

The San Diego Foundation

Consolidated Financial Statements

Years Ended June 30, 2007 and 2006

The San Diego Foundation

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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, 2007 and 2006, 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, 2007 and 2006, 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.

September 6, 2007

Mayer Hoffman McCann P.C.

The San Diego Foundation

Consolidated Statements of Financial Position

Years ended June 30, 2007 and 2006

(In thousands)

Assets	2007	2006
Cash and cash equivalents	\$ 26,767	\$ 17,424
Endowment receivable	3,000	-
Investments	486,352	460,213
Real estate held-for-sale	1,330	1,330
Other assets - net	35,935	21,352
Total assets	<u>\$ 553,384</u>	<u>\$ 500,319</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,553	\$ 2,054
Grants payable	6,833	7,595
Deferred gift liabilities	3,839	5,848
Amounts held on behalf of others	42,366	32,433
Bonds payable	13,539	-
Total liabilities	<u>69,130</u>	<u>47,930</u>
Net assets:		
Unrestricted	293,428	270,853
Temporarily restricted	18,165	22,375
Permanently restricted	172,661	159,161
Total net assets	<u>484,254</u>	<u>452,389</u>
Total liabilities and net assets	<u>\$ 553,384</u>	<u>\$ 500,319</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, 2007 (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	\$ 24,573	\$ 252	\$ 11,865	\$ 36,690
Investment income	53,723	1,324	-	55,047
Gifts and bequests (to) from funds	1,330	(2,141)	811	-
	<u>79,626</u>	<u>(565)</u>	<u>12,676</u>	<u>91,737</u>
Net assets released from restrictions	3,645	(3,645)	-	-
Total revenue, gains, and other support	<u>83,271</u>	<u>(4,210)</u>	<u>12,676</u>	<u>91,737</u>
Expenses:				
Program grants				
Urban/civic and religion	26,085	-	-	26,085
Education	10,109	-	-	10,109
Health and human services	7,945	-	-	7,945
Cultural activities	3,192	-	-	3,192
Total program grants	<u>47,331</u>	<u>-</u>	<u>-</u>	<u>47,331</u>
Charitable expenses	5,175	-	-	5,175
Fees and other expenses – operating and administrative expenses	7,366	-	-	7,366
Total expenses	<u>59,872</u>	<u>-</u>	<u>-</u>	<u>59,872</u>
Reclassification of net assets	<u>(824)</u>	<u>-</u>	<u>824</u>	<u>-</u>
Change in net assets	22,575	(4,210)	13,500	31,865
Net assets at beginning of year	<u>270,853</u>	<u>22,375</u>	<u>159,161</u>	<u>452,389</u>
Net assets at end of year	<u>\$ 293,428</u>	<u>\$ 18,165</u>	<u>\$ 172,661</u>	<u>\$ 484,254</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, 2006 (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	\$ 32,012	\$ 353	\$ 5,839	\$ 38,204
Investment income	33,332	1,711	-	35,043
Gifts and bequests (to) from funds	106	(824)	718	-
	<u>65,450</u>	<u>1,240</u>	<u>6,557</u>	<u>73,247</u>
Net assets released from restrictions	295	(295)	-	-
Total revenue, gains, and other support	<u>65,745</u>	<u>945</u>	<u>6,557</u>	<u>73,247</u>
Expenses:				
Program grants				
Urban/civic and religion	16,171	-	-	16,171
Health and human services	14,286	-	-	14,286
Education	9,438	-	-	9,438
Cultural activities	4,017	-	-	4,017
Total program grants	<u>43,912</u>	<u>-</u>	<u>-</u>	<u>43,912</u>
Charitable expenses	2,984	-	-	2,984
Fees and other expenses – operating and administrative expenses	<u>6,634</u>	<u>-</u>	<u>-</u>	<u>6,634</u>
Total expenses	<u>53,530</u>	<u>-</u>	<u>-</u>	<u>53,530</u>
Change in net assets	12,215	945	6,557	19,717
Net assets at beginning of year	<u>258,638</u>	<u>21,430</u>	<u>152,604</u>	<u>432,672</u>
Net assets at end of year	<u>\$ 270,853</u>	<u>\$ 22,375</u>	<u>\$ 159,161</u>	<u>\$ 452,389</u>

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

The San Diego Foundation

Consolidated Statements of Cash Flows Years ended June 30, 2007 and 2006 (In thousands)

	<u>2007</u>	<u>2006</u>
Cash flows used in operating activities:		
Change in net assets	\$ 31,865	\$ 19,717
Adjustments and reclassifications to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(34,372)	(18,323)
Contributions restricted for long-term investments	(11,865)	(5,839)
Contribution of stock and securities	(10,822)	(15,927)
Contribution of real estate, net	-	(1,879)
Depreciation and amortization	501	123
Net realized and unrealized losses on real estate	-	90
Change in cash surrender value of life insurance policies	103	(5)
Increase/Decrease in cash resulting from changes in:		
Increase in other assets - net	(2,382)	(852)
Increase in accounts payable and accrued expenses	499	780
Decrease (increase) in grants payable	(762)	2,050
Decrease (increase) in deferred gifts liability	(2,009)	1,072
Increase in amounts held on behalf of others	9,933	9,089
Net cash used in operating activities	<u>(19,311)</u>	<u>(9,904)</u>
Cash flows provided by investing activities:		
Proceeds from sale of marketable equity securities	814,691	778,830
Purchases of marketable equity securities	(795,749)	(774,772)
Proceeds from sale of real estate	-	824
Purchases of equipment	-	(92)
Net cash provided by investing activities	<u>18,942</u>	<u>4,790</u>
Cash flows provided by financing activities:		
Contributions restricted for long-term investments	8,714	6,055
Proceeds from bond issuance	950	-
Advances on notes receivable	-	(99)
Principal received on notes receivable	48	53
Net cash provided by financing activities	<u>9,712</u>	<u>6,009</u>
Net increase in cash and cash equivalents	9,343	895
Cash and cash equivalents at beginning of year	<u>17,424</u>	<u>16,529</u>
Cash and cash equivalents at end of year	<u>\$ 26,767</u>	<u>\$ 17,424</u>
Cash and cash equivalents:		
Available for operations	\$ 4,749	\$ 3,031
Available for specific purposes	<u>22,018</u>	<u>14,393</u>
	<u>\$ 26,767</u>	<u>\$ 17,424</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 409</u>	<u>\$ 39</u>

Non-cash financing activities:

During fiscal 2007 the Foundation issued \$13,500,000 of Variable Rate Demand Certificates of Participation Series 2006, (the "Bonds"). The proceeds of the Bonds were used to finance the acquisition, construction, improvement, furnishing and equipping of the Foundation's new office location in Point Loma, California. Total costs of approximately \$12,550,000 were incurred during the year. Refer to Note 8 for related disclosure.

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.

The San Diego Foundation

Notes to the Consolidated Financial Statements

Basis of presentation, cont'd

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 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; and
- Amounts subject to donor time restrictions whose restrictions are satisfied when the passage of time has occurred. The Foundation's bylaws provide for variance power; therefore, contributions with donor imposed restrictions, with the exception of endowment funds, are recorded as unrestricted net assets.

Temporarily Restricted

Temporarily restricted amounts represent deferred gifts in the form of trusts and annuities that are subject to passage of time.

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 unrestricted assets and do not impact the original corpus of the permanently restricted

The San Diego Foundation

Notes to the Consolidated Financial Statements

<i>Basis of presentation, cont'd</i>	assets. The cumulative unrestricted realized and unrealized gains, net of losses, and interest and dividend income, net of distributions and money management fees related to the permanently restricted assets, was approximately \$89,231,000 and \$67,961,000, for fiscal years 2007 and 2006, respectively.
<i>Cash and cash equivalents</i>	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.
<i>Custodian and management fees</i>	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.
<i>Principles of consolidation</i>	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, 2007 and June 30, 2006, respectively are: Sol Price Retailing/Service Scholarship Program, \$5,576,000 and \$5,596,000; Beauchamp, \$6,503,000 and \$8,241,000; the San Diego Charitable Real Estate Foundation, \$2,357,000 and \$2,672,000; and the San Diego Regional Disaster Fund, \$16,000 and \$23,000. All inter-entity accounts and transactions have been eliminated.
<i>Concentrations</i>	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 up to \$100,000. 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.

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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 change could materially affect the amounts reported in the consolidated financial statements.

Investments

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.

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. Where fair market value is not readily determinable, assets are recorded at a nominal amount until fair market value can be determined.

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 fair value of investments in securities traded on national security exchanges is valued at the closing price on the last business day of the fiscal year. The fair value of other investments, principally in hedge funds and fixed income securities, for which quoted market prices are not available are

The San Diego Foundation

Notes to the Consolidated Financial Statements

Investments, cont'd

determined for investment managers by a third – party in good faith using methods considered appropriate, and is subject to oversight and review by management. Securities are generally held in custodial investment accounts administered by certain financial institutions.

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.

Units in Limited Partnership

Units in limited partnerships for one of the investments are recorded 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. The second investment in a limited partnership is recorded at the original cost basis. After acquisition, such units are carried at the lower of cost or fair value.

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 using cost, while depreciation on contributed fixed assets is calculated using fair market value.

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 San Diego Foundation

Notes to the Consolidated Financial Statements

<i>Long-lived assets, cont'd</i>	Except for the circumstances noted in Note 2, The Foundation does not believe there are any factors indicating impairment as of June 30, 2007 or June 30, 2006.
<i>Other assets</i>	Other assets are carried at the lower of cost or fair market value.
<i>Deferred gifts</i>	<p>The Foundation is a beneficiary of certain trust funds held by others and has recorded as an asset at the net present value of the estimated future amount to be received from such trusts. This asset is included in other assets on the accompanying consolidated statements of financial position.</p> <p>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.</p>
<i>Grants payable</i>	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.
<i>Expense allocation</i>	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 are not directly identifiable with any other specific function but provide for the overall support and direction of the organization. Included in operating expenses are fundraising expenses of approximately \$2,037,000 and \$2,883,000, for fiscal years 2007 and 2006, respectively.
<i>Use of estimates</i>	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

The San Diego Foundation

Notes to the Consolidated Financial Statements

<i>Use of estimates, cont'd</i>	preparing these consolidated financial statements include those assumed in computing the estimated future cash flow of deferred gifts, endowment receivables, and deferred compensation calculations.
<i>Income tax status</i>	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.
<i>Earnings on permanently restricted endowments</i>	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 pay-out policy is to allocate 5% per annum of the preceding seven-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 will be limited to interest and dividends received. Any remaining surplus is allocated to the fund by The Foundation.
<i>Derivative financial instruments</i>	All derivative financial instruments are recognized as either assets or liabilities at their fair value on the consolidated balance sheet with the changes in the fair value reported in investment income on the statement of activities in unrestricted net assets. For fiscal year 2007, The Foundation recorded a loss related to these instruments that management concluded is insignificant.
<i>Reclassifications</i>	Certain 2006 financial statement amounts have been reclassified to conform to 2007 classifications due to changes in donor restrictions. Contributions received for long term investments in 2006 have been reclassified on the statement of cash flow to conform to the 2007 presentation. These classifications have no effect on the reported change in net assets or cash flow.

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Notes to the Consolidated Financial Statements

2. Investments

Investments consisted of the following at June 30:

	<u>2007</u>	<u>2006</u>
	(In thousands)	(In thousands)
Marketable securities	\$ 449,814	\$ 422,796
Units in limited partnerships	36,538	37,417
Total Investments	<u>\$ 486,352</u>	<u>\$ 460,213</u>

Marketable securities

Marketable securities consisted of the following at June 30:

	<u>2007</u>	<u>2006</u>
	(In thousands)	(In thousands)
Equity securities:		
Domestic	\$ 221,337	\$ 188,437
Foreign	56,523	44,196
	<u>277,860</u>	<u>232,633</u>
Fixed-income securities:		
Corporate obligations	83,095	101,269
Government obligations	37,114	34,573
	<u>120,209</u>	<u>135,842</u>
Alternative and other investments	51,745	54,321
Total marketable securities	<u>\$ 449,814</u>	<u>\$ 422,796</u>

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 3.8% 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, 2007 and June 30, 2006. The Foundation received distributions from the limited partnership of approximately \$1,976,000 and \$1,063,000, in fiscal years 2007 and 2006, 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 the fair market value of its membership interest at \$2,197,000, which is the value of The Foundation's interest in the underlying real estate as determined by an

The San Diego Foundation

Notes to the Consolidated Financial Statements

Units of limited partnership, cont'd

independent appraisal. In fiscal year 2007, The Foundation became aware of a decrease in the listing price of this property. As such, The Foundation has written down the fair market value of its membership interest by \$879,000 to \$1,318,000 in fiscal year 2007. This loss is included in investment income in the Statement of Activities.

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 reports this investment at its initial cost of \$10,000,000 due to the liquidity restrictions of this partnership.

Summary of return on investment

The following schedule summarizes the return on investment and its classification in the consolidated statements of activity for fiscal years 2007 and 2006:

	Unrestricted	Temporarily Restricted	Total
	(In thousands)	(In thousands)	(In thousands)
<i>Year Ended June 30, 2007:</i>			
Net realized/unrealized gain on sales of marketable securities	\$ 34,082	\$ 1,208	\$ 35,290
Interest, dividends, and other income	19,641	116	19,757
Total return on investment	<u>\$ 53,723</u>	<u>\$ 1,324</u>	<u>\$ 55,047</u>
<i>Year Ended June 30, 2006:</i>			
Net realized/unrealized gain on sales of marketable securities	\$ 16,894	\$ 1,429	\$ 18,323
Interest, dividends, and other income	16,438	282	16,720
Total return on investment	<u>\$ 33,332</u>	<u>\$ 1,711</u>	<u>\$ 35,043</u>

3. Real Estate Held for Sale

Real estate held-for-sale is recorded at fair value at the date of contribution.

Real estate held-for-sale as of June 30, 2007 and June 30, 2006 consisted of two duplexes in Southern California valued at \$1,330,000.

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Notes to the Consolidated Financial Statements

4. Other Assets

Other assets consisted of the following at June 30:

	<u>2007</u>	<u>2006</u>
	(In thousands)	(In thousands)
Deferred gift assets	\$ 20,072	\$ 17,485
Interest and dividends receivable	936	907
Notes receivable, net of allowance for uncollectible notes of \$3,708 as of June 30, 2007 and 2006	902	950
Cash surrender value of life insurance policies	830	934
Miscellaneous	706	513
Securities held-for-sale	303	4
	<u>23,749</u>	<u>20,793</u>
Property, plant and equipment:		
Building	8,255	-
Building and leasehold improvements	1,899	39
Office and computer equipment	1,380	800
Bond Issuance Costs	429	-
Less: Accumulated depreciation and amortization	(992)	(721)
Net depreciable property and equipment	<u>10,971</u>	<u>118</u>
Land	1,215	-
Construction in progress	-	441
Total property, plant and equipment	<u>12,186</u>	<u>559</u>
Total other assets	<u>\$ 35,935</u>	<u>\$ 21,352</u>

Deferred gift assets at June 30, 2007 and June 30, 2006 consisted of pooled income funds of \$ 1,755,000 and \$1,703,000, and charitable trusts of \$12,758,000 and \$10,997,000, respectively. The Foundation had thirty charitable gift annuities with a combined value of \$5,559,000, and twenty charitable gift annuities with a combined value of \$4,785,000 as of June 30, 2007 and 2006, respectively. Deferred gift assets increased by \$2,587,000 and \$349,000 in fiscal 2007 and 2006, respectively. See Note 6.

Notes receivable consisted of various secured and unsecured notes receivable with maturity dates through 2039. The notes receivable have various repayment requirements. The non-recourse promissory note, in the amount of \$3,708,000, dated March 28, 1997, has been fully reserved at June 30, 2007 and 2006, since repayments will be interest only, subject to availability of residual receipts, with principal and unpaid accrued

The San Diego Foundation

Notes to the Consolidated Financial Statements

4. Other Assets, Cont'd

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 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.

The most significant component of miscellaneous other assets consisted of a parking lot in San Diego, California, which was leased to an unrelated party as of June 30, 2007 and 2006, and carried at a value of \$300,000.

Depreciation expense was approximately \$501,000 and \$123,000 for fiscal years 2007 and 2006, respectively.

5. Accounts Payable and Accrued Expenses

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

	2007	2006
	(In thousands)	(In thousands)
Accounts payable	\$ 1,348	\$ 1,044
Line of credit	557	557
Accrued retirement	406	310
Investment and custodian fees payable	242	143
Total accounts payable and accrued expenses	<u>\$ 2,553</u>	<u>\$ 2,054</u>

The San Diego Charitable Real Estate Foundation has a \$525,000 line of credit with a bank with a maturity date of July 2007. Interest is payable monthly at the prime rate (8.25% at June 30, 2007) plus 1%. Advances on the line are collateralized by all of the assets of The San Diego Charitable Real Estate Foundation and the Deed of Trust on a parking lot owned by The San Diego Community Foundation Charitable Real Estate Fund. There was no outstanding balance on the line of credit at June 30, 2007 and 2006, respectively. In August 2007, the line of credit was renewed to extend the maturity date to July 2008.

The San Diego Foundation has a \$2,000,000 line of credit with a bank, with a maturity date of July 2007. Interest is payable monthly at the prime rate (8.25% at June 30, 2007). Advances on the line are

The San Diego Foundation

Notes to the Consolidated Financial Statements

5. Accounts Payable and Accrued Expenses, Cont'd

collateralized by all of the assets of The San Diego Foundation. There was an outstanding balance on the line of credit at June 30, 2007 and June 30, 2006, of \$557,000. In August 2007, the line of credit was renewed to extend the maturity date to August 2008.

6. 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, 2007 and 2006, are the net present value of the future payments of charitable trusts of approximately \$124,000 and \$2,356,000, 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 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 during fiscal year 2007 and 2006.

Charitable gift annuities

Donors have contributed assets to The Foundation in exchange for a promise by The Foundation to pay a fixed amount for a specified period of time to the donor or 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

The San Diego Foundation

Notes to the Consolidated Financial Statements

Charitable gift annuities, cont'd approximately \$262,000 and \$1,175,000, in charitable gift annuities during fiscal years 2007 and 2006, respectively.

At June 30, 2007 and 2006, The Foundation had charitable gift annuities of approximately \$3,715,000 and \$3,492,000, 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.

7. Amounts Held on Behalf of Others Amounts held on behalf of others at June 30, 2007 and 2006 included \$24,280,000 and \$19,281,000, respectively, for non-endowment funds and \$18,086,000 and \$13,152,000, respectively, for endowment funds set up by unaffiliated nonprofit organizations for their own benefit with The Foundation as custodian.

8. 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 3.724% per annum at June 30, 2007. Interest expense related to the Bonds in fiscal year 2007 was \$422,000.

The first principal payment of \$210,000 is due July 1, 2008. Beginning on July 1, 2007 and on the first day of each succeeding 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 San Diego Foundation

Notes to the Consolidated Financial Statements

8. Long Term Debt, Cont'd

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 in compliance with these requirements as of June 30, 2007.

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, 2007, The Foundation had approximately \$832,000 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 \$429,000 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 2007 was \$11,000.

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

Fiscal Year	Principal Payment
2008	210,000
2009	220,000
2010	230,000
2011	240,000
2012	255,000
Thereafter	12,345,000
	<u>\$ 13,500,000</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 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 \$39,000 value of the swap agreement at June 30, 2007 is reported as a liability in the consolidated

The San Diego Foundation

Notes to the Consolidated Financial Statements

*Interest rate
swap
agreement,
cont'd*

statement of financial position. The decrease in value is reported in the consolidated statement of activities in investment income.

The notional principal amount of the swap agreement is \$8,100,000. The agreement effectively fixes The Foundation's interest rate exposure at 3.957% per annum. Additional interest expense related to the swap agreement was \$15,000 in fiscal year 2007.

9. Commitments and Contingencies

Leases

At June 30, 2007, The Foundation subleased two satellite offices. Both leases expire in fiscal year 2008. The minimum lease payments for fiscal year 2008 are \$42,000.

Rent expense was approximately \$148,000 and \$407,000 in fiscal years 2007 and 2006, respectively. Sublease rent income was approximately \$32,000 and \$95,000 in fiscal years 2007 and 2006, respectively.

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.

10. 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 2007 and 2006 totaled approximately \$68,000 and \$63,000, respectively.

The Plan also allows for four categories of participants to receive employer discretionary annual contributions between 4% and 9%, along with a category for a long-term employee at 20%. Employer discretionary contributions to the Plan in fiscal years 2007 and 2006 were approximately \$166,000 and \$148,000, respectively.

The San Diego Foundation

Notes to the Consolidated Financial Statements

10. Retirement Plans, Cont'd

In prior years, The Foundation set up a qualified 457(b) plan and a 457(f) plan, respectively, for a top executive of The Foundation. Employer contributions to these plans totaled approximately \$92,000 and \$89,000 for fiscal years 2007 and 2006, respectively. The 457(b) plan requires The Foundation to deposit employer contributions made to this plan in a separate bank account each year.

11. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments for which it is practicable to estimate fair value:

- The carrying amounts of cash and cash equivalents, accounts payable and accrued expenses, and grants payable approximate fair value because of the short maturity of these items.
- Investments are reported at fair value in accordance with U.S. generally accepted accounting principles.
- The carrying amount of endowment receivable approximates fair value as these donations, which are anticipated to be collected within one year, were recorded at fair value at the time the pledge was made, which is in accordance with U.S. generally accepted accounting principles.
- The carrying amount of other assets approximates fair value.

The ultimate effect of recording the value of other assets is not expected to have a material impact upon the consolidated financial statements of The Foundation.