

# The San Diego Foundation

## Consolidated Financial Statements

Years Ended June 30, 2009 and 2008



Mayer  
Hoffman  
McCann P.C.  
An Independent CPA Firm

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## **Independent Auditors' Report**

To the Audit Committee  
**The San Diego Foundation**  
San Diego, California

We have audited the accompanying consolidated statements of financial position of **The San Diego Foundation** ("The Foundation") as of June 30, 2009 and 2008, and the related consolidated statements of activity and cash flows for the years then ended. These consolidated financial statements are the responsibility of The Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **The San Diego Foundation** as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As disclosed in Note 1 to the financial statements, The Foundation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as of July 1, 2008. Also, as disclosed in Note 12, The Foundation adopted FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, as of July 1, 2008.

*Mayer Hoffman McCann, P.C.*

October 26, 2009

# The San Diego Foundation

## Consolidated Statements of Financial Position

Years ended June 30, 2009 and 2008

(In thousands)

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	\$ 39,154	\$ 55,022
Endowments receivable	7,372	4,402
Investments	351,251	439,198
Real estate held-for-sale	-	1,330
Other assets - net	30,947	41,116
Total assets	\$ 428,724	\$ 541,068
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,182	\$ 3,024
Grants payable	9,424	12,277
Deferred gift liabilities	4,376	4,456
Amounts held on behalf of others	31,743	42,748
Bonds payable	13,070	13,290
Total liabilities	61,795	75,795
Net assets:		
Unrestricted	149,102	266,945
Temporarily restricted	17,368	20,046
Permanently restricted	200,459	178,282
Total net assets	366,929	465,273
Total liabilities and net assets	\$ 428,724	\$ 541,068

*The accompanying notes are an integral part of these consolidated financial statements.*

# The San Diego Foundation

## Consolidated Statement of Activity Year ended June 30, 2009 (In thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, gains, and other support:				
Gifts and bequests from donors	\$ 11,509	\$ 327	\$ 20,185	\$ 32,021
Investment loss	(8,156)	(49,497)	-	(57,653)
Gifts and bequests (to) from funds	(1,250)	(690)	1,940	-
	2,103	(49,860)	22,125	(25,632)
Change in value of split-interest agreements	-	(1,804)	-	(1,804)
Net assets released from restrictions	19,447	(19,447)	-	-
Total revenue, gains, and other support	<u>21,550</u>	<u>(71,111)</u>	<u>22,125</u>	<u>(27,436)</u>
Expenses:				
Program grants				
Cultural activities	26,140	-	-	26,140
Health and human services	20,995	-	-	20,995
Education	10,928	-	-	10,928
Urban/civic and religion	2,617	-	-	2,617
Total program grants	60,680	-	-	60,680
Charitable expenses	2,973	-	-	2,973
Operating and administrative expenses	7,255	-	-	7,255
Total expenses	<u>70,908</u>	<u>-</u>	<u>-</u>	<u>70,908</u>
Reclassification of net assets	(68,485)	68,433	52	-
Change in net assets	(117,843)	(2,678)	22,177	(98,344)
Net assets at beginning of year	266,945	20,046	178,282	465,273
Net assets at end of year	<u>\$ 149,102</u>	<u>\$ 17,368</u>	<u>\$ 200,459</u>	<u>\$ 366,929</u>

*The accompanying notes are an integral part of this consolidated financial statement.*

# The San Diego Foundation

## Consolidated Statement of Activity

Year ended June 30, 2008

(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support:				
Gifts and bequests from donors	\$ 54,411	\$ 3,796	\$ 5,194	\$ 63,401
Investment loss	(15,048)	(1,525)	-	(16,573)
Gifts and bequests (to) from funds	(388)	10	378	-
	<u>38,975</u>	<u>2,281</u>	<u>5,572</u>	<u>46,828</u>
Change in value of split-interest agreements	-	888	-	888
Net assets released from restrictions	129	(129)	-	-
Total revenue, gains, and other support	<u>39,104</u>	<u>3,040</u>	<u>5,572</u>	<u>47,716</u>
Expenses:				
Program grants				
Urban/civic and religion	28,590	-	-	28,590
Education	12,480	-	-	12,480
Health and human services	11,027	-	-	11,027
Cultural activities	3,841	-	-	3,841
Total program grants	<u>55,938</u>	<u>-</u>	<u>-</u>	<u>55,938</u>
Charitable expenses	2,732	-	-	2,732
Operating and administrative expenses	8,027	-	-	8,027
Total expenses	<u>66,697</u>	<u>-</u>	<u>-</u>	<u>66,697</u>
Reclassification of net assets	1,110	(1,159)	49	-
Change in net assets	(26,483)	1,881	5,621	(18,981)
Net assets at beginning of year	<u>293,428</u>	<u>18,165</u>	<u>172,661</u>	<u>484,254</u>
Net assets at end of year	<u>\$ 266,945</u>	<u>\$ 20,046</u>	<u>\$ 178,282</u>	<u>\$ 465,273</u>

The accompanying notes are an integral part of this consolidated financial statement.

# The San Diego Foundation

## Consolidated Statements of Cash Flows Years ended June 30, 2009 and 2008 (In thousands)

	<u>2009</u>	<u>2008</u>
Cash flows used in operating activities:		
Change in net assets	\$ (98,344)	\$ (18,981)
Adjustments and reclassifications to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized losses (gains) on investments	71,028	35,469
Change in value of split interest agreements	1,804	(888)
Contributions restricted for long-term investments	(20,185)	(5,194)
Contribution of stock and securities	(1,171)	(17,061)
Contribution of real estate, net	-	(3,000)
Depreciation and amortization	678	665
Net realized and unrealized gains on sale of real estate	(413)	(1,190)
Change in cash surrender value of life insurance policies	6	(521)
Increase/decrease in cash resulting from changes in:		
Increase (decrease) in other assets - net	8,496	(4,498)
Decrease in accounts payable and accrued expenses	(293)	(29)
(Decrease) increase in grants payable	(2,852)	5,443
(Decrease) increase in deferred gifts liability	(80)	617
(Decrease) increase in amounts held on behalf of others	(11,005)	382
Net cash used in operating activities	<u>(52,331)</u>	<u>(8,786)</u>
Cash flows provided by investing activities:		
Proceeds from sale of marketable equity securities	725,794	949,569
Purchases of marketable equity securities	(707,245)	(919,552)
Proceeds from sale of real estate	3,913	4,490
Purchases of equipment	(140)	(484)
Net cash provided by investing activities	<u>22,322</u>	<u>34,023</u>
Cash flows provided by financing activities:		
Contributions restricted for long-term investments	14,307	3,177
Principal payments on bonds	(220)	(210)
Principal received on notes receivable	54	51
Net cash provided by financing activities	<u>14,141</u>	<u>3,018</u>
Net (decrease) increase in cash and cash equivalents	<u>(15,868)</u>	<u>28,255</u>
Cash and cash equivalents at beginning of year	55,022	26,767
Cash and cash equivalents at end of year	\$ <u>39,154</u>	\$ <u>55,022</u>
Cash and cash equivalents:		
Available for operations	\$ 5,834	\$ 4,749
Available for specific purposes	<u>33,320</u>	<u>50,273</u>
	\$ <u>39,154</u>	\$ <u>55,022</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest during the year	\$ 483	\$ 599
<b>Non-Cash information:</b>		
Write down for impairment of contributed asset	\$ 500	-

The accompanying notes are an integral part of these consolidated financial statements.

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### 1. Organization and Significant Accounting Policies

#### *Organization*

The San Diego Foundation (“The Foundation”), formerly the San Diego Community Foundation, is a public charity founded in 1975, created to improve the quality of community life by promoting and increasing responsible and effective philanthropy. The Foundation administers charitable gifts, including permanent endowments, from which grants are made to nonprofit organizations for community betterment. The Foundation’s activities are conducted by the Board of Governors, the Chief Executive Officer, and supporting staff.

#### *Basis of presentation*

In order to accommodate the various alternatives for donors’ distribution objectives, The Foundation’s records are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund. The Foundation follows the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 117 requires that consolidated net assets, revenue, gains, expenses, and losses be classified as unrestricted, temporarily restricted, and permanently restricted.

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 restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activity as net assets released from restrictions.

A summary of the net asset categories included in the accompanying consolidated financial statements is as follows:

#### **Unrestricted**

Unrestricted amounts represent amounts that are available for various activities including:

- Operational and administrative functions;

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

*Basis of presentation, cont'd*

- The Foundation's support of community activities and charitable endeavors at the discretion of The Foundation's Board of Governors;
- Board-designated endowment amounts, which are considered by the Board of Governors to be endowments even though the donors did not specify that the principal be invested in perpetuity.

### **Temporarily Restricted**

Temporarily restricted amounts represent deferred gifts in the form of trusts and annuities that are subject to passage of time and, in the absence of explicit donor stipulations, earnings on permanently restricted endowments that have not yet been appropriated for expenditure by The Foundation.

### **Permanently Restricted**

Permanently restricted net assets represent those assets contributed to The Foundation where the original dollar value is to remain in perpetuity as a permanent endowment of The Foundation. While The Foundation's bylaws provide for variance power, which, under certain unanticipated circumstances, allows for the modification of restrictions, management believes that such variance power does not apply to endowment funds, and, accordingly, has recorded such amounts as a component of permanently restricted net assets.

It is The Foundation's policy that permanently restricted assets are reported at their original value at the time of the gift. Realized and unrealized gains and losses on those assets are recorded as temporarily restricted assets until appropriated, and do not impact the original corpus of the permanently restricted assets.

*Cash and cash equivalents*

Cash and cash equivalents consist of cash and money market funds. Other highly liquid investments are defined as investments, due to their nature as a long-term investment.

*Custodian and management fees*

Custodian, investment, and management fees are recognized in the fiscal year in which they occur. Various fees are used to fund part of The Foundation's operating budget. The income and expense associated with these fees recorded between donor funds and the operating fund throughout the year are included in fees and other expenses on the accompanying consolidated statements of activity.

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### *Principles of consolidation*

The accompanying consolidated financial statements include the accounts of The Foundation and the supporting organizations under the control of The Foundation. These supporting organizations and their total asset balances as of June 30, 2009 and June 30, 2008, respectively are: Sol Price Retailing/Service Scholarship Program, \$4,362,000 and \$5,596,000; Beauchamp, \$0 and \$14,219,000; the San Diego Charitable Real Estate Foundation, \$1,104,000 and \$4,297,000; and the San Diego Regional Disaster Fund, \$2,593,000 and \$4,185,000. After approval from the State Attorney General, the remainder of Beauchamp's assets were designated as support to another 501(c)3 and granted to that organization in the current year. All inter-entity accounts and transactions have been eliminated.

### *Concentrations*

#### **Credit Risk**

The Foundation invests in various types of marketable securities and money market funds. The Foundation has established guidelines relative to diversification and maturities that target certain safety and liquidity risk levels. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

The Foundation maintains cash balances at banks located in San Diego. Accounts at these institutions are secured by the Federal Deposit Insurance Corporation. At times, balances may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes that The Foundation is not exposed to any significant credit risk with respect to its cash and cash equivalents.

The Foundation invests in various investment securities, including U.S. government securities, corporate debt instruments, corporate stocks and various alternative investments. Investment securities, in general, are subject to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

By using a derivative financial instrument to hedge exposure to a change in interest rates, The Foundation exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### *Concentrations, cont'd*

contract is positive, the counterparty owes The Foundation, which creates repayment risk for The Foundation. When the fair value of a derivative contract is negative, The Foundation owes the counterparty and therefore, it does not possess repayment risk. The Foundation minimizes the credit (or repayment) risk in derivative instruments by (1) entering into transactions with high-quality counterparties, and (2) limiting the amount of exposure to the counterparty. The Foundation does not anticipate nonperformance by the counterparties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by the establishment and monitoring of parameters that limit the types and degree of market risk that may be undertaken.

### *Investments*

The Foundation follows the provisions of SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under the provisions of SFAS No. 124, investments in equity securities with readily determinable fair market values and all debt securities should be reported at fair market value with gains and losses included in the consolidated statements of activity.

Investments acquired by gift are recorded at their fair market value at the date of the gift. The Foundation's policy is to liquidate all gifts of investment as timely as possible taking into consideration the impact on the market price.

Investments are made according to the Investment Policy Statement adopted by The Foundation's Board. These guidelines provide for investments in equities, fixed income, and other securities with performance measured against appropriate indices. Outside parties are contracted by The Foundation for the purpose of providing investment management and consulting.

Investments consisted of marketable securities and units in limited partnerships and are described as follows:

#### **Marketable Securities**

Marketable securities consisted of U.S. government securities and other debt and equity securities and are recorded at fair market value.

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### *Investments, cont'd*

Realized gains or losses on the sale of marketable securities are calculated using the specific-identification method. Unrealized gains and losses represent the change in the fair market value of the individual investments for the year or since the acquisition date if acquired during the year and are recorded as a component of unrestricted net assets or temporarily restricted until those amounts are appropriated for expenditure by The Foundation.

### **Units in Limited Partnership**

Investments in units in limited partnerships are recorded either at the net present value of the estimated future cash flows at the date the units were received, based on an independent appraisal at the date of the donation or at the original cost basis. After acquisition, investments in units in limited partnerships recorded at cost are carried at the lower of cost or fair value. At June 30, 2009 and 2008 respectively, all units in limited partnerships held by The Foundation were recorded at original cost basis.

### *Depreciation*

Fixed assets are depreciated using the straight-line method over the estimated useful lives of the related assets or, in the case of leasehold improvements, over the lesser of the useful life of the related asset or the lease term. Depreciation on purchased fixed assets is calculated based on cost, while depreciation on contributed fixed assets is calculated based on fair market value. Acquisitions of property and equipment in excess of \$500 are capitalized.

### *Long-lived assets*

Each year The Foundation reviews the carrying value of its long-lived assets to determine if facts and circumstances exist which would suggest that these assets may be impaired or that the amortization period, if any, needs to be modified. Among the factors considered by The Foundation in making the evaluation are cash flows from the investment, changes in local real estate market conditions, and other factors. Using these factors, if indicators are present which may indicate impairment is probable, The Foundation will prepare a projection of the discounted cash flows of the asset and determine if the carrying value of the asset is recoverable. If impairment is indicated, then an adjustment will be made to reduce the carrying value to equal the estimated discounted cash flows of the related assets.

The Foundation does not believe there are any factors indicating impairment as of June 30, 2009 or June 30, 2008.

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

- Other assets* Other assets are carried at the lower of cost or fair market value.
- Deferred gifts* The Foundation is a beneficiary of certain trust funds held by others and has recorded assets related to these funds at the net present value of the estimated future amount to be received. These assets are included in other assets on the accompanying consolidated statements of financial position.
- In 2004, The Foundation received its California insurance license, allowing it to offer charitable gift annuities. Charitable gift annuities are recognized in the period in which the contract is executed. The assets received are recognized at fair value when received, and an annuity payment liability is recognized at the present value of future cash flows expected to be paid to the lifetime beneficiary, based on current life expectancy tables and a discount rate equal to the original rate of return on the investment as initially agreed upon with the donor.
- Grants payable* The Foundation records a liability for grants when they have been approved by the Board of Governors. Grants which are conditional are recorded as liabilities when the conditions to the grants have been substantially met. Grants payable are typically expected to be paid out within one year of the approval date.
- Expense allocation* Expenses that can be identified with program grants are charged directly to the related program or charitable expenses. Charitable expenses are direct program costs paid to a party other than the benefiting non-profit organization. Operating and administrative expenses include those expenses that provide for the overall support and direction of the organization. Included in operating expenses are fundraising expenses of approximately \$1,747,000 and \$2,008,000, for fiscal years 2009 and 2008, respectively.
- Use of estimates* The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these consolidated financial statements include those assumed in computing the estimated future cash flow of deferred gifts, endowment receivables, and deferred compensation calculations.

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

*Income tax status* The Foundation is exempt from income taxes under the current provisions of the Internal Revenue Code Section 501(c)(3) and Section 23701(d) of the California Franchise Tax Code.

*Interest rate swap* The interest rate swap is recognized as either an asset or a liability at fair value on the consolidated statements of financial position. Changes in the fair value are reported in investment loss on the statements of activities in unrestricted net assets. The Foundation recorded a loss related to this instrument of approximately \$451,000 and \$463,000, for fiscal years 2009 and 2008 respectively.

*Reclassifications* Certain amounts in the 2008 financial statements have been reclassified to conform with the 2009 classifications. These reclassifications have no material effect on total net assets.

*Fair value measurements* SFAS No. 157, *Fair Value Measurements*, establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements.

The Foundation adopted SFAS No. 157 as of July 1, 2008 for financial assets and financial liabilities. The Foundation measures fair value at the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In early 2008, the Financial Accounting Standards Board (“FASB”) issued Staff Position (“FSP”) FAS No. 157-2, *Effective Date of FASB Statement No. 157* (“FSP FAS 157-2”), which delays by one year, the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Foundation is evaluating the impact the standard will have on future years.

In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active* (“FSP FAS 157-3”). FSP FAS 157-3 was effective upon issuance, and applies to periods for which financial statements have not been issued. This FSP’s

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### *Fair value measurements, cont'd*

guidance clarifies various application issues with respect to the objective of a fair value measurement, distressed transactions, relevance of observable data, and the use of management's assumptions. The FSP FAS 157-3 was adopted by The Foundation upon issuance in fiscal 2009.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ("FSP FAS 157-4"). Under FSP FAS 157-4, if the reporting entity has determined that the volume and level of market activity has significantly decreased and transactions are not orderly, further analysis is required and adjustments to the quoted prices or transactions might be needed. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. Management is currently evaluating whether the FSP 157-4 will have an impact on The Foundation's future financial statements.

In September 2009, the FASB issued ASU No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. No. 2009-12 is effective for periods ending after December 15, 2009, with early application permitted. This ASU provides additional guidance on how organizations should estimate the fair value of certain alternative investments such as hedge funds, private equity funds and venture capital funds. The fair value of investments within the scope of the guidance can now be determined using Net Asset Value ("NAV") as a practical expedient, unless it is probable the investment will be sold at something other than NAV. The ASU also requires significant additional disclosure for all investments falling within its scope, not just those for which an entity has elected to use the practical expedient. Entities that elect to early adopt are not required to early adopt the disclosure provisions. The Foundation elected to adopt this guidance in fiscal 2009, with the exception of the disclosure requirements.

SFAS No. 157 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. The Statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices for identical assets or liabilities in active markets.

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### *Fair value measurements, cont'd*

Level 2: Unadjusted quoted market prices for similar assets and liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Significant unobservable inputs for the asset or liability.

### 2. Investments

Investments consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
	(In thousands)	(In thousands)
Marketable securities	\$ 326,031	\$ 413,978
Units in limited partnerships	25,220	25,220
Total Investments	<u>\$ 351,251</u>	<u>\$ 439,198</u>

### *Marketable securities*

Marketable securities consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
	(In thousands)	(In thousands)
Equity securities:		
Domestic	\$ 99,788	\$ 144,750
Foreign	61,204	81,808
	<u>160,992</u>	<u>226,558</u>
Fixed-income securities:		
Corporate obligations	81,324	80,158
Government obligations	35,611	27,407
	<u>116,935</u>	<u>107,565</u>
Alternative and other investments	48,104	79,855
Total marketable securities	<u>\$ 326,031</u>	<u>\$ 413,978</u>

As of June 30, 2009 and 2008, The Foundation held approximately \$8,155,000 and \$13,400,000 in auction-rate securities, which consist of interests in collateralized debt obligations supported by pools of residential and commercial mortgages or credit cards, insurance securitizations and other structured credits, including corporate bonds. The Foundation has booked an unrealized loss associated with auction-rate securities of approximately \$5,259,000 and \$6,200,000 for the years ended June 30, 2009 and 2008, respectively.

### *Units of limited partnership*

The Foundation is a limited partner in a partnership whose purpose is to hold, manage, develop, license, market, and/or dispose of intellectual property rights associated with certain literary figures. The Foundation

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### *Units of limited partnership, cont'd*

owns a 3.8% and 36.3% interest in the partnership's book and non-book revenues, respectively. The carrying value of The Foundation's interest in the partnership is approximately \$25,220,000, at June 30, 2009 and June 30, 2008. The Foundation received distributions from the limited partnership of approximately \$2,191,000 and \$2,105,000, in fiscal years 2009 and 2008, respectively.

In fiscal year 2002, The Foundation received a 7.5% interest in a limited liability partnership. The purpose of the partnership is to market and sell a parcel of land in Colorado. The Foundation has recorded its interest in the underlying real estate at fair value as determined by an independent appraisal. In fiscal year 2008, the property was sold by the partnership. The Foundation's distribution from the partnership for the sale of the property amounted to \$1,170,000.

In fiscal year 2005, The Foundation invested in a limited liability partnership whose purpose is to invest in a variety of commercial real estate properties. The Foundation reported this investment at its initial cost of \$10,000,000 due to the liquidity restrictions of this partnership. In fiscal year 2008, The Foundation redeemed its partnership shares for cash in the amount of \$10,000,000.

### *Summary of return on investments*

The following schedule summarizes the return on investments and its classification in the consolidated statements of activity for fiscal years 2009 and 2008:

	Unrestricted (In thousands)	Temporarily Restricted (In thousands)	Total (In thousands)
<i>Year Ended June 30, 2009:</i>			
Net realized/unrealized loss on sales of marketable securities	\$ (16,120)	\$ (54,456)	\$ (70,576)
Interest, dividends, and other income	7,964	4,959	12,923
Total loss on investment	<u>\$ (8,156)</u>	<u>\$ (49,497)</u>	<u>\$ (57,653)</u>
<i>Year Ended June 30, 2008:</i>			
Net realized/unrealized loss on sales of marketable securities	\$ (38,132)	\$ (1,544)	\$ (39,676)
Net realized gain on sale of parking lot	2,074	-	2,074
Interest, dividends, and other income	21,010	19	21,029
Total loss on investment	<u>\$ (15,048)</u>	<u>\$ (1,525)</u>	<u>\$ (16,573)</u>

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

- 3. Fair Value Measurements** The following table summarizes the valuation of The Foundation's financial instruments in accordance with SFAS No. 157 at June 30, 2009:

	Quoted price (Level 1) (In thousands)	Observable inputs (Level 2) (In thousands)	Significant unobservable inputs (Level 3) (In thousands)	Total (In thousands)
Money market funds	\$ 34,129	\$ -	\$ -	\$ 34,129
Domestic equity securities	16,155	83,633	-	99,788
Foreign equity securities	61,204	-	-	61,204
Government obligations	35,611	-	-	35,611
Corporate obligations	73,169	-	8,155	81,324
Split interest agreements	-	-	15,103	15,103
Interest rate swap agreement	-	-	(952)	(952)
Hedge funds	-	-	29,455	29,455
Private real estate investment trusts	-	-	18,348	18,348
Private equity securities	-	-	302	302
<b>Total</b>	<b>\$220,268</b>	<b>\$83,633</b>	<b>\$70,411</b>	<b>\$374,312</b>

Changes in Level 3 financial instruments during 2009 were as follows:

	Corporate obligations (In thousands)	Split interest agreements (In thousands)	Interest rate swap agreement (In thousands)	Total (In thousands)
Balance July 1, 2008	\$ 13,414	\$ 23,232	\$ (501)	\$ 36,145
Change in value of split interest agreements	-	(1,804)	-	(1,804)
Total gains and losses (realized/unrealized)	(5,259)	-	(451)	(5,710)
Purchases, issuances and settlements	-	(6,325)	-	(6,325)
<b>Balance June 30, 2009</b>	<b>\$ 8,155</b>	<b>\$ 15,103</b>	<b>\$ (952)</b>	<b>\$ 22,306</b>

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### 3. Fair Value Measurements, Cont'd

Changes in Level 3 financial instruments during 2009 were as follows:

	Hedge funds (In thousands)	Private real estate investment trusts (In thousands)	Private equity securities (In thousands)	Total (In thousands)
Balance July 1, 2008	\$ 40,491	\$ 26,322	\$ 333	\$ 67,146
Total gains and losses (realized/unrealized)	(8,002)	(7,793)	(51)	(15,846)
Purchases, issuances and settlements	(3,034)	(181)	20	(3,195)
Balance June 30, 2009	\$ 29,455	\$ 18,348	\$ 302	\$ 48,105

Unrealized losses associated with Level 3 financial instruments were \$20,974,000 for the year ended June 30, 2009.

Investments are stated at fair value which is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Alternative investments are less liquid than The Foundation's other investments. The Foundation's investment policy is to maximize return with a minimal amount of risk. The use of alternative investments furthers that objective. The Foundation has diversified its alternative investments into the following types of funds: Hedge funds, private real estate investment trusts and private equity.

Money market mutual funds are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Marketable securities including publicly traded investments such as domestic and foreign equity and government and corporate obligations that trade on an active exchange are classified within Level 1.

Domestic equity securities classified as Level 2 consist of investments in mutual funds for which no quoted market prices are published. These investments are stated at fair value based on the net asset value of units held by The Foundation. Net asset value of these funds is determined using the unadjusted quoted market prices for the underlying securities held by funds, which are traded in active markets.

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### 3. Fair Value Measurements, Cont'd

Investments in corporate obligations classified within Level 3 consist of auction-rate securities for which no quoted market prices are published. The Foundation hired an independent, external valuation company to determine the fair value of these securities at June 30, 2009. The fair value of these investments is based on a trinomial discount model. This model considers the probability of three potential occurrences for each auction event through the maturity date of the security. The three potential outcomes for each auction are (i) successful auction/early redemption, (ii) failed auction and (iii) issuer default. Inputs in determining the probabilities of the potential outcomes include, but are not limited to, the security's collateral, credit rating, insurance, issuer's financial standing, contractual restrictions on disposition and the liquidity in the market. The fair value of each security is determined by summing the present value of the probability weighted future principal and interest payments determined by the model.

Nonmarketable, nonredeemable interests in private equities are classified within Level 3. Additionally, nonmarketable, redeemable investments such as hedge funds are classified in Level 3.

Private interests in illiquid assets require significant judgment by The Foundation due to the absence of quoted market values, inherent lack of liquidity and the long-term nature of such investments. Valuations are based on net asset values provided by fund managers. External investment advisors and additional factors are used to determine if the carrying value of these investments should be adjusted. In determining valuation adjustments, emphasis is placed on market participants' assumptions and market-based information over entity specific information.

Valuations of interests in private equity and hedge funds are reviewed monthly or quarterly and determined through consideration of the net asset values provided by the fund manager and other market factors. Other factors include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment.

Split interest agreements are recorded at the net present value of the estimated future amount to be received from such assets. The present value of these assets is calculated by using recent life expectancy tables and a risk adjusted discount rate of 3.05% as of June 30, 2009.

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### 3. Fair Value Measurements, Cont'd

The fair value of the interest rate swap agreement is based on the present value of estimated monthly net future cash flows resulting from the swap agreement. Cash outflows per this valuation are based on the contractual fixed interest rate required to be paid by The Foundation on the notional balances over the swap term. Estimated cash inflows are based on projected future LIBOR rates on June 30, 2009 as definitive futures rates are not available upon which such cash inflows are based. The summation of net present value of all such future cash flows results in the fair value recorded herein.

### 4. Endowment Funds

In August 2008, the FASB issued FASB Staff Position (“FSP”) No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP No. 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). The State of California approved a version of UPMIFA in September 2008 effective January 1, 2009. FSP No. 117-1 is effective for fiscal years ending after December 15, 2008.

The Foundation adopted FSP No. 117-1 and UPMIFA in fiscal 2009. The Board of Governors of The San Diego Foundation interprets UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, The Foundation considers the following factors in making a determination to invest or appropriate donor-restricted endowment funds:

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### 4. Endowment Funds, Cont'd

- (1) The duration and preservation of the fund
- (2) The purposes of The Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of The Foundation
- (7) The investment policies of The Foundation

The Foundation's endowment investment policy and strategy is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income in an attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Within this framework, specific investment objectives for endowment investments include liquidity, preservation of capital, preservation of purchasing power and long-term growth of capital.

The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to produce, after investment expenses, a minimum annual compound total rate of return of 5% in excess of the rate of inflation. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, The Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

Endowment funds are maintained in pooled investment portfolios. Interest, dividends, and realized and unrealized gains and losses in the investment pools are allocated monthly to the endowment funds in proportion to each fund's share in the investment pools. The Foundation's spending policy is to allocate 5% per annum of the preceding thirty-six-month average fair market value invested in the pool to each fund's distributable balance, which is available for program grants. If the fair market value of the endowment principal of any fund, at the end of each

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### 4. Endowment Funds, Cont'd

month, is less than the corpus, which includes the initial and all subsequent gifts from donors, the distribution is limited to interest and dividends received. Accordingly, over the long term, The Foundation expects current spending policy to allow its endowment assets to grow at the average rate of inflation annually. This is consistent with The Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns.

Endowment net asset composition by type of fund as of June 30, 2009 were as follows:

	Unrestricted (In thousands)	Temporarily Restricted (In thousands)	Permanently Restricted (In thousands)	Total (In thousands)
Donor Restricted Endowment Funds	\$ -	\$ 5,510	\$200,459	\$205,969
Board Designated Endowment Fund	5,826	-	-	5,826
<b>Total</b>	<b>\$ 5,826</b>	<b>\$ 5,510</b>	<b>\$200,459</b>	<b>\$211,795</b>

Endowment net asset composition by type of fund as of June 30, 2008 were as follows:

	Unrestricted (In thousands)	Temporarily Restricted (In thousands)	Permanently Restricted (In thousands)	Total (In thousands)
Donor Restricted Endowment Funds	\$ -	\$ -	\$178,282	\$178,282
Board Designated Endowment Fund	77,794	-	-	77,794
<b>Total</b>	<b>\$77,794</b>	<b>\$ -</b>	<b>\$178,282</b>	<b>\$256,076</b>

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### 4. Endowment Funds, Cont'd

Changes in endowment net assets for the year ended June 30, 2009:

	Unrestricted (In thousands)	Temporarily Restricted (In thousands)	Permanently Restricted (In thousands)	Total (In thousands)
Endowment net assets, beginning of year	\$ 77,794	\$ -	\$178,282	\$256,076
Net asset reclassification according to change in law	(68,485)	68,433	52	-
Endowment net assets after reclassification	9,309	68,433	178,334	256,076
Interest and dividends	141	4,945	-	5,086
Net depreciation	(3,123)	(54,727)	-	(57,850)
Total investment return	(2,982)	(49,782)	-	(52,764)
Contributions	-	-	22,125	22,125
Endowment assets appropriated for expenditure	(501)	(13,141)	-	(13,642)
Endowment net assets, end of year	\$ 5,826	\$ 5,510	\$200,459	\$211,795

Changes in endowment net assets for the year ended June 30, 2008:

	Unrestricted (In thousands)	Temporarily Restricted (In thousands)	Permanently Restricted (In thousands)	Total (In thousands)
Endowment net assets, beginning of year	\$108,363	\$ -	\$172,662	\$281,025
Interest and dividends	7,895	-	-	7,895
Net depreciation	(25,752)	-	-	(25,752)
Total investment return	(17,857)	-	-	(17,857)
Contributions	-	-	5,620	5,620
Endowment assets distributed	(12,712)	-	-	(12,712)
Endowment net assets, end of year	\$ 77,794	\$ -	\$178,282	\$256,076

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

- 4. Endowment Funds, Cont'd** As of June 30, 2009, The Foundation held endowment funds where the principal had fallen below the original corpus due to market conditions. The amount of the shortfall totaled approximately \$33,000,000.
- 5. Real Estate Held for Sale** Real estate held-for-sale is recorded at fair value at the date of contribution and as of June 30, 2008 consisted of two duplexes in Southern California valued at approximately \$1,330,000. In fiscal year 2009, these properties no longer met the criteria of assets held-for-sale as determined by SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Foundation therefore classified them as held for use and included them in property, plant and equipment at fair value which was determined to be \$830,000. An impairment loss of \$500,000 was included in unrestricted investment losses in the 2009 consolidated statement of activities. See Note 6.

- 6. Other Assets** Other assets consisted of the following at June 30:

	<b>2009</b>	<b>2008</b>
	(In thousands)	(In thousands)
Deferred gift assets	\$ 15,103	\$ 23,232
Cash surrender value of life insurance policies	1,345	1,351
Miscellaneous	829	2,852
Notes receivable, net of allowance for uncollectible notes of \$3,708 as of June 30, 2009 and 2008	798	852
Interest and dividends receivable	605	735
Securities held-for-sale	9	108
	<hr/> 18,689	<hr/> 29,130
Property, plant and equipment:		
Building	8,256	8,256
Building and leasehold improvements	2,259	2,237
Office and computer equipment	1,588	1,490
Property (duplexes)	830	-
Bond Issuance Costs	446	446
Less: Accumulated depreciation and amortization	(2,336)	(1,658)
Net depreciable property and equipment	<hr/> 11,043	<hr/> 10,771
Land	1,215	1,215
Total property, plant and equipment	<hr/> 12,258	<hr/> 11,986
Total other assets	<hr/> <b>\$ 30,947</b>	<hr/> <b>\$ 41,116</b>

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### 6. Other Assets, Cont'd

Deferred gift assets at June 30, 2009 and June 30, 2008 includes pooled income funds of approximately \$1,952,000 and \$1,993,000, and charitable trusts of approximately \$8,332,000 and \$15,163,000, respectively.

The pooled income fund is an arrangement whereby donors contribute cash into a fixed income investment account. Donors are assigned a specific number of units based on the fair value of their contribution to the pool as a whole. Investment income is distributed to each donor proportionally based on the donor's units. When a donor passes, the donor's share in the fund is distributed to The Foundation. The amounts to be received are recorded at the present value of the contribution based on the donor's life expectancy and discount rates at the time of donation.

Also included in deferred gifts are assets relating to forty-eight charitable gift annuities with a combined value of \$4,819,000, and forty-four charitable gift annuities with a combined value of \$6,076,000 as of June 30, 2009 and 2008, respectively. See Note 8 for disclosure relating to these arrangements.

Deferred gift assets decreased by approximately \$8,129,000 in fiscal year 2009 and increased by approximately \$3,160,000 in fiscal year 2008. See Note 8.

The Foundation is the beneficiary of several charitable remainder trusts administered by third parties. A charitable remainder trust is an arrangement whereby a donor contributes assets in exchange for distributions to a designated beneficiary over the remainder of the beneficiary's life. At the end of that time the remaining assets are donated to The Foundation. The Foundation recorded its beneficial interest in these trusts at fair value based on the present value of future benefits expected to be received from the trust.

Notes receivable consisted of secured and unsecured notes receivable with maturity dates through 2039 and have various repayment requirements. The non-recourse promissory note, in the amount of approximately \$3,708,000, dated March 28, 1997, has been fully reserved at June 30, 2009 and 2008, since repayments will be interest only, subject to availability of residual receipts, with principal and unpaid accrued interest payable in full on March 15, 2039. Interest income, calculated at

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

6. **Other Assets, Cont'd** 5.5% per annum, will not be recorded until repayment of the note receivable becomes probable. Interest payments received by The Foundation are recorded in the consolidated statements of activity in the year that they are received. The note is secured by a deed of trust related to land used for low-income housing.

Depreciation expense was approximately \$678,000 and \$665,000 for fiscal years 2009 and 2008, respectively.

7. **Accounts Payable and Accrued Expenses** Accounts payable and accrued expenses consisted of the following at June 30:

	<b>2009</b>	<b>2008</b>
	(In thousands)	(In thousands)
Interest rate swap agreement	\$ 952	\$ 501
Accounts payable	906	1,196
Accrued retirement	615	525
Line of credit	557	557
Investment and custodian fees payable	152	245
Total accounts payable and accrued expenses	<u>\$ 3,182</u>	<u>\$ 3,024</u>

The San Diego Foundation has a \$3,000,000 line of credit with a bank, with a maturity date of September 2010. Interest is payable monthly at the prime rate minus 0.5%. (2.75% at June 30, 2009). Advances on the line are collateralized by all of the assets of The San Diego Foundation. There was an outstanding balance on the line of credit at June 30, 2009 and June 30, 2008, of approximately \$557,000 each year.

8. **Deferred Gift Liabilities**

*Charitable trusts* The Foundation is named as the beneficiary in various charitable remainder trusts, for which it also serves as trustee. Included in the deferred gifts liability at June 30, 2009 and 2008, are the net present value of the future payments of charitable trusts of approximately \$89,000 and \$109,000, respectively. Under the terms of these agreements, The Foundation makes distributions to income beneficiaries for a given term of the life of the beneficiaries. At the end of the term, or upon the death of the income beneficiaries, assets remaining in the trust will be transferred to The Foundation. The Foundation records the assets held in these trusts at fair value based on current quoted market values, records a liability for

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

*Charitable trusts, cont'd* the respective agreements at the estimated discounted value of the amounts due to the income beneficiaries and records contribution revenue for the difference between the two values. The present value of payments to beneficiaries under these arrangements is calculated using discount rates in existence at the date of the gift.

Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in investment income on the consolidated statements of activities. The Foundation did not receive any new charitable trusts for which it serves as the trustee during fiscal years 2009 and 2008.

*Charitable gift annuities* Donors have contributed assets to The Foundation in exchange for a promise by The Foundation to pay a fixed amount over the life of the beneficiary to individuals or organizations designated by the donor. Under the terms of such agreements, no trust exists, as the assets received are held by The Foundation. The liability is an obligation of The Foundation. The Foundation records contribution revenue using the fair value of the assets less the present value of the payments expected to be made to the beneficiaries. The present values of the payments to beneficiaries were calculated by using current life expectancy tables and discount rates in place at the time of the gift. The Foundation received approximately \$137,000 and \$627,000, in charitable gift annuities during fiscal years 2009 and 2008, respectively.

At June 30, 2009 and 2008, The Foundation had a liability for charitable gift annuities of approximately \$4,287,000 and \$4,347,000, respectively. The liability amount associated with the Charitable Gift Annuities at each year end represents the minimum required reserve and is held with the trustee. This reserve is required by the State of California and is invested in accordance with the California State Board of Insurance guidelines.

**9. Amounts Held on Behalf of Others** Amounts held on behalf of others at June 30, 2009 and 2008 included approximately \$17,274,000 and \$25,102,000, respectively, for non-endowment funds and approximately \$14,469,000 and \$17,646,000, respectively, for endowment funds set up by unaffiliated nonprofit organizations for their own benefit with The Foundation as custodian.

**10. Long Term Debt** On August 10, 2006 (the "Offering Date"), The San Diego Foundation, the sole member of Building 907 LLC ("LLC"), through the San Diego

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### 10. Long Term Debt, Cont'd

County, issued \$13,500,000 of Variable Rate Demand Certificates of Participation Series 2006 (the "Bonds"). The Bonds bear interest at a weekly interest rate determined by Banc of America Securities (the "Remarketing Agent"), which was 0.22146% and 1.35% per annum at June 30, 2009 and 2008. Interest expense related to the Bonds in fiscal years 2009 and 2008 was approximately \$154,000 and \$345,000.

The second principal payment of \$220,000 is due July 1, 2009. Each month, The Foundation is required to deposit one-twelfth of the principal payment due in the following fiscal year into a deposit account. The principal payment will then be made with written consent of The Foundation on the due date.

The Bonds mature on August 1, 2036, subject to prior redemption, and are secured by a direct-pay letter of credit (the "LC") issued by U.S. Bank (the "Trustee") which expires on August 9, 2011, unless extended. The Foundation is required to have a LC related to the Bonds through the maturity date. The LC is secured by the real property purchased with the proceeds of the financing.

The Foundation pays the Trustee a LC fee equal to 0.45% per annum of the stated amount outstanding from Offering Date through expiration. LC fees are paid annually in advance which commenced on August 10, 2006.

The Foundation must satisfy certain contractual covenants related to the Bonds that include meeting a minimum debt service ratio and minimum unrestricted net assets of \$45,000,000. The Foundation was not in compliance with all requirements as of June 30, 2009, and has obtained a waiver of non-compliance from the Trustee.

The proceeds of the Bonds were used to finance the acquisition, construction, installation, improvement, furnishing and equipping of The Foundation's new office location in Point Loma, California. At June 30, 2009 and 2008, The Foundation had approximately \$585,000 included in cash and cash equivalents related to Bond proceeds reserved for future development of the building.

In connection with the issuance of the Bonds, The Foundation incurred \$446,000 of certain costs directly related to issuance expenses, which have been capitalized as debt issuance costs. The costs are being

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### 10. Long Term Debt, Cont'd

amortized over the life of the Bonds. Amortization for 2009 and 2008 was \$15,000 each year.

Future minimum principal payments related to the Bonds are as follows:

Fiscal Year	Principal Payment
2010	\$ 230,000
2011	240,000
2012	255,000
2013	270,000
2014	285,000
Thereafter	11,790,000
	<u>\$13,070,000</u>

### *Interest rate swap agreement*

The Foundation has an interest rate swap agreement that was entered into to negate the cash flow variability caused by changes in interest rates on a portion of the variable rate bonds issued in August 2006. The differential interest required to be paid or that will be received under this agreement is accrued consistent with the terms of the agreement and is recognized in interest expense as accrued. Terms of the swap agreement require the differential interest to be paid monthly.

U.S. generally accepted accounting principles require derivative instruments, such as interest rate swap agreements to be recognized at fair value as either assets or liabilities in the consolidated statements of financial position. Accordingly, the negative \$952,000 and \$501,000 value of the swap agreement at the end of fiscal year 2009 and 2008 is reported as a liability in the consolidated statement of financial position. The decrease in value is reported in the consolidated statement of activities in investment loss.

The notional principal amount of the swap agreement was approximately \$7,974,000 and \$8,100,000 at the end of fiscal year 2009 and 2008, respectively. The agreement effectively fixes The Foundation's interest rate exposure at 3.957% per annum. Additional interest expense related to the swap agreement was approximately \$229,000 and \$90,000 in fiscal years 2009 and 2008.

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

### 11. Commitments and Contingencies

#### *Litigation*

In the normal course of business, The Foundation is occasionally named as a defendant in various lawsuits. Management is not aware of any pending lawsuits.

#### *Investment commitments*

Included in alternative and other investments at June 30, 2009 and 2008 are certain investments totaling approximately \$11,003,000 and \$4,737,000, which cannot be liquidated for a minimum of 2 years, but not more than 9 years unless The Foundation can find an assignee. Total commitments for these investments are approximately \$21,000,000 and \$13,000,000 as of June 30, 2009 and 2008. Remaining capital calls associated with these investments are approximately \$7,400,000 and \$7,700,000 as of June 30, 2009 and 2008, respectively.

### 12. Retirement Plans

The Foundation maintains an employee benefit plan (“the Plan”) that is qualified as tax deferred under Section 403(b) of the Internal Revenue Code. Elective pre-tax compensation deferrals are available to employees who have been employed by The Foundation and who work at least 1,000 hours per year. The Foundation currently matches employee contributions to the Plan dollar for dollar, up to 3% of each employee’s compensation. Employer matching contributions to the Plan in fiscal years 2009 and 2008 totaled approximately \$78,000 and \$73,000, respectively.

The Plan also allows for four categories of participants to receive employer discretionary annual contributions between 4% and 9%. Employer discretionary contributions to the Plan in fiscal years 2009 and 2008 were approximately \$148,000 for each year.

The Foundation has set up a qualified 457(b) plan and a 457(f) plan, for a top executive of The Foundation. Employer contributions to these plans totaled approximately \$108,000 and \$102,000 for fiscal years 2009 and 2008, respectively. The 457(b) plan requires The Foundation to deposit employer contributions made to this plan in a separate bank account each year.

# The San Diego Foundation

## Notes to the Consolidated Financial Statements

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### **13. Subsequent Events**

The Foundation has evaluated subsequent events through October 26, 2009, which is the date the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to the statement of financial position date that would require adjustment to, or disclosure in, the financial statements.