

The San Diego Foundation



Consolidated Financial Statements

Years Ended June 30, 2011 and 2010



Independent Auditors' Report	3
Financial Statements	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activity	5-6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-33



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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, 2011 and 2010, and the related consolidated statements of activities 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 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

October 25, 2011

The San Diego Foundation

Consolidated Statements of Financial Position

As of June 30, 2011 and 2010

(In thousands)

Assets	2011	2010
Cash and cash equivalents	\$ 52,616	\$ 38,925
Endowments receivable	5,471	7,986
Investments	468,065	393,439
Other assets - net	33,984	31,008
Total assets	<u>\$ 560,136</u>	<u>\$ 471,358</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,347	\$ 3,458
Grants payable	11,514	15,541
Deferred gift liabilities	4,816	4,498
Amounts held on behalf of others	45,865	36,507
Bonds payable	12,600	12,840
Total liabilities	<u>78,142</u>	<u>72,844</u>
Net assets:		
Unrestricted	169,297	161,213
Temporarily restricted	67,508	29,327
Permanently restricted	245,189	207,974
Total net assets	<u>481,994</u>	<u>398,514</u>
Total liabilities and net assets	<u>\$ 560,136</u>	<u>\$ 471,358</u>

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

The San Diego Foundation

Consolidated Statement of Activity Year Ended June 30, 2011 (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	\$ 24,548	\$ 376	\$ 35,456	\$ 60,380
Investment gains	23,550	46,428	-	69,978
Gifts and transfers to (from) funds	(236)	(1,530)	1,766	-
	<u>47,862</u>	<u>45,274</u>	<u>37,222</u>	<u>130,358</u>
Change in value of split-interest agreements	-	1,461	-	1,461
Net assets released from restrictions	8,561	(8,561)	-	-
Total revenue, gains, and other support	<u>56,423</u>	<u>38,174</u>	<u>37,222</u>	<u>131,819</u>
Expenses:				
Program grants				
Cultural activities	3,353	-	-	3,353
Health and human services	10,045	-	-	10,045
Education	10,966	-	-	10,966
Urban/civic and religion	13,640	-	-	13,640
Total program grants	<u>38,004</u>	<u>-</u>	<u>-</u>	<u>38,004</u>
Charitable expenses	3,295	-	-	3,295
Operating and administrative expenses	7,040	-	-	7,040
Total expenses	<u>48,339</u>	<u>-</u>	<u>-</u>	<u>48,339</u>
Reclassification of net assets	-	7	(7)	-
Change in net assets	<u>8,084</u>	<u>38,181</u>	<u>37,215</u>	<u>83,480</u>
Net assets at beginning of year	<u>161,213</u>	<u>29,327</u>	<u>207,974</u>	<u>398,514</u>
Net assets at end of year	<u>\$ 169,297</u>	<u>\$ 67,508</u>	<u>\$ 245,189</u>	<u>\$ 481,994</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, 2010 (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	\$ 36,164	\$ 381	\$ 6,749	\$ 43,294
Investment gains	14,042	24,113	-	38,155
Gifts and transfers to (from) funds	183	(882)	699	-
	<u>50,389</u>	<u>23,612</u>	<u>7,448</u>	<u>81,449</u>
Change in value of split-interest agreements	-	107	-	107
Net assets released from restrictions	11,836	(11,836)	-	-
Total revenue, gains, and other support	<u>62,225</u>	<u>11,883</u>	<u>7,448</u>	<u>81,556</u>
Expenses:				
Program grants				
Cultural activities	2,285	-	-	2,285
Health and human services	9,499	-	-	9,499
Education	9,724	-	-	9,724
Urban/civic and religion	18,745	-	-	18,745
Total program grants	<u>40,253</u>	<u>-</u>	<u>-</u>	<u>40,253</u>
Charitable expenses	2,942	-	-	2,942
Operating and administrative expenses	6,776	-	-	6,776
Total expenses	<u>49,971</u>	<u>-</u>	<u>-</u>	<u>49,971</u>
Reclassification of net assets	(143)	76	67	-
Change in net assets	<u>12,111</u>	<u>11,959</u>	<u>7,515</u>	<u>31,585</u>
Net assets at beginning of year	<u>149,102</u>	<u>17,368</u>	<u>200,459</u>	<u>366,929</u>
Net assets at end of year	<u>\$ 161,213</u>	<u>\$ 29,327</u>	<u>\$ 207,974</u>	<u>\$ 398,514</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, 2011 and 2010 (In thousands)

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 83,480	\$ 31,585
Adjustments and reclassifications to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(55,284)	(23,900)
Contributions restricted for long-term investments	(35,456)	(6,749)
Contribution of stock and securities	(5,520)	(17,891)
Change in value of split interest agreements	(1,461)	(107)
Depreciation and amortization	727	679
Change in cash surrender value of life insurance policies	230	(37)
Increase/decrease in cash resulting from changes in:		
Collections of endowments receivable	2,515	130
Decrease in other assets - net	(678)	(268)
Increase (decrease) in accounts payable and accrued expenses	49	(46)
Increase (decrease) increase in grants payable	(4,028)	6,117
Increase in deferred gift liabilities	317	122
Increase in amounts held on behalf of others	9,358	4,764
Net cash used in operating activities	<u>(5,751)</u>	<u>(5,601)</u>
Cash flows from investing activities:		
Purchases of marketable equity securities	(282,457)	(393,565)
Proceeds from sale of marketable equity securities	268,202	393,291
Purchases of equipment	(1,777)	(389)
Net cash used in investing activities	<u>(16,032)</u>	<u>(663)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investments	35,651	6,207
Principal payments on bonds	(240)	(230)
Principal payments received on notes receivable	63	58
Net cash provided by financing activities	<u>35,474</u>	<u>6,035</u>
Net increase (decrease) in cash and cash equivalents	<u>13,691</u>	<u>(229)</u>
Cash and cash equivalents at beginning of year	38,925	39,154
Cash and cash equivalents at end of year	<u>\$ 52,616</u>	<u>\$ 38,925</u>
Cash and cash equivalents:		
Available for operations	\$ 4,371	\$ 5,377
Available for specific purposes	<u>48,245</u>	<u>33,548</u>
	<u>\$ 52,616</u>	<u>\$ 38,925</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest during the year	\$ 415	\$ 412

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 consolidated financial statements of The Foundation have been presented in accordance with authoritative guidance which 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. Restricted gifts whose restrictions are met in the same reporting periods are reported as unrestricted gifts.

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

The San Diego Foundation

Notes to the Consolidated Financial Statements

Basis of presentation, cont'd

Unrestricted

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

- Operational and administrative functions;
- 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.

The San Diego Foundation

Notes to the Consolidated Financial Statements

Endowments receivable

Endowments receivable are recognized as contribution revenue in the period The Foundation receives notification the court has deemed the will of the donor's estate to be valid and all conditions have been substantially met and are stated at the amount which management estimates to collect. At June 30, 2011, endowments receivable are considered by management to be fully collectible and, accordingly, an allowance has not been provided.

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 operating and administrative expenses on the accompanying consolidated statements of activity.

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, 2011 and June 30, 2010, respectively are: Sol Price Retailing/Service Scholarship Program, \$4,083,000 and \$4,045,000; the San Diego Charitable Real Estate Foundation, \$1,042,000 and \$993,000; and the San Diego Regional Disaster Fund, \$383,000 and \$577,000. 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 San Diego Foundation

Notes to the Consolidated Financial Statements

Concentrations, cont'd

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 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

Investments of The Foundation are accounted for in accordance with authoritative guidance which states that 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.

The San Diego Foundation

Notes to the Consolidated Financial Statements

Investments, cont'd

Investments are made according to the Investment Policy Statement adopted by The Foundation's Board of Governors. 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.

Realized gains or losses on the sale of marketable securities are calculated using the average cost 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, 2011 and 2010, all units in limited partnerships held by The Foundation were recorded at original cost basis.

Fair value measurements

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.

Authoritative guidance establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values, requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

The San Diego Foundation

Notes to the Consolidated Financial Statements

Fair value measurements, cont'd

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

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.

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 at time of contribution. 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 undiscounted 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 undiscounted cash flows of the related assets.

The Foundation does not believe that there are any significant factors indicating a material adjustment for impairment as of June 30, 2011.

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

The San Diego Foundation

Notes to the Consolidated Financial Statements

- Deferred gifts, cont'd* 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. Each year, The Foundation evaluates the facts and circumstances to determine if a discount related to grants payable is necessary.
- 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 \$1,851,000 and \$1,877,000, for fiscal years 2011 and 2010, respectively.
- 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. In fiscal year 2011 The Foundation recorded a gain related to this instrument of approximately \$159,000, while in fiscal year 2010 The Foundation recorded a loss of \$322,000.
- 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, the functional allocation of expenses, 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.

All tax exempt entities are subject to review and audit by federal, state and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes.

At June 30, 2011, the federal statute of limitation remains open for the 2008 through 2011 years. The statute of limitations for the state income tax returns remains open for the 2007 through 2011 years.

As of July 1, 2009, The Foundation adopted the guidance related to uncertain tax positions and it did not result in an adjustment to the consolidated financial statements.

Reclassifications

Certain amounts in the 2010 consolidated financial statements have been reclassified to conform with the 2011 classifications. These reclassifications have no material effect on total net assets.

2. Investments

Investments consisted of the following at June 30:

	2011	2010
	(In thousands)	(In thousands)
Marketable securities	\$ 442,845	\$ 368,219
Units in limited partnerships	25,220	25,220
Total investments	<u>\$ 468,065</u>	<u>\$ 393,439</u>

Marketable securities

Marketable securities consisted of the following at June 30:

	2011	2010
	(In thousands)	(In thousands)
Equity securities:		
Domestic	\$ 115,793	\$ 105,147
Foreign	111,095	79,433
	<u>226,888</u>	<u>184,580</u>
Fixed-income securities:		
Corporate obligations	109,406	86,019
Government obligations	41,160	46,360
	<u>150,566</u>	<u>132,379</u>
Alternative and other investments	65,391	51,260
Total marketable securities	<u>\$ 442,845</u>	<u>\$ 368,219</u>

The San Diego Foundation

Notes to the Consolidated Financial Statements

Marketable securities, cont'd

As of June 30, 2010, The Foundation held approximately \$5,322,000 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 sold all remaining auction-rate securities in December 2010 for \$4,032,000. The Foundation has booked realized and unrealized losses associated with auction rate securities of approximately \$1,290,000 and \$651,000 for the years ended June 30, 2011 and June 30, 2010, 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 owns a 3.82% and 36.32% 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, 2011 and June 30, 2010. The Foundation received distributions from the limited partnership of approximately \$5,221,000 and \$4,413,000, in fiscal years 2011 and 2010, respectively.

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 2011 and 2010:

	Unrestricted	Temporarily Restricted	Total
	(In thousands)	(In thousands)	(In thousands)
<i>Year Ended June 30, 2011:</i>			
Net realized/unrealized gain on marketable securities	\$ 13,161	\$ 41,805	\$ 54,966
Interest, dividends, and other income	10,389	4,623	15,012
Total gain on investments	\$ 23,550	\$ 46,428	\$ 69,978
<i>Year Ended June 30, 2010:</i>			
Net realized/unrealized gain on marketable securities	\$ 4,977	\$ 19,246	\$ 24,223
Interest, dividends, and other income	9,065	4,867	13,932
Total gain on investments	\$ 14,042	\$ 24,113	\$ 38,155

The San Diego Foundation

Notes to the Consolidated Financial Statements

3. Fair Value Measurements

The following table summarizes the valuation of The Foundation's fair value measurements in accordance with authoritative guidance at June 30, 2011:

	Level 1 (In thousands)	Level 2 (In thousands)	Level 3 (In thousands)	Total (In thousands)
Money market funds	\$ 27,623	\$ -	\$ -	\$ 27,623
Domestic equity securities	12,422	103,371	-	115,793
Foreign equity securities	111,095	-	-	111,095
Government obligations	30,994	10,165	-	41,159
Corporate obligations	109,406	-	-	109,406
Split interest agreements	-	-	19,502	19,502
Hedge funds	-	-	41,006	41,006
Private real estate investment trusts	-	-	23,992	23,992
Private equity securities	-	-	394	394
Interest rate swap	-	-	(1,115)	(1,115)
Total	\$ 291,540	\$ 113,536	\$ 83,779	\$488,855

Changes in Level 3 fair value measurements during 2011 were as follows:

	Corporate obligations (In thousands)	Split interest agreements (In thousands)	Interest rate swap (In thousands)
Balance July 1, 2010	\$ 5,322	\$ 17,668	\$ (1,274)
Change in value of split interest agreements	-	1,461	-
Total gains and losses (realized/unrealized)	(1,290)	-	159
Purchases, issuances and settlements	(4,032)	373	-
Balance June 30, 2011	\$ -	\$ 19,502	\$ (1,115)

The San Diego Foundation

Notes to the Consolidated Financial Statements

3. Fair Value Measurements, Cont'd

	Hedge funds (In thousands)	Private real estate investment trusts (In thousands)	Private equity securities (In thousands)	Total of Level 3 Fair Value Measurements (In thousands)
Balance July 1, 2010	\$ 32,830	\$ 18,100	\$ 330	\$ 72,976
Change in value of split interest agreements	-	-	-	1,461
Total gains and losses (realized/unrealized)	4,478	2,561	71	5,979
Purchases, issuances and settlements	3,698	3,331	(7)	3,363
Balance June 30, 2011	\$ 41,006	\$ 23,992	\$ 394	\$ 83,779

The following table summarizes the valuation of The Foundation's fair value measurements in accordance with authoritative guidance at June 30, 2010:

	Level 1 (In thousands)	Level 2 (In thousands)	Level 3 (In thousands)	Total (In thousands)
Money market funds	\$ 31,697	\$ -	\$ -	\$ 31,697
Domestic equity securities	11,597	93,550	-	105,147
Foreign equity securities	79,433	-	-	79,433
Government obligations	37,898	8,462	-	46,360
Corporate obligations	80,697	-	5,322	86,019
Split interest agreements	-	-	17,668	17,668
Hedge funds	-	-	32,830	32,830
Private real estate investment trusts	-	-	18,100	18,100
Private equity securities	-	-	330	330
Interest rate swap	-	-	(1,274)	(1,274)
Total	\$ 241,322	\$ 102,012	\$ 72,976	\$ 416,310

The San Diego Foundation

Notes to the Consolidated Financial Statements

3. Fair Value Measurements, Cont'd

Changes in Level 3 fair value measurements during 2010 were as follows:

	Corporate obligations (In thousands)	Split interest agreements (In thousands)	Interest rate swap (In thousands)
Balance July 1, 2009	\$ 8,155	\$ 17,163	\$ (952)
Change in value of split interest agreements	-	107	-
Total gains and losses (realized/unrealized)	(651)	-	(322)
Purchases, issuances and settlements	(2,182)	398	-
Balance June 30, 2010	\$ 5,322	\$ 17,668	\$ (1,274)

	Hedge funds (In thousands)	Private real estate investment trusts (In thousands)	Private equity securities (In thousands)	Total of Level 3 Fair Value Measurements (In thousands)
Balance July 1, 2009	\$ 29,455	\$ 18,348	\$ 302	\$ 72,471
Change in value of split interest agreements	-	-	-	107
Total gains and losses (realized/unrealized)	6,069	(2,498)	27	2,625
Purchases, issuances and settlements	(2,694)	2,250	1	(2,227)
Balance June 30, 2010	\$ 32,830	\$ 18,100	\$ 330	\$ 72,976

Unrealized gains associated with Level 3 fair value measurements were approximately \$4,087,000 for the year ended June 30, 2011. Unrealized losses associated with Level 3 fair value measurements were approximately \$2,370,000 for the year ended June 30, 2010.

Investments

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 securities.

The San Diego Foundation

Notes to the Consolidated Financial Statements

Investments, cont'd

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.

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, 2010. 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. There were no changes in valuation techniques from prior year. At June 30, 2011 The Foundation no longer held these auction rate securities.

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

The San Diego Foundation

Notes to the Consolidated Financial Statements

Investments in entities that calculate net asset per share or its equivalent

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.

Hedge Funds

The Foundation invests in two hedge funds of funds that pursue multiple strategies to diversify risks and reduce volatility. Investments in this category for which there is no readily determinable fair value are classified as Level 3 as the valuation is based on significant unobservable inputs. The fair values of these investments have been estimated using the net asset value per share of the investments as provided by the hedge fund managers.

Private Real Estate Investment Trusts - Real Estate

The Foundation invests in five real estate private equity funds that invest in domestic and international commercial real estate. Redemptions are not permitted during the life of the funds, with the exception of RREEF America REIT II, Inc. Investments in this category for which there is no readily determinable fair value are classified as Level 3 as the valuation is based on significant unobservable inputs. When the underlying assets are sold, the proceeds, less any incentives due to the fund sponsor, will be distributed to the investors. The sale of the assets is subject to the approval of the fund's manager.

The San Diego Foundation

Notes to the Consolidated Financial Statements

Investments in entities that calculate net asset per share or its equivalent, cont'd

Private Real Estate Investment Trusts - Natural Resources

The Foundation invests in a natural resource fund that primarily invests in U.S. timberland. Redemptions are not permitted during the life of the fund. When the underlying assets are sold, the proceeds, less any incentives due to the fund sponsor, will be distributed to the investors. Investments in this category for which there is no readily determinable fair value are classified as Level 3 as the valuation is based on significant unobservable inputs. When the assets are sold, the proceeds, less any incentives due to the fund sponsor, will be distributed to the investors. The sale of the assets is subject to the approval of the fund's manager.

Other financial instruments

Private Equity Securities

The Foundation invests in two private equity funds that invest in distressed credit and mortgage assets that are not publicly traded. Investments in this category for which there is no readily determinable fair value are classified Level 3 as the valuation is based on significant unobservable inputs. Redemptions are not permitted during the life of the fund. When the assets are sold, the proceeds, less any incentives due to the fund sponsor, will be distributed to the investors. The sale of the assets is subject to the approval of the fund's manager.

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 3.30% as of June 30, 2011.

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, 2011 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.

The San Diego Foundation

Notes to the Consolidated Financial Statements

4. Endowment Funds

In August 2008, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance for endowments which 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.

The Foundation adopted this authoritative guidance 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:

- (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

The San Diego Foundation

Notes to the Consolidated Financial Statements

4. Endowment Funds, Cont'd

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 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.

The San Diego Foundation

Notes to the Consolidated Financial Statements

4. Endowment Funds, Cont'd

Endowment net asset composition by type of fund as of June 30, 2011 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Donor Restricted Endowment Funds	\$ -	\$ 53,664	\$245,189	\$298,853
Board Designated Endowment Fund	6,380	-	-	6,380
Total	\$ 6,380	\$ 53,664	\$245,189	\$305,233

Endowment net asset composition by type of fund as of June 30, 2010 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Donor Restricted Endowment Funds	\$ -	\$ 17,073	\$207,974	\$225,047
Board Designated Endowment Fund	5,838	-	-	5,838
Total	\$ 5,838	\$ 17,073	\$207,974	\$230,885

Changes in endowment net assets for the year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Endowment net assets, beginning of year	\$ 5,838	\$ 17,073	\$207,974	\$230,885
Interest and dividends	98	4,613	-	4,711
Net appreciation	920	41,737	-	42,657
Total investment return	1,018	46,350	-	47,368
Contributions	-	-	37,215	37,215
Endowment assets appropriated for expenditure	(476)	(9,759)	-	(10,235)
Endowment net assets, end of year	\$ 6,380	\$ 53,664	\$245,189	\$305,233

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, 2010:

	Unrestricted (In thousands)	Temporarily Restricted (In thousands)	Permanently Restricted (In thousands)	Total (In thousands)
Endowment net assets, beginning of year	\$ 5,826	\$ 5,510	\$200,459	\$211,795
Interest and dividends	119	4,854	-	4,973
Net appreciation	332	19,201	-	19,533
Total investment return	451	24,055	-	24,506
Contributions	-	-	7,515	7,515
Endowment assets distributed	(439)	(12,492)	-	(12,931)
Endowment net assets, end of year	<u>\$ 5,838</u>	<u>\$ 17,073</u>	<u>\$207,974</u>	<u>\$230,885</u>

As of June 30, 2011, The Foundation held endowment funds where the principal had fallen below the historical gift value due to market conditions. The amount of the shortfall totaled approximately \$4,020,000.

5. Other Assets

Other assets consisted of the following at June 30:

	<u>2011</u> (In thousands)	2010 (In thousands)
Deferred gift assets, net	\$ 17,614	\$ 15,576
Cash surrender value of life insurance policies	1,152	1,382
Notes receivable, net of allowance for uncollectible notes of \$3,708 as of June 30, 2011 and 2010	677	740
Miscellaneous	634	731
Interest and dividends receivable	802	604
Securities held-for-sale	86	6
	<u>20,965</u>	<u>19,039</u>
Property, plant and equipment:		
Building	8,256	8,256
Building and leasehold improvements	3,444	2,307
Office and computer equipment	1,914	1,564
Property (duplexes)	780	780
Bond issuance costs	446	446
Less: Accumulated depreciation and amortization	(3,741)	(3,015)
Net depreciable property and equipment	<u>11,099</u>	<u>10,338</u>
Land	1,215	1,215
CIP and software implementation	705	416
Total property, plant and equipment	<u>13,019</u>	<u>11,969</u>
Total other assets	<u>\$ 33,984</u>	<u>\$ 31,008</u>

The San Diego Foundation

Notes to the Consolidated Financial Statements

5. Other Assets, Cont'd

Deferred gift assets at June 30, 2011 and June 30, 2010 include pooled income funds of approximately \$2,136,000 and \$2,135,000, and charitable trusts of approximately \$9,125,000 and \$8,021,000, 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 seventy-one charitable gift annuities with a combined value of \$6,353,000, and sixty-one charitable gift annuities with a combined value of \$5,420,000 as of June 30, 2011 and 2010, respectively. See Note 8 for disclosure relating to these arrangements.

Deferred gift assets increased by approximately \$2,038,000 in fiscal year 2011 and \$473,000 in fiscal year 2010. 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.

Cash surrender value of life insurance policies are those policies where the donor has identified The Foundation as the beneficiary. The value is predetermined by the insurance company as the value to be paid if the policy were to be surrendered prior to the death of the insured.

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

The San Diego Foundation

Notes to the Consolidated Financial Statements

5. Other Assets, Cont'd

approximately \$3,708,000, dated March 28, 1997, has been fully reserved at June 30, 2011 and 2010, 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 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 activities 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 and amortization expense was approximately \$727,000 and \$679,000 for fiscal years 2011 and 2010, respectively.

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following at June 30:

	2011	2010
	(In thousands)	(In thousands)
Interest rate swap agreement	\$ 1,115	\$ 1,274
Accrued retirement	946	800
Accounts payable	662	759
Line of credit	556	556
Investment and custodian fees payable	68	69
Total accounts payable and accrued expenses	<u>\$ 3,347</u>	<u>\$ 3,458</u>

The Foundation has a \$3,000,000 line of credit with a bank, with a maturity date of March 2013. Interest is payable monthly at the prime rate minus 0.5% (2.75% at June 30, 2011). 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 of approximately \$556,000 June 30, 2011 and 2010.

7. Grants Payable

As of June 30, grants payable were:

	2011	2010
	(In thousands)	(In thousands)
Payable in less than one year	\$ 4,263	\$ 7,455
Payable in one to five years	6,227	6,086
Payable in more than five years	1,024	2,000
Total grants payable	<u>\$ 11,514</u>	<u>\$ 15,541</u>

The San Diego Foundation

Notes to the Consolidated Financial Statements

8. Deferred Gift Liabilities

Charitable trusts

The Foundation is named as the beneficiary in a charitable remainder trust, for which it also serves as trustee. Included in the deferred gifts liability at June 30, 2011 and 2010, is the net present value of the future payments of this charitable trust of approximately \$153,000 and \$42,000, respectively. Under the terms of the agreement, The Foundation makes distributions to the income beneficiary for the life of the beneficiary. Upon the death of the income beneficiary, assets remaining in the trust will be transferred to The Foundation. The Foundation records the assets held in this trust at fair value based on current quoted market values, records a liability for the respective agreement at the estimated discounted value of the amounts due to the income beneficiary and records contribution revenue for the difference between the two values. The present value of payments to the beneficiary under this arrangement 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 2011 and 2010.

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 \$732,000 and \$643,000, in charitable gift annuities during fiscal years 2011 and 2010, respectively.

At June 30, 2011 and 2010, The Foundation had a liability for charitable gift annuities of approximately \$4,663,000 and \$4,456,000, respectively. The liability amount associated with the Charitable Gift Annuities at each year end represents the minimum required reserve and is held with the

The San Diego Foundation

Notes to the Consolidated Financial Statements

Charitable gift annuities, cont'd

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, 2011 and 2010 included approximately \$25,982,000 and \$20,005,000, respectively, for non-endowment funds and approximately \$19,883,000 and \$16,502,000, 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 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 0.13% and 0.24% per annum at June 30, 2011 and 2010. Interest expense related to the Bonds in fiscal years 2011 and 2010 was approximately \$14,000 and \$20,000, respectively.

The fourth principal payment of \$240,000 is due July 1, 2011. 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 was 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 November 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. At June 30, 2011, management is not aware of any violations of these covenants.

The San Diego Foundation

Notes to the Consolidated Financial Statements

10. Long Term Debt, Cont'd

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, 2011 and 2010, The Foundation had approximately \$516,000 and \$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 approximately \$446,000 of certain costs directly related to issuance expenses, which have been capitalized as debt issuance costs. The costs are being amortized over the life of the Bonds. Amortization for both 2011 and 2010 was approximately \$15,000.

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

Fiscal Year	Principal Payment
2012	\$ 255,000
2013	270,000
2014	285,000
2015	295,000
2016	315,000
Thereafter	11,180,000
	<hr/> \$12,600,000

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 \$1,115,000 and \$1,274,000 value of the swap agreement at the end of fiscal year 2011 and 2010 is reported as a liability in the consolidated statements of financial position. The change in value is reported in the consolidated statements of activities in investment gain or loss.

The San Diego Foundation

Notes to the Consolidated Financial Statements

*Interest rate
swap agreement,
cont'd*

The notional principal amount of the swap agreement was approximately \$7,704,000 and \$7,842,000 at the end of fiscal year 2011 and 2010, 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 \$291,000 and \$296,000 in fiscal years 2011 and 2010, respectively.

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, 2011 and 2010 are certain investments totaling approximately \$29,319,000 and \$18,958,000, respectively, which cannot be liquidated for a minimum of one year, but not more than 12 years unless The Foundation can find an assignee. Total commitments for these investments are approximately \$33,750,000 and \$31,000,000 as of June 30, 2011 and 2010, respectively. Remaining capital calls associated with these investments are approximately \$8,113,000 and \$14,110,000 as of June 30, 2011 and 2010, 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 2011 and 2010 totaled approximately \$67,000 and \$74,000, respectively.

The Plan also allows for four categories of participants to receive employer discretionary annual contributions normally between 4% and 9%. Employer discretionary contributions to the Plan in fiscal years 2011 and 2010 were approximately \$147,000 and \$168,000, respectively.

The San Diego Foundation

Notes to the Consolidated Financial Statements

12. Retirement Plans, Cont'd

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 \$184,000 and \$174,000 for fiscal years 2011 and 2010, respectively. The 457(b) plan requires The Foundation to deposit employer contributions made to this plan in a separate bank account each year.

13. Subsequent Events

The Foundation has evaluated subsequent events through October 25, 2011, 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.