 | - | - | - | - | - | 16,034 |
| Other fees | 365 | - | - | 6,232 | 10,055 | 389 | 17,041 |
| Other expenses | - | - | 2,750 | 1,838 | 379 | 624 | 5,591 |
| Interest expense | 5,519 | - | - | 7,403 | 125 | - | 13,047 |
| Depreciation | - | - | - | - | - | 4,629 | 4,629 |
| Allocation of shared expenses | 41,972 | - | 67,546 | 35,769 | 46,505 | (191,792) | - |
| Total other expenses | 97,319 | - | 80,953 | 203,908 | 126,214 | (53,153) | 455,241 |
| Total | \$ 2,073,133 | \$ 14,244 | \$ 129,458 | \$ 287,913 | \$ 348,879 | \$ - | \$ 2,853,627 |

See notes to financial statements

Horizons Foundation

Statement of Functional Expenses
Year Ended December 31, 2008

| | Program Services | | | Supporting Services | | | Total |
|----------------------------------|---------------------|-------------------|------------------------|----------------------|-------------------|-----------------|---------------------|
| | Grant-making | Capacity Building | Promoting Philanthropy | Management & General | Fundraising | Shared Expenses | |
| Grants | \$ 2,270,477 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,270,477 |
| Salaries | 154,600 | 21,874 | 51,961 | 147,234 | 223,232 | 57,378 | 656,279 |
| Payroll taxes | 12,162 | 1,721 | 4,059 | 11,508 | 17,400 | 4,497 | 51,347 |
| Employee benefits (Note 11) | 15,955 | 746 | 10,172 | 17,019 | 28,671 | 7,463 | 80,026 |
| Total personnel | 182,717 | 24,341 | 66,192 | 175,761 | 269,303 | 69,338 | 787,652 |
| Professional services | 51,699 | 28,850 | 875 | 31,096 | 24,648 | 11,601 | 148,769 |
| Supplies | 8,486 | 1,129 | 13,716 | - | 10,401 | 5,599 | 39,331 |
| Rent | 104 | - | - | - | - | 72,680 | 72,784 |
| Equipment rental and maintenance | - | - | - | - | - | 21,986 | 21,986 |
| Insurance | - | - | - | 4,147 | 258 | 2,347 | 6,752 |
| Telephone | 102 | - | - | 194 | 470 | 6,330 | 7,096 |
| Postage | 326 | - | 274 | 109 | 780 | 9,964 | 11,453 |
| Printing | 3,314 | - | 1,736 | - | 6,735 | 17,795 | 29,580 |
| Promotion | - | - | - | - | 433 | 12,578 | 13,011 |
| Travel | 2,193 | - | 2,831 | 79 | 3,787 | 1,881 | 10,771 |
| Investment fees | 26,256 | - | - | - | 175 | - | 26,431 |
| Other fees | - | - | - | 4,415 | 8,074 | 329 | 12,818 |
| Other expenses | - | - | 3,619 | 12,936 | 100 | 25 | 16,680 |
| Interest expense | - | - | - | 6,307 | - | - | 6,307 |
| Depreciation | - | - | - | - | - | 7,608 | 7,608 |
| Allocation of shared expenses | 32,533 | 4,588 | 31,724 | 120,080 | 51,136 | (240,061) | - |
| Total other expenses | 125,013 | 34,567 | 54,775 | 179,363 | 106,997 | (69,338) | 431,377 |
| Total | \$ 2,578,207 | \$ 58,908 | \$ 120,967 | \$ 355,124 | \$ 376,300 | \$ - | \$ 3,489,506 |

See notes to financial statements

Horizons Foundation

Notes to Financial Statements
Years Ended December 31, 2009 and 2008

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 contributions and grants from individuals, private foundations and corporations.

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 unrestricted 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. Through November 2008, the Foundation's investments were partially held in Tides Common Trust fund. Such pooled funds were generally separate entities with their own administrative requirements and tax identification number. The written plan establishing the fund was a trust agreement that specified the operational and administrative aspects of the fund. The interests held in the fund by participating accounts were called units and represented a proportionate ownership interest in all assets held by the fund. These pools offered the advantage of investment diversification, which was difficult to achieve when investing small amounts individually. Valuations of pooled funds were scheduled as necessary by the portfolio manager, according to a variety of parameters, but happened at least monthly and as frequently as daily. Valuation incorporated the results of various reviews and information. These funds could not be traded or transferred otherwise. In November 2008, holdings in the pooled Tides Common Trust Fund were liquidated and reinvested into a diverse portfolio of marketable securities through the Foundation's portfolio manager.

Horizons Foundation

Notes to Financial Statements Years Ended December 31, 2009 and 2008

Investment income and net gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

- 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. Management uses specific identification method for establishing allowance for uncollectible receivables and has determined that grants and pledges recorded at December 31, 2009 and 2008 are 100% collectible.
- 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. Effective January 1, 2009 the Foundation adopted the FASB guidance on Accounting for Uncertainty in Income Taxes. The Foundation takes the position that its activities continue to be directly related to its tax exempt purpose, and it consequently did not recognize any increase or decrease in liability for unrecognized tax benefits taken in the current or prior periods.
- 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 \$3,078,445 and \$3,219,264 at December 31, 2009 and 2008, 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

Horizons Foundation

Notes to Financial Statements
Years Ended December 31, 2009 and 2008

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 an excess (deficit) of income over expenses of \$310,242 and \$(957,990) for the years ended December 31, 2009 and 2008, respectively. In 2008, the significant investment losses experienced throughout the capital markets also impacted the Foundation. Unrestricted change in net assets in 2008 before the loss from investments was an increase of \$420,879.

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 and Unrestricted Income – Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. 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

Horizons Foundation

Notes to Financial Statements Years Ended December 31, 2009 and 2008

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 management’s estimate of benefit derived from various communication activities.
- j) Grants to Others – Grants are recorded as expenses when they are approved by the Board of Directors.
- k) 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. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant accounting estimates reflected in the Foundation’s financial statements include valuation of investments, valuation and collectability of grants receivable, and the functional allocation of expenses. Actual results could differ from those estimates.
- l) Fair Value of Financial Instruments – The Foundation’s significant financial instruments are cash, grants receivable, marketable equity securities, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.
- m) Reclassifications – Certain reclassifications have been made to the 2008 financial statement presentation to correspond to the current year’s format. Net assets and changes in net assets are unchanged due to these reclassifications.

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 \$871,211 and \$283,548 at December 31, 2009 and 2008, respectively.

Horizons Foundation

Notes to Financial Statements
Years Ended December 31, 2009 and 2008

Note 4 – Investments

The investments of the Foundation included:

| | <u>12/31/2009</u> | <u>12/31/2008</u> |
|---|--------------------|--------------------|
| Money market funds | \$1,756,385 | \$2,509,651 |
| Mutual funds | 692,651 | 863,536 |
| Equity securities | 2,495,115 | 1,518,950 |
| Notes and bonds | <u>1,779,681</u> | <u>1,521,114</u> |
| | \$6,723,832 | \$6,413,251 |
| Investments restricted for long-term purposes | <u>(3,698,465)</u> | <u>(3,243,843)</u> |
| Current investments | <u>\$3,025,367</u> | <u>\$3,169,408</u> |

The components of total investment return by net assets classification are reflected below:

| | <u>Unrestricted</u> <u>2009</u> | <u>Unrestricted</u> <u>2008</u> |
|-------------------------|------------------------------------|------------------------------------|
| Interest and dividends | \$98,371 | \$168,538 |
| Capital gains | 1,913 | 24,746 |
| Net gains (losses) | 718,617 | (1,378,869) |
| Investment fees | <u>(21,918)</u> | <u>(24,126)</u> |
| Total investment return | <u>\$796,983</u> | <u>\$(1,209,711)</u> |

Note 5 – Grants Receivable

Grants are expected to be realized in the following periods:

| | <u>12/31/09</u> | <u>12/31/08</u> |
|-------------------------------------|------------------|------------------|
| In one year or less | \$344,830 | \$366,830 |
| Between one and five years | <u>164,025</u> | <u>144,804</u> |
| | \$508,855 | \$511,634 |
| Less: | | |
| Allowance for uncollectible pledges | (0) | (0) |
| Unamortized discount | <u>(0)</u> | <u>(0)</u> |
| | <u>\$508,855</u> | <u>\$511,634</u> |

Horizons Foundation

Notes to Financial Statements
Years Ended December 31, 2009 and 2008

Note 6– Property and Equipment

Property and equipment consisted of:

| | <u>12/31/2009</u> | <u>12/31/2008</u> |
|--------------------------|-------------------|-------------------|
| Furniture and equipment | \$95,553 | \$95,553 |
| Software | 11,111 | 11,111 |
| Leasehold improvements | 4,613 | 4,613 |
| Accumulated depreciation | <u>(111,277)</u> | <u>(106,648)</u> |
| | <u>\$0</u> | <u>\$4,629</u> |

Note 7 – Life Insurance Policy

The Foundation is the owner and beneficiary of a life insurance policy. The cash surrender value of the policy was \$11,548 and \$11,306 at December 31, 2009 and 2008, respectively, which is recorded as other assets on the statement of financial position.

Note 8 – Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes:

| | <u>12/31/2009</u> | <u>12/31/2008</u> |
|--|--------------------|--------------------|
| Grantmaking | \$226,875 | \$442,955 |
| Capacity building and promoting philanthropy | 66,376 | 131,810 |
| Marriage initiative | 561,000 | 0 |
| General operating expenses of future periods | 40,500 | 100,000 |
| LGBT seniors | 278,346 | 425,194 |
| Leadership development | 369,500 | 26,391 |
| Planned giving officer | 20,161 | 25,324 |
| Strategic planning | <u>0</u> | <u>42,000</u> |
| | <u>\$1,562,759</u> | <u>\$1,193,674</u> |

Horizons Foundation

Notes to Financial Statements
Years Ended December 31, 2009 and 2008

Note 9 – Permanently Restricted Net Assets

Permanently restricted net assets consist of the Foundation's Endowment Fund (the Fund), whose purpose is to provide support in meeting the operating and program needs of the Foundation.

The Board of Directors of Horizons Foundation has interpreted the State laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds unless there are explicit donor stipulations to the contrary. As a result there are three classes of donor restricted endowment net assets: The permanently restricted amount includes original and subsequent donations, and accumulations of net income to the permanent endowment when prescribed by the donor. The remaining net income portion of the donor-restricted endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in accordance with the Foundation's spending policy. The Foundation has adopted investment and spending policies, approved by its Board of Directors, for its endowment funds as follows:

Spending Policy – The Foundation has a policy of appropriating for distribution each year up to 5% of its endowment fund's average fair value of the previous three years, measured as of December 31 of each year. If a donor's gift instrument expressly allows the spending of additional amounts or expressly allows the invasion of principal in certain circumstances, the Foundation may spend such amounts.

Investment Return Objectives, Risk Parameters and Strategies – The Foundation's investment policy for its endowment assets adhere to a) preservation and safety of principal; and b) capital appreciation and income. Over the long term, the investment process seeks to achieve total return equal to or exceeding that of a benchmark portfolio consisting of 60% equities and 40% fixed income. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund's investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

In 2008 and 2009 the fair value of the donor-restricted endowment fell below the original gifts reflecting the trend of significant losses and slow recovery in the capital markets, and the fact that endowment donations were received in recent high market years. These losses are reflected in the temporarily restricted component of the endowment up to the amount of unexpended appreciation. While these losses have substantive impact only on

Horizons Foundation

Notes to Financial Statements
Years Ended December 31, 2009 and 2008

the endowment, and not on operating funds, unrecovered losses beyond the unexpended appreciation are disclosed as unrestricted losses.

The composition of the Foundation's endowment by net asset class at the end of December 31, 2009, in total and by type of endowment fund, follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|------------------|---------------------|-----------------------------------|-----------------------------------|--------------------|
| Donor restricted | <u>\$(523,847)</u> | <u>\$0</u> | <u>\$4,021,750</u> | <u>\$3,497,903</u> |

A reconciliation of the beginning and ending balance of the Foundation's endowment follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|--------------------|
| Endowment net assets, beginning | \$(1,099,442) | \$0 | \$3,931,385 | \$2,831,943 |
| Investment return: | | | | |
| Investment income | 0 | 89,276 | 0 | 89,276 |
| Net appreciation | <u>0</u> | <u>486,319</u> | <u>0</u> | <u>486,319</u> |
| Total investment return | 0 | 575,595 | 0 | 575,595 |
| Contributions | 0 | 0 | 90,365 | 90,365 |
| Recovery of prior accumulated losses | 575,595 | (575,595) | 0 | 0 |
| Appropriation of endowment For expenditures | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Endowment net assets, ending | <u>\$(523,847)</u> | <u>\$0</u> | <u>\$4,021,750</u> | <u>\$3,497,903</u> |

Horizons Foundation

Notes to Financial Statements Years Ended December 31, 2009 and 2008

The composition of the Foundation's endowment by net asset class at the end of December 31, 2008, in total and by type of endowment fund, follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|------------------|----------------------|-----------------------------------|-----------------------------------|--------------------|
| Donor restricted | <u>\$(1,099,442)</u> | <u>\$0</u> | <u>\$3,931,385</u> | <u>\$2,831,943</u> |

A reconciliation of the beginning and ending balance of the Foundation's endowment follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|----------------------|-----------------------------------|-----------------------------------|--------------------|
| Endowment net assets, beginning | \$0 | \$24,515 | \$3,918,433 | \$3,942,948 |
| Investment return: | | | | |
| Investment income | 72,683 | 15,789 | 0 | 88,472 |
| Net appreciation | <u>(1,000,048)</u> | <u>4,911</u> | <u>0</u> | <u>(995,137)</u> |
| Total investment return | (927,365) | 20,700 | 0 | (906,665) |
| Contributions | 0 | 0 | 12,952 | 12,952 |
| Recovery of prior accumulated losses | 0 | 0 | 0 | 0 |
| Appropriation of endowment For expenditures | <u>(172,077)</u> | <u>(45,215)</u> | <u>0</u> | <u>(217,292)</u> |
| Endowment net assets, ending | <u>\$(1,099,442)</u> | <u>\$0</u> | <u>\$3,931,385</u> | <u>\$2,831,943</u> |

At December 31, 2009 and 2008, the fair value of invested assets assigned to individual donor restricted endowment net assets was \$323,285 and \$687,542, respectively below its original donated value.

Horizons Foundation

Notes to Financial Statements
Years Ended December 31, 2009 and 2008

Note 10 – Conditional Promise to Give

The Foundation 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 the voting stock of a business owned by the individual who set up 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 principal 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 11 – Retirement Plan

The Foundation provides a defined contribution retirement plan to all of its employees under Section 403(b) of the Internal Revenue Code. Total contributions by the Foundation to this plan during the years ended December 31, 2009 and 2008 were \$7,535 and \$11,447, respectively.

Note 12 - Commitments under Operating Lease

The Foundation leases its office space and certain equipment under non-cancelable operating lease arrangements expiring at various times through 2011. The minimum future payments on these lease arrangements at December 31, 2009 were as follows:

| | |
|-------------------------------|-----------------|
| Year ending December 31, 2010 | \$60,661 |
| Year ending December 31, 2011 | <u>5,726</u> |
| | <u>\$66,387</u> |

Total rent expense during the years ended December 31, 2009 and 2008 were \$77,789 and \$70,865, respectively.

Horizons Foundation

Notes to Financial Statements
Years Ended December 31, 2009 and 2008

Note 13 – Line of Credit

The Foundation has a secured line of credit from a financial institution in the amount of \$325,000. 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 1.25%. The balance of this line of credit was \$0 at December 31, 2009 and 2008.

Note 14 – Fair Value Measurements

Fair values of assets measured on a recurring were as follows:

| | <u>Fair value measurements using</u> | | | |
|----------------------------------|---|---|---|--------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant other Observable Inputs (Level 2) | Significant Unobservab le Inputs (Level 3) | <u>Fair Value</u> |
| <u>December 31, 2009:</u> | | | | |
| Trading securities | <u>\$4,955,477</u> | <u>\$1,779,681</u> | <u>\$0</u> | <u>\$6,735,158</u> |
| <u>December 31, 2008:</u> | | | | |
| Trading securities | <u>\$4,892,137</u> | <u>\$1,521,114</u> | <u>\$0</u> | <u>\$6,413,251</u> |

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets.

Note 15 – Subsequent Events

Management has evaluated subsequent events through July 9, 2010, the date on which the financial statements were available to be issued.