

# HARRIS MYCFO FOUNDATION

JUNE 30, 2007 AND 2006

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INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# Harris myCFO Foundation

## Independent Auditors' Report and Financial Statements

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**Independent Auditors' Report**

THE BOARD OF DIRECTORS  
myCFO FOUNDATION  
Los Angeles, California

We have audited the accompanying statement of financial position of **Harris myCFO FOUNDATION (the Foundation)** as of June 30, 2007 and 2006 and the related statements of activities and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of the 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 the Foundation as of June 30, 2007 and 2006, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Hood & Strong LLP*

June 6, 2008

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# Harris myCFO Foundation

## Statement of Financial Position

<i>June 30,</i>	2007	2006
<b>Assets</b>		
<b>Cash and Cash Equivalents</b>	\$ 177,497	\$ 24,664
<b>Investments - at fair value</b>		
Charles Schwab - Capital Growth	20,435,468	8,912,620
Charles Schwab - Income	2,093,462	8,440,062
Charles Schwab - Moderate	17,309,391	10,061,411
Charles Schwab - Highly Conservative	5,587,742	9,363,675
UBS	13,501,628	13,424,722
Total investments	58,927,691	50,202,490
<b>Other Assets</b>	20,529,016	4,766,406
Total assets	\$ 79,634,204	\$ 54,993,560
<b>Liabilities and Net Assets</b>		
<b>Accounts Payable</b>	\$ 110,877	\$ 99,623
<b>Unrestricted Net Assets</b>	79,523,327	54,893,937
Total liabilities and unrestricted net assets	\$ 79,634,204	\$ 54,993,560

# Harris myCFO Foundation

## Statement of Activities and Change in Net Assets

<i>Years Ended June 30,</i>	2007	2006
<b>Revenues:</b>		
Investment income:		
Interest and dividends	\$ 2,675,207	\$ 1,905,233
Realized net (loss) gain on investments	(10,967)	14,081
Unrealized net gain on investments	3,370,228	665,607
Unrealized net gain on other assets	21,855,500	
Total investment income	27,889,968	2,584,921
Investment management fees	199,852	177,817
Net investment income	27,690,116	2,407,104
Contributions	8,661,263	14,446,840
Total revenues	36,351,379	16,853,944
<b>Grants and Expenses:</b>		
Grants	11,422,679	5,424,640
Administrative expenses	299,310	255,907
Total grants and expenses	11,721,989	5,680,547
Change in Net Assets	24,629,390	11,173,397
Unrestricted Net Assets - Beginning of year	54,893,937	43,720,540
Unrestricted Net Assets - End of year	\$ 79,523,327	\$ 54,893,937

# Harris myCFO Foundation

## Statement of Cash Flows

<i>Years Ended June 30,</i>	2007	2006
<b>Operating Activities:</b>		
Changes in unrestricted net assets	\$ 24,629,390	\$ 11,173,397
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Realized gain from sales of investments	10,967	(14,081)
Unrealized gain from changes in market value of investments and other assets	(25,225,728)	(665,607)
Contribution of other assets		(9,102,771)
Collection of royalty and interest on other assets	6,145,723	4,400,000
Accrued interest on other assets	(52,833)	(63,635)
Increase in accounts payable	11,254	25,488
Net cash provided by operating activities	5,518,773	5,752,791
<b>Investing Activities:</b>		
Purchases of investments	(28,072,371)	(17,050,486)
Proceeds from sale of investments	22,706,431	11,286,152
Net cash used by investing activities	(5,365,940)	(5,764,334)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	152,833	(11,543)
<b>Cash and Cash Equivalents, Beginning of year</b>	24,664	36,207
<b>Cash and Cash Equivalents, End of year</b>	\$ 177,497	\$ 24,664

### Note 1 - Nature of Organization:

The Harris myCFO Foundation (Foundation) is a 501(c)(3) public charity which sponsors donor-advised fund programs. Prior to October 2006, the Foundation was known as the myCFO Foundation. The Foundation was established in November 2000 to accommodate the philanthropic goals and generous nature of Harris myCFO, Inc. clients, the company's many employees and the public at large. Believing that philanthropy is important to the health of our communities and recognizing that many individuals appreciate strategic giving as well as simplicity when it comes to giving, the Foundation was created to assist individuals in facilitating such giving. It is the goal of the Foundation to bring funders and grant-seekers together and to foster learning about the programs and activities that make a difference in our communities and around the world.

By establishing donor-advised funds, individuals can make a gift today and recommend distributions to a wide variety of charitable organizations and programs over time. Although the distributions may be spread out over a number of years, donors receive the full charitable income tax deduction in the year the gift is made to the Foundation. As the term "donor-advised" suggests, donors may recommend which charities and organizations should benefit from the fund — the final decisions as to distributions and investments reside with the Foundation Board of Directors. The unrestricted net assets represent unexpended donor advised contributions that have not yet been distributed to charitable organizations.

Donors to the Foundation are not burdened with the complex day-to-day operations and compliance issues associated with operating a charitable entity. As a result, donors can focus on the satisfying aspect of giving — finding worthy causes and programs to benefit through grant recommendations.

### Note 2 - Summary of Significant Accounting Policies:

#### a. Basis of Presentation

The Foundation prepares its financial statements on the accrual basis of accounting.

#### b. Cash and Cash Equivalents

Cash and cash equivalents include cash and money market funds with maturities of three months or less when purchased. Cash equivalents exclude money market funds which are part of the funds overseen by the various investment managers.

#### c. Investments

Investments in equity securities and investment funds with readily determined fair values and all debt instruments are reported at fair value based on quoted market prices as of June 30. Realized and unrealized gains or losses are included in the statement of activities.

# Harris myCFO Foundation

## Notes to Financial Statements

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d. Other Assets

Other assets represent the interest in an intellectual property license agreement (the agreement) that was received by the Foundation as a contribution. The agreement provides that a specific royalty payment will be made to the Foundation for every unit sold that is covered under the agreement. The contribution of interest in the agreement is valued based on the expected number of units to be sold over the anticipated sales life of the unit, plus amounts for previous sales still owed. Other assets are reduced by the proceeds received from the amount of units sold, increased by interest accrued on amount due for units sold, but not yet remitted, and adjusted for change in value.

e. Contributions

Contributions are recognized as revenues in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the time of donation.

f. Grants

Grants are accrued and recorded as an expense when approved by the Board and all significant conditions have been met. Grants are authorized subject to certain restrictions and failure of the recipients to meet these restrictions may result in cancellations or refunds. Grant refunds are recorded as a reduction of grant expense at the time the grant is refunded to the Foundation.

g. Fair Value of Financial Instruments

The carrying value of financial instruments not otherwise disclosed herein, is comparable to the fair value due to the short term nature of these financial instruments.

h. Tax Exempt Status

The Foundation is a not-for-profit organization exempt from paying federal and state income taxes on income related to its exempt purposes under Internal Revenue Code Section 501(c)(3) and related California code sections. The Foundation has also received determination that it is exempt from excise tax as a private foundation.

i. 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 amount of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

# Harris myCFO Foundation

## Notes to Financial Statements

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### j. Recent Accounting Pronouncements

Fair Value Measurements – In September 2006, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard (FAS) No. 157, “Fair Value Measurements,” which defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. FAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. FAS 157 does not expand or require any new fair value measures and is effective for fiscal periods beginning after November 15, 2007. The Foundation is currently evaluating what effect, if any, the adoption of FAS No. 157 will have on the Foundation’s financial statements.

In February 2007, FASB issued FAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115”, (effective as of the beginning of an entity’s first fiscal year that begins after November 5, 2007). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The Foundation is currently evaluating what effect, if any, the adoption of SFAS No. 159 will have on the Foundation’s financial statements.

### **Note 3 - Description of Net Assets:**

Unrestricted net assets are those that are neither temporarily restricted nor permanently restricted by donor-imposed stipulations. As mentioned in Note 1, the unrestricted net assets represent unexpended donor advised contributions that have not been distributed to charitable organizations. There are no temporarily or permanently restricted net assets.

### **Note 4 - Investments in Securities:**

Investments in securities consist of the following.

As of June 30, 2007:

	Cost	Fair Market Value
Money Market Funds	\$ 6,530,986	\$ 7,631,007
Bond Funds	19,099,008	19,132,290
Equity Funds	24,180,645	27,092,083
U.S. Government Obligations	5,124,200	5,072,311
	<hr/>	<hr/>
	\$ 54,934,839	\$ 58,927,691

# Harris myCFO Foundation

## Notes to Financial Statements

As of June 30, 2006:

	Cost	Fair Market Value
Money Market Funds	\$ 7,919,030	\$ 7,919,030
Bond Funds	17,741,632	17,777,460
Equity Funds	21,038,739	17,628,348
U.S. Government Obligations	4,471,162	6,877,652
	<hr/>	<hr/>
	\$ 51,170,563	\$ 50,202,490

### Note 5 - Other Assets:

In December 2005, the Foundation received a contribution of and interest in an intellectual property license agreement valued at \$9,102,771. [Insert A?]

During the years ended June 30, 2007 and 2006, \$6,145,723 and \$4,400,000, respectively, was received and applied against the value of the interest.

At June 30, 2007 and 2006, other assets also includes \$52,833 and 63,635, respectively, of accrued interest on amounts owing to the Foundation under the intellectual property license agreement.

### Note 6 - Concentration of Risk:

The Foundation has identified its financial instruments which are potentially subject to credit risk. These instruments consist of cash, money market funds and investments in securities.

At June 30, 2007 and 2006, the checking account and money market funds balances included \$177,497 and \$24,664, respectively, in deposits which were not covered by FDIC insurance but are covered under the Securities Investor Protection Corporation (SIPC) with excess SIPC account protection offered by Lloyd's of London. The cash equivalents are subject to market risk.

Investments in securities are diversified into various funds in order to limit the concentration of market risk. The securities are managed by various investment management firms. UBS Financial Services, Inc. and Charles Schwab maintain custodianship responsibilities.

# Harris myCFO Foundation

## Notes to Financial Statements

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### **Note 7 - Related Party Transactions:**

The Foundation has contracted with related parties (Harris myCFO, Inc. and myCFO Investment Advisory Services, LLC) to manage its operations and to perform certain management and advisory services for a quarterly fee that is based on a certain percent of the rolling 3-month average of the net fair market value of the Foundation's assets under advisement by Harris myCFO, Inc. The agreement also includes the performance of investment advisory services by Harris myCFO Investment Advisory Services, LLC. The total amounts paid to these related parties for the years ending June 30, 2007 and 2006 were \$345,531 and \$286,175, respectively, which includes consideration for facilities and personnel services provided to the Foundation by Harris myCFO, Inc.