



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

THE SAN DIEGO FOUNDATION

June 30, 2020 and 2019

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Report of Independent Auditors

The Board of Governors
The San Diego Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The San Diego Foundation (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Foundation adopted Accounting Standards Update 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* and related amendments to this standard effective July 1, 2019. Our opinion is not modified with respect to this matter.

Moss Adams LLP

San Diego, California

November 17, 2020

The San Diego Foundation
Consolidated Statements of Financial Position (In Thousands)

	June 30,	
	2020	2019
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 105,846	\$ 72,412
Investments	766,361	759,585
Receivable from estates	1,969	1,914
Property, plant, and equipment, net	6,632	7,038
Beneficial interest in deferred gifts	20,923	22,887
Other assets	168,445	30,864
Total assets	\$ 1,070,176	\$ 894,700
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 6,932	\$ 1,257
Grants payable, net	17,322	9,050
Deferred gift liabilities	4,460	4,625
Amounts held on behalf of others	97,990	94,380
Notes payable	12,074	11,253
Total liabilities	138,778	120,565
NET ASSETS		
Without donor restrictions		
Undesignated	365,353	217,830
Board-designated endowment funds	7,725	8,030
Total without donor restrictions	373,078	225,860
With donor restrictions	558,320	548,275
Total net assets	931,398	774,135
Total liabilities and net assets	\$ 1,070,176	\$ 894,700

The San Diego Foundation

Consolidated Statement of Activities (In Thousands)

	Year Ended June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	2020 Total
REVENUE			
Gifts and bequests from donors	\$ 74,045	\$ 19,741	\$ 93,786
Less: amounts raised or received on behalf of others	(7,022)	-	(7,022)
Net gifts and bequests from donors	67,023	19,741	86,764
Investment income, net	9,550	8,648	18,198
Less: net investment income allocated to funds held for others	(1,461)	-	(1,461)
Net investment income	8,089	8,648	16,737
Change in value of units in limited partnership	132,014	-	132,014
Other income	5,976	24	6,000
Transfers to (from) funds	4,892	(4,892)	-
Change in value of beneficial interest in deferred gifts	-	177	177
Net assets released from restrictions	13,653	(13,653)	-
Total revenue	231,647	10,045	241,692
EXPENSES			
Grants awarded			
Education	26,341	-	26,341
Health and human services	21,562	-	21,562
Urban/civic and religion	20,145	-	20,145
Cultural activities	9,769	-	9,769
Total program grants	77,817	-	77,817
Less: amounts distributed on behalf of others	(4,439)	-	(4,439)
Net grants awarded	73,378	-	73,378
Program	3,995	-	3,995
General and administrative	5,021	-	5,021
Fundraising and development	2,403	-	2,403
Less: administrative expenses and investment management fees allocated to funds held for others	(368)	-	(368)
Total expenses	84,429	-	84,429
CHANGE IN NET ASSETS	147,218	10,045	157,263
NET ASSETS			
Beginning of year	225,860	548,275	774,135
End of year	\$ 373,078	\$ 558,320	\$ 931,398

The San Diego Foundation

Consolidated Statement of Activities (In Thousands)

	Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	2019 Total
REVENUE			
Gifts and bequests from donors	\$ 69,781	\$ 12,440	\$ 82,221
Less: amounts raised or received on behalf of others	(30,915)	-	(30,915)
Net gifts and bequests from donors	38,866	12,440	51,306
Investment income, net	13,929	19,376	33,305
Less: net investment income allocated to funds held for others	(3,529)	-	(3,529)
Net investment income	10,400	19,376	29,776
Other income	3,639	25	3,664
Transfers to (from) funds	8,250	(8,250)	-
Change in value of beneficial interest in deferred gifts	-	726	726
Net assets released from restrictions	13,243	(13,243)	-
Total revenue	74,398	11,074	85,472
EXPENSES			
Grants awarded			
Education	17,164	-	17,164
Health and human services	14,511	-	14,511
Urban/civic and religion	13,033	-	13,033
Cultural activities	7,862	-	7,862
Total program grants	52,570	-	52,570
Less: amounts distributed on behalf of others	(5,032)	-	(5,032)
Net grants awarded	47,538	-	47,538
Program	3,103	-	3,103
General and administrative	4,691	-	4,691
Fundraising and development	1,912	-	1,912
Less: administrative expenses and investment management fees allocated to funds held for others	(265)	-	(265)
Total expenses	56,979	-	56,979
CHANGE IN NET ASSETS	17,419	11,074	28,493
NET ASSETS			
Beginning of year	208,441	537,201	745,642
End of year	\$ 225,860	\$ 548,275	\$ 774,135

The San Diego Foundation

Consolidated Statements of Functional Expenses (In Thousands)

	Year Ended June 30, 2020			Total
	Program Services	General & Administrative	Fundraising & Development	
Program grants	\$ 77,817	\$ -	\$ -	\$ 77,817
Less: grants distributed on behalf of others	(4,439)	-	-	(4,439)
Net program grants	73,378	-	-	73,378
Advertising and marketing	65	229	4	298
Conferences and donor meetings	173	174	27	374
Information technology	9	339	8	356
Insurance	53	42	32	127
Interest	102	80	62	244
Miscellaneous	176	237	25	438
Occupancy	411	568	248	1,227
Personnel	2,677	2,279	1,995	6,951
Professional services	329	1,073	2	1,404
Less: administrative expenses allocated to funds held for others	(368)	-	-	(368)
Total expenses	\$ 77,005	\$ 5,021	\$ 2,403	\$ 84,429

	Year Ended June 30, 2019			Total
	Program Services	General & Administrative	Fundraising & Development	
Program grants	\$ 52,570	\$ -	\$ -	\$ 52,570
Less: grants distributed on behalf of others	(5,032)	-	-	(5,032)
Net program grants	47,538	-	-	47,538
Advertising and marketing	23	321	10	354
Conferences and donor meetings	184	180	47	411
Information technology	6	236	15	257
Insurance	51	44	29	124
Interest	128	108	70	306
Miscellaneous	18	238	16	272
Occupancy	403	577	217	1,197
Personnel	2,204	2,009	1,499	5,712
Professional services	86	978	9	1,073
Less: administrative expenses allocated to funds held for others	(265)	-	-	(265)
Total expenses	\$ 50,376	\$ 4,691	\$ 1,912	\$ 56,979

The San Diego Foundation

Consolidated Statements of Cash Flows (In Thousands)

	Years Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and bequests from donors	\$ 66,341	\$ 58,532
Net investment gains and other income	16,679	10,790
Payments for expenses – grants, program, general and administrative, fundraising, and development	(69,688)	(54,108)
Net cash provided by operating activities	<u>13,332</u>	<u>15,214</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant, and equipment	(227)	(44)
Proceeds from sale of investments	121,719	143,616
Purchase of investments	(119,498)	(173,737)
Net cash provided by (used in) investing activities	<u>1,994</u>	<u>(30,165)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt issuance costs	(133)	-
Proceeds from new debt	12,413	-
Principal payments on debt	(11,619)	(426)
Contributions restricted for long-term investments	17,447	22,679
Collection of estate receivable restricted for long-term investments	-	2,875
Net cash provided by financing activities	<u>18,108</u>	<u>25,128</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	33,434	10,177
CASH AND CASH EQUIVALENTS, beginning of year	<u>72,412</u>	<u>62,235</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 105,846</u>	<u>\$ 72,412</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest during the year	<u>\$ 244</u>	<u>\$ 306</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING TRANSACTIONS		
Property received in settlement of estate receivable	<u>\$ -</u>	<u>\$ 2,125</u>

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies

Organization – Established in 1975 as a community foundation/public charity (IRS NTEE Code T31), The San Diego Foundation (the “Foundation”) inspires enduring philanthropy and enables community solutions to improve the quality of the region. The Foundation maximizes the impact of charitable giving by establishing and investing donor-advised funds for individuals, families, companies, and agencies, and with grantmaking and partnerships to support nonprofit organizations strengthening the San Diego region.

Significant Accounting Policies

Principles of consolidation – The accompanying consolidated financial statements include the accounts of the Foundation, supporting organizations, and a limited liability company (LLC) under the control of the Foundation. The supporting organizations and their approximate total asset balances as of June 30, 2020 and 2019, respectively, are: Sol Price Retailing/Service Scholarship Program, \$94,000 and \$481,000; the San Diego Charitable Real Estate Foundation, \$125,000 and \$2,230,000; the San Diego Women’s Foundation, \$4,343,000 and \$4,228,000; and the San Diego Regional Disaster Fund, \$401,000 and \$358,000. Building 907, LLC, was established by the Foundation to hold the title and debt related to the building where the Foundation’s offices are located. The Foundation is the sole member of the LLC. The total asset balances of Building 907, LLC as of June 30, 2020 and 2019, are \$3,913,000 and \$4,451,000, respectively. All inter-entity accounts and transactions have been eliminated.

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, and losses be classified as net assets with and without donor restrictions.

Net assets – Net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

- **Without donor restrictions** – The portion of net assets that has no use or time restrictions. Without donor restriction amounts represent amounts that are available for various activities including the Foundation’s support of community activities and charitable endeavors at the discretion of the Foundation’s Board of Governors. Also included are 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. Restricted gifts whose restrictions are met in the same reporting period as the gift is recorded are included as gifts without donor restrictions.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

- **With donor restrictions** – The portion of net assets that are restricted by a donor for a specific use or the occurrence of a certain future event. Contributions unconditionally promised to the Foundation, including deferred gifts in the form of trusts and annuities, which are scheduled to be received more than one year in the future, are recorded at fair value, classified as with donor restrictions until the funds are received, and are discounted at a rate commensurate with the risks involved. Net assets representing those assets contributed to the Foundation where the original dollar value is to remain in perpetuity subject to all stipulations of donor agreements are also classified as with donor restrictions. While the Foundation's bylaws provide for variance power permitting modifications to restrictions under certain unanticipated circumstances, management believes that such variance power does not apply to endowment funds and, accordingly, has recorded such amounts as a component of net assets with donor restrictions. The accumulation of assets, above historical gift value, in donor restricted endowment funds is classified as with donor restrictions until appropriated for use based on the Foundation's spending policy. When a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Cash and cash equivalents – the Foundation considers all cash accounts and all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. These assets consist of operating and endowment fund distributable balances, as well as the entire short-term portfolio and small percentages of the total medium-term and endowment portfolios.

Investments – Investments of the Foundation are recorded at fair value with gains and losses included in the consolidated statements of activities. In accordance with the donor's election, proceeds are commingled in pooled investment funds or invested in separately managed accounts.

Investments acquired by gift are recorded at their fair value at the date of the gift. The Foundation's policy is to liquidate all gifts of investments 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 of Governors. These guidelines provide for investments in equities, fixed income, and other securities, including investments classified as alternative investments with performance measured against appropriate indices. The Foundation contracts with an external investment consultant for the purpose of providing investment management and consulting services.

Realized gains or losses on the sale of investments are calculated using the average cost method. Unrealized gains and losses represent the change in the fair 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 net assets with or without donor restrictions until those amounts are appropriated for expenditure by the Foundation.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

Endowment funds – The Board of Governors of the Foundation interprets the Uniform Prudent Management of Institutional Funds Act (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 net assets with donor restrictions as (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) earnings on endowment funds invested until 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 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.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

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 value invested in the pool to each fund's distributable balance, which is available for program grants. If the fair 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 the current spending policy to allow its endowment assets to grow at or above 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.

Receivables from estates – Receivables from estates are recognized as contribution revenue in the period the Foundation receives notification of the irrevocable gift from a donor's estate and the amount which management expects to collect is able to be estimated. Receivables are expected to be collected between 4 and 7 years as provided for in the gift instrument. There is no allowance recorded related to the receivables from estates as of June 30, 2020 and 2019.

Property, plant, and equipment – Acquisitions of property and equipment with a cost in excess of \$5,000 are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets ranging from three to thirty years.

Each year, the Foundation reviews the carrying value of its property, plant, and equipment to determine if facts and circumstances exist which suggest that these assets may be impaired or that the amortization period, if any, needs to be modified. The Foundation does not believe that there are any significant factors indicating a material adjustment for impairment as of June 30, 2020 or 2019.

Beneficial Interest in Deferred Gifts

- **Charitable remainder trusts** – 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 beneficial interest in these trusts is recorded at fair value based on the present value of future benefits expected to be received from the trust.
- **Charitable lead annuity trusts** – The Foundation is the beneficiary of two charitable lead annuity trusts administered by third parties. A fixed amount is received from the trusts each fiscal year. The charitable lead annuity trusts are recorded at fair value, which is calculated based on the present value of the expected future cash inflows.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

- **Pooled income funds** – This 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. 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. Pooled income funds are recorded at fair value with related liabilities for investment income to be distributed and an adjustment for the present value representing amounts to be paid over the lifetime of the donors. As of June 30, 2020 and 2019, these deferred gift liabilities total approximately \$827,000 and \$863,000, respectively. The present value calculation is calculated using current life expectancy tables and discounted at a rate commensurate with the risks involved.
- **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 deferred gift liability of approximately \$3,633,000 and \$3,762,000 as of June 30, 2020 and 2019, respectively, 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 \$163,000 and \$71,000 in charitable gift annuities during fiscal years 2020 and 2019, respectively. There were 87 and 85 charitable gift annuities as of June 30, 2020 and 2019, 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.

Units in limited partnerships – The Foundation has investments in units in limited partnerships where the fair value is not readily determinable. These investments are included in other assets on the statements of financial position. Under the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01, *Financial Instruments*, adopted by the Foundation as of July 1, 2019, the Foundation measures its investments in units in limited partnerships at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment for valuing its units in limited partnerships.

Annually, the Foundation reviews the carrying value of its units in limited partnerships to determine if facts and circumstances exist which would suggest that these assets may be impaired. Among the factors considered by the Foundation in making the evaluation are distributions from the limited partnerships and other factors relevant to the partnerships. 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 concluded there are no significant factors indicating a material adjustment for impairment as of June 30, 2020.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

Annually, the Foundation also considers relevant transactions that occurred on or before the date the consolidated financial statements are available to be issued that are known or can be reasonably known to identify whether there are observable price changes that may indicate an adjustment in the value of the units in a limited partnership. A significant observable price change that the Foundation is aware of is analyzed to determine whether the change occurred in an orderly transaction for the identical or similar investment and if so, the fair value is estimated as of the date of the observable price change. See Note 7 for discussion of an observable price change in the fair value of the units in a limited partnership held by the Foundation during the year ended June 30, 2020.

Grants payable – The Foundation records a liability for grants when approved by the Chief Executive Officer for grants under \$500,000 and by the Executive Officers of the Board of Governors for grants over \$500,000. 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.

Amounts held on behalf of others – The Foundation accepts funds from unrelated nonprofit organizations who desire to have the Foundation provide efficient investment management, programmatic expertise, and technical assistance. A liability is recorded at the estimated fair value of assets deposited with the Foundation by nonprofit organizations. Assets are invested in the Foundation's investment pools.

Revenue recognition – Unconditional contributions of cash and other assets and unconditional promises to give are recorded as revenue in the period received and are classified as without donor restrictions or with donor restrictions based on donor stipulations. Unconditional promises to give that are expected to be collected in future years are recognized at fair value based on estimated future cash flows. Conditional contributions are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Gifts of assets other than cash are recorded at their estimated fair value.

Custodian, investment, and management fees – Custodian, investment, and management fees are recognized in the fiscal year in which they occur. Third-party investment, custodian fees, and internal investment management expenses are netted with investment income on the accompanying consolidated statements of activities.

Functional allocation of expenses – Expenses which apply to more than one functional category have been allocated among program, general and administrative, and fundraising and development based on the time spent on these functions by specific employees as estimated by management. Other indirect expenses, such as information technology and office supplies, are allocated by functional departments based on direct staff usage. All other costs are allocated directly to the appropriate functional expense category.

Fair value measurements – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation classifies certain of its assets and liabilities based upon an established fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

The three levels of the fair value hierarchy are described below:

Level 1 – Valuations based on unadjusted quoted market prices for identical assets or liabilities that the Foundation has the ability to access at the measurement date;

Level 2 – Valuations based on 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; and

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The categorization of assets and liabilities within the hierarchy is based upon the pricing transparency and does not necessarily correspond to the Foundation's perceived risk of the assets and liabilities.

Investments that do not have a readily determinable fair value are measured using the net asset value (NAV) per share (or its equivalent) practical expedient and are not classified in the fair value hierarchy. Financial instruments are considered valued at NAV when the investment (i.e., commingled funds, hedge funds, private equity funds) is valued at NAV based on capital statements provided by entities that calculate fair value using net asset value per share or its equivalent.

Valuation process – Management determines the fair value measurement valuation policies and procedures for assets and liabilities. These policies and procedures are reassessed annually to determine if the current valuation techniques are still appropriate. A variety of qualitative factors are used to subjectively determine the most appropriate valuation methodologies. These are consistent with the market, income, and cost approaches. Unobservable inputs used in fair value measurements are evaluated and adjusted on an annual basis or as necessary based on current market conditions and other third-party information, including NAV received from fund managers based on their valuation processes and procedures. Certain unobservable inputs are assessed through review of contract terms, while others are substantiated utilizing available market data, including but not limited to market comparables, qualified opinions, and discount rates and mortality tables for deferred gifts.

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.

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. The Foundation does not have any material uncertain tax positions.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

Recently adopted accounting standards –

Effective July 1, 2019, the Foundation adopted the FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard clarifies the definition of an exchange transaction and the criteria for evaluating whether contributions are unconditional or conditional. The Foundation adopted ASU 2018-08 using the modified prospective method applied to all contributions and grants with no impact on revenue recognition or grant expenses.

The Foundation adopted FASB ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The Foundation also adopted the related updates in ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)*, ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, and ASU 2020-03, *Codification Improvements to Financial Instruments*. These standards were adopted effective July 1, 2019, using the prospective method. These standards require equity investments, if not accounted for under the equity method of accounting, to be measured at fair value or, if there is no readily determinable fair value, at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. The Foundation elected the latter method for its units in limited partnerships, as described above.

Note 2 – Concentrations and Credit Risks

Banking and investment risks – The Foundation maintains cash and cash equivalent balances at multiple banks. Accounts at these institutions are secured by the Federal Deposit Insurance Corporation. Balances regularly exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes that the Foundation is not exposed to any significant credit risk with respect to its cash and cash equivalents.

The Foundation's cash equivalents consist of U.S. Treasury, government, and prime money market funds. For 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's investments include domestic and foreign equities, 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.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 3 – Fair Value Measurements

The following table summarizes the assets carried at fair value on the consolidated statements of financial position as of June 30, 2020:

(In thousands)	June 30, 2020				
	Level 1	Level 2	Level 3	NAV	Total
ASSETS					
Investments					
Equities					
Domestic equity	\$ 36,272	\$ -	\$ -	\$ 180,324	\$ 216,596
Foreign equity	100,247	-	-	51,704	151,951
Global equity	-	-	-	36,532	36,532
Bonds					
Global fixed income	7,181	-	-	5,572	12,753
High yield fixed income	516	-	-	5,265	5,781
Core fixed income	16,988	180	-	-	17,168
Core plus fixed income	113,067	-	-	-	113,067
Short-term fixed income	10,517	-	-	-	10,517
Alternatives					
Hedge funds	14,742	-	-	88,685	103,427
Commodities	-	-	-	14,853	14,853
Private real assets	-	-	-	34,619	34,619
Private equity	-	-	-	49,097	49,097
Total investments	<u>299,530</u>	<u>180</u>	<u>-</u>	<u>466,651</u>	<u>766,361</u>
Beneficial interest in deferred gifts					
Pooled income funds					
Domestic equity	596	-	-	-	596
Global and domestic fixed income	1,939	-	-	-	1,939
	<u>2,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,535</u>
Charitable gift annuities					
Domestic equity	2,549	-	-	-	2,549
Global and domestic fixed income	2,357	-	-	-	2,357
	<u>4,906</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,906</u>
Charitable remainder trusts	-	-	11,985	-	11,985
Charitable lead annuity trusts	-	-	1,497	-	1,497
Total beneficial interest in deferred gifts	<u>7,441</u>	<u>-</u>	<u>13,482</u>	<u>-</u>	<u>20,923</u>
Cash surrender value of life insurance	-	-	1,015	-	1,015
Total fair value of assets	<u>\$ 306,971</u>	<u>\$ 180</u>	<u>\$ 14,497</u>	<u>\$ 466,651</u>	<u>\$ 788,299</u>

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 3 – Fair Value Measurements (continued)

The following table summarizes the assets carried at fair value on the consolidated statements of financial position as of June 30, 2019:

<i>(In thousands)</i>	June 30, 2019				
	Level 1	Level 2	Level 3	NAV	Total
ASSETS					
Investments					
Equities					
Domestic equity	\$ 21,685	\$ -	\$ -	\$ 194,123	\$ 215,808
Foreign equity	93,637	-	-	61,996	155,633
Global equity	-	-	-	31,810	31,810
Bonds					
Global fixed income	7,644	-	-	5,809	13,453
High yield fixed income	551	-	-	5,235	5,786
Core fixed income	18,379	245	-	-	18,624
Core plus fixed income	110,987	-	-	-	110,987
Short-term fixed income	11,886	-	-	-	11,886
Alternatives					
Hedge funds	17,220	-	-	84,405	101,625
Commodities	-	-	-	17,889	17,889
Private real assets	-	-	-	36,200	36,200
Private equity	-	-	-	39,884	39,884
Total investments	281,989	245	-	477,351	759,585
Beneficial interest in deferred gifts					
Pooled income funds					
Domestic equity	578	-	-	-	578
Global and domestic fixed income	1,983	-	-	-	1,983
	2,561	-	-	-	2,561
Charitable gift annuities					
Domestic equity	2,757	-	-	-	2,757
Global and domestic fixed income	2,537	-	-	-	2,537
	5,294	-	-	-	5,294
Charitable remainder trusts	-	-	13,280	-	13,280
Charitable lead annuity trusts	-	-	1,752	-	1,752
Total beneficial interest in deferred gifts	7,855	-	15,032	-	22,887
Cash surrender value of life insurance	-	-	983	-	983
Total fair value of assets	<u>\$ 289,844</u>	<u>\$ 245</u>	<u>\$ 16,015</u>	<u>\$ 477,351</u>	<u>\$ 783,455</u>

Investments are stated at fair value, which is based on quoted market prices, except for alternative investments and assets categorized at NAV for which quoted market prices are not available. Investments include those held in individual funds established by donors, supporting organizations, charitable trusts, and a variety of investment pools made available to donor funds for investment of gifted assets. Separate asset allocations are maintained for each investment pool. The asset allocation of any individual donor fund is dependent on the donor's choice of approved investment pool. Advised funds of \$250,000 or more are eligible to be invested separately from the pools, subject to review and approval by the Foundation's management.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 3 – Fair Value Measurements (continued)

Alternative investments include interests in hedge funds, commodities, real assets, and private equity funds. Alternative investments may be structured as limited partnerships, limited liability companies, commingled trusts, and offshore investment funds.

The Foundation uses the following methods and assumptions to estimate the fair value for its assets and liabilities measured and carried at fair value in the consolidated financial statements:

Equities – Investments in actively managed equity portfolios, and indexes of exchange traded equity securities, are recorded at fair value based on either the NAV or listed price of each fund.

Bonds – Investments in actively managed bond funds and portfolios, comprised of U.S. Treasury notes, mortgage-backed securities, municipal and corporate bonds, and global debt securities denominated in various non-U.S. currencies, are recorded at either the NAV or listed price of each fund.

Alternatives – Investments in alternatives include hedge funds, commodities, private real assets and private equity securities for which no active market exists. The Foundation has estimated the investments' fair value by using the NAV provided by the funds' managers. Other alternative investments are traded in active markets for which prices are readily available.

The Foundation generally records alternative investments at NAV provided by the funds' managers, as the managers have the greatest insight into the investments of their fund and the related industry. The Foundation assesses the NAV and takes into consideration events such as suspended redemptions, imposition of gates, restructuring, secondary sales, and investor defaults to determine if an adjustment is necessary. Additionally, asset holdings are reviewed within the investment manager's audited financial statements, as are interim financial statements and fund manager communications, for purposes of assessing valuation. The Foundation's determination of fair value is based upon the best available information provided by the investment manager and may incorporate management assumptions and best estimates after considering a variety of internal and external factors. Such value generally represents the Foundation's proportionate share of the partner's capital of the investment partnerships as reported by their general partners. For these investments, the Foundation has determined, through its monitoring activities, to rely on the fair value as determined by the investment managers.

Beneficial interest in deferred gifts – The Foundation's beneficial interest in deferred gifts includes charitable remainder trusts, charitable lead annuity trusts, pooled income funds, and charitable gift annuities. Charitable remainder trusts and charitable lead annuity trusts are valued at net present value of the estimated future amounts to be received utilizing discount rates and life expectancy tables from the National Center for Health Statistics. Pooled income funds and charitable gift annuities are valued at fair value based on the quoted market prices of the underlying securities. See Note 6.

Cash surrender value (CSV) of life insurance policies – The Foundation has been identified on various life insurance policies as the owner and beneficiary. Fair value is based on the amount to be paid if the policy is surrendered prior to the death of the insured as predetermined by the insurance companies. See Note 7.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 3 – Fair Value Measurements (continued)

The following schedule summarizes the changes in fair value for Level 3 assets for the years ended June 30, 2020 and 2019:

<i>(In thousands)</i>	Beneficial Interest in Deferred Gifts			CSV Life Insurance
	Charitable Remainder Trusts	Charitable Lead Annuity Trusts	Total	
BALANCE, July 1, 2018	\$ 13,077	\$ 2,062	\$ 15,139	\$ 1,031
Settlements/other	-	(370)	(370)	(83)
Change in value of deferred gifts	203	60	263	35
BALANCE, June 30, 2019	13,280	1,752	15,032	983
Contributions	1,685	-	1,685	-
Settlements/other	(2,758)	(370)	(3,128)	-
Change in value of deferred gifts	(222)	115	(107)	32
BALANCE, June 30, 2020	\$ 11,985	\$ 1,497	\$ 13,482	\$ 1,015

The change in value of deferred gifts is included in the change in value of beneficial interest in deferred gifts on the accompanying consolidated statements of activities.

The following summarizes the investments by major class where NAV or its equivalent is used to measure fair value as of June 30, 2020:

Investment Class	Fair Value <i>(in thousands)</i>	Unfunded Commitments <i>(in thousands)</i>	Redemption Frequency	Redemption Notice	Note
Equities	\$ 268,560	\$ -	Daily - monthly	0 - 15 days	a
Bonds	10,837	-	Monthly	5 - 10 days	b
Hedge funds	88,685	2,265	Monthly - 3 years	2 - 90 days	c
Commodities	14,853	-	Daily	-	d
Private real assets	34,619	28,714	Quarterly - illiquid	45 days	e
Private equity securities	49,097	51,073	Illiquid	-	f
Total	\$ 466,651	\$ 82,052			

a – Equities – This class includes investments in passively- and actively-managed funds that invest in stocks and other securities issued by companies in domestic and foreign markets. Investments are held within mutual funds, commingled trusts, or limited partnership structures. The portions that can be redeemed on a daily and monthly basis are 68% and 32%, respectively.

b – Bonds – This class includes investments in actively managed funds that invest in government, corporate, or sovereign bonds. Investments are held within a commingled trust or limited partnership structure.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 3 – Fair Value Measurements (continued)

c – Hedge funds – This class includes investments in actively-managed hedge funds employing a variety of strategies, including but not limited to multi-strategy, absolute return, long/short equity, arbitrage, event-driven, distressed debt, and credit. Hedge funds have the ability to invest long and short positions, shift from a net long position to a net short position, apply leverage, invest in derivatives, and invest in the debt or equity of public and private companies in domestic and foreign markets. Hedge funds generally invest through limited partnerships. Fifteen percent of the assets in this class can be redeemed monthly with no restrictions, and the remaining 85% can be redeemed subject to lockup periods of 90 days or more. The managers representing this 85% may also employ fund-level or investor-level gates.

d – Commodities – This class includes investments in actively managed commingled trust funds and limited partnerships that invest in underlying commodities, commodity futures, and timberlands. Commodities and commodity futures include, but are not limited to, precious metals, oil and gas, agricultural products, materials, natural resources, and real estate. 100% of the assets in this class are liquid on a daily basis with no restrictions.

e – Private real assets – This class includes investments in actively-managed private real estate funds that invest primarily in private debt or equity of real estate properties, including but not limited to residential, multi-family, office, retail, hotel, industrial, and other specialties, both in domestic and foreign markets. One investment in this class representing 48% of the assets consists of an open-ended real estate investment trust that is liquid on a quarterly basis, subject to fund level gates. The remaining 52% is invested in limited partnerships that make investments that are generally not redeemable from the fund manager. Instead, distributions are received through the liquidation of underlying assets of the fund, typically over 5 to 10 years.

f – Private equity securities – This class includes investments in actively-managed private equity funds that invest in private and public companies through a variety of strategies, including but not limited to early and late stage venture capital, leveraged buyouts, distressed assets, special situations, and credit strategies. These investments are generally not redeemable from the fund manager. Instead, distributions are received through the liquidation of the underlying assets of the fund, typically over 10 years or more.

Investment commitments – Included in alternative and other investments at June 30, 2020, are certain investments totaling approximately \$88,813,000 which cannot be liquidated for a minimum of one year, but not more than 15 years, unless the Foundation can find an assignee. Total commitments for these investments are approximately \$182,017,000 as of June 30, 2020. Remaining capital calls associated with these investments are approximately \$73,828,000, and callable distributions total approximately \$8,224,000 as of June 30, 2020.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 3 – Fair Value Measurements (continued)

While the Foundation believes the valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily-available market for such investments existed, or had such investments been liquidated, and these differences could be material to the consolidated financial statements.

The following table represents the Level 3 financial instruments as of June 30, 2020, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

	Fair Value <i>(in thousands)</i>	Valuation Technique	Unobservable Inputs	Range
Charitable remainder trusts	\$ 11,985	Discounted cash flow	Discount rate Life expectancies	3.0% 5–20 years
Charitable lead annuity trusts	\$ 1,497	Discounted cash flow	Discount rate Remaining payments	1.5% 1–6 years
Cash surrender value of life insurance	\$ 1,015	Market, cost, or income	Policy surrender date	Various

Note 4 – Net Assets

Net assets with donor restrictions consisted of the following at June 30:

<i>(In thousands)</i>	2020	2019
Subject to the passage of time		
Deferred giving		
Beneficial interest in deferred gifts, net	\$ 16,463	\$ 18,262
Receivable from estates	1,969	1,914
Cash surrender value of life insurance policies	1,015	983
	<u>19,447</u>	<u>21,159</u>
Subject to the Foundation's spending policy and appropriation:		
Donor corpus restricted in perpetuity	450,782	423,892
Unappropriated endowment earnings	88,091	103,224
	<u>538,873</u>	<u>527,116</u>
	<u>\$ 558,320</u>	<u>\$ 548,275</u>

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 4 – Net Assets (continued)

During fiscal years 2020 and 2019, net assets with donor restrictions totaling approximately \$13,653,000 and \$13,243,000, respectively, were released due to the satisfaction of donor-imposed restrictions related to the timing or purpose of the contribution.

The composition of endowment funds at June 30, 2020 and 2019, was as follows:

<i>(In thousands)</i>	2020	2019
Board-designated endowment funds	\$ 7,725	\$ 8,030
Donor-restricted endowment funds		
Donor corpus restricted in perpetuity	450,782	423,892
Unappropriated endowment earnings	88,091	103,224
	\$ 546,598	\$ 535,146

Changes in endowment net assets for the years ended June 30, 2020 and 2019, were as follows:

<i>(In thousands)</i>	Without Donor Restrictions	With Donor Restrictions			Total
	Board- Designated	Accumulated Endowment Earnings	Original Gift Amount	Total With Donor Restrictions	
Endowment net assets at July 1, 2018	\$ 8,118	\$ 105,355	\$ 401,213	\$ 506,568	\$ 514,686
Contributions and transfers, net	-	-	22,679	22,679	22,679
Investment income, net	300	18,731	-	18,731	19,031
Endowment assets appropriated for expenditure	(388)	(20,862)	-	(20,862)	(21,250)
Endowment net assets at June 30, 2019	8,030	103,224	423,892	527,116	535,146
Contributions and transfers, net	-	-	26,890	26,890	26,890
Investment income, net	107	6,736	-	6,736	6,843
Endowment assets appropriated for expenditure	(412)	(21,869)	-	(21,869)	(22,281)
Endowment net assets at June 30, 2020	\$ 7,725	\$ 88,091	\$ 450,782	\$ 538,873	\$ 546,598

The San Diego Foundation
Notes to Consolidated Financial Statements

Note 5 – Property, Plant, and Equipment

Property, plant, and equipment consisted of the following at June 30:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>
Building	\$ 8,256	\$ 8,256
Building improvements	3,939	3,951
Office and computer equipment	2,466	3,056
Less: accumulated depreciation and amortization	<u>(9,244)</u>	<u>(9,440)</u>
Net depreciable property and equipment	5,417	5,823
Land	<u>1,215</u>	<u>1,215</u>
Total property, plant, and equipment, net	<u><u>\$ 6,632</u></u>	<u><u>\$ 7,038</u></u>

Depreciation and amortization expense for fiscal years 2020 and 2019 was approximately \$636,000 and \$602,000, respectively.

Note 6 – Beneficial Interest in Deferred Gifts

The beneficial interest in deferred gifts consisted of the following at June 30:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>
Charitable remainder trusts	\$ 11,985	\$ 13,280
Charitable gift annuities	4,906	5,294
Pooled income funds	2,535	2,561
Charitable lead annuity trusts	<u>1,497</u>	<u>1,752</u>
Beneficial interest in deferred gifts	20,923	22,887
Less: deferred gift liabilities	<u>(4,460)</u>	<u>(4,625)</u>
Beneficial interest in deferred gifts, net	<u><u>\$ 16,463</u></u>	<u><u>\$ 18,262</u></u>

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 7 – Other Assets

Other assets consisted of the following at June 30:

<i>(In thousands)</i>	2020	2019
Units in limited partnerships	\$ 159,528	\$ 26,877
Contribution receivable	5,000	-
Other receivable	2,000	-
Cash surrender value of life insurance policies	1,015	983
Miscellaneous	902	879
Property held for resale	-	2,125
Total other assets	\$ 168,445	\$ 30,864

Units in limited partnerships – 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 Foundation does not have significant influence over the partnership. The carrying value of the Foundation's interest in the partnership was approximately \$157,234,000 and \$25,220,000, at June 30, 2020 and 2019, respectively, and is included in the total units in limited partnerships above.

During the year ended June 30, 2020, the Foundation received notification of a distribution of interests in this limited partnership to other organizations pursuant to a trust agreement naming these other organizations as beneficiaries of the trust. The Foundation received an appraisal which included the current fair value of the interests in this limited partnership. This distribution of interests in the limited partnership was considered to be an observable price change and represent an orderly transaction of an identical asset as the one held by the Foundation. Therefore, the Foundation recorded an increase of approximately \$132,014,000 in the recorded value of its limited partnership interest based on the appraised value of the units in the partnership prepared in connection with this distribution. This adjustment is recorded as change in value of units in limited partnership on the accompanying consolidated statement of activities for the year ended June 30, 2020. The Foundation received distributions from the limited partnership of approximately \$5,369,000 and \$2,853,000 during the years ended June 30, 2020 and 2019, respectively.

Contribution receivable – The contribution receivable is related to an unconditional promise to give agreement signed in June 2020. Payment on the receivable was received on July 1, 2020.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 7 – Other Assets (continued)

Other receivable – The receivable is related to a loan program established in conjunction with the County of San Diego (the “County”) to support small businesses during the coronavirus pandemic. The Foundation received \$5,000,000 from the County to establish the loan program. These funds will be advanced to a nonprofit partner to process the loans. As of June 30, 2020, \$2,000,000 has been advanced to the partner. Amounts advanced are required to be repaid to the Foundation as the loans are collected from borrowers. As such, a receivable for \$2,000,000 is included in other assets as of June 30, 2020. Additionally, the \$5,000,000 received is to be repaid to the County quarterly as loan repayments are collected from borrowers with the entire \$5,000,000 to be returned to the County no later than January 31, 2026. This amount is included in accounts payable and accrued liabilities as of June 30, 2020, in the accompanying consolidated statement of financial position.

Cash surrender value of life insurance policies – Cash surrender value of life insurance policies are those policies where the donor has identified the Foundation as the owner and 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. The change in the fair value of these assets is included in the change in value of beneficial interest in deferred gifts on the accompanying consolidated statements of activities.

Property held for resale – At June 30, 2019, the property was under contract and the sale was finalized in August 2019. The recorded value at June 30, 2019, represents the net proceeds from the sale.

Miscellaneous – Included in other assets is a non-recourse promissory note in the amount of approximately \$3,708,000 dated March 28, 1997, which has been fully reserved at June 30, 2020 and 2019. Repayments were 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.

Note 8 – Grants Payable

Grants payable consisted of the following at June 30:

<i>(In thousands)</i>	2020	2019
Payable in less than one year	\$ 14,303	\$ 6,545
Payable in one to five years	3,167	2,643
Grants payable discount	(148)	(138)
Total grants payable, net	\$ 17,322	\$ 9,050

Grants payable are discounted using rates ranging from 0.2% to 1.8%, depending on duration of the payable period.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 9 – Amounts Held on Behalf of Others

The Foundation receives contributions on behalf of others that are included in total contributions on the consolidated statements of activities but then are deducted out as amounts raised or received on behalf of others as they do not represent revenue to the Foundation.

Amounts held on behalf of others consisted of the following at June 30:

<i>(In thousands)</i>	2020	2019
Endowment funds	\$ 34,327	\$ 29,435
Non-endowment funds	63,663	64,945
Total amounts held on behalf of others	\$ 97,990	\$ 94,380

Note 10 – Notes Payable and Line of Credit

The following is a summary of notes payable at June 30:

<i>(In thousands)</i>	2020	2019
Note payable, JPMorgan Chase Bank, monthly payments of approximately \$43 including principal and interest at 1.99% for 20 years, amortized over 30 years, due in full in September 2049, secured by certain financial resources without donor restrictions	\$ 11,266	\$ -
Note payable, United States Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, monthly payments of principal and interest at 0.98% after deferral period of six months, to extent note is not forgiven, balance due in full in April 2022, unsecured	938	-
Note payable, First Republic Bank, monthly payments of approximately \$61, including principal and interest at 2.6% until June 2021 then variable until maturity, due in full in July 2039; paid in full in September 2019	-	11,409
Notes payable	12,204	11,409
Less: unamortized note issuance costs	(130)	(156)
Notes payable, net	\$ 12,074	\$ 11,253

During the years ended June 30, 2020 and 2019, interest expense was approximately \$244,000 and \$306,000, respectively.

The Foundation submitted an application for forgiveness on the United States Small Business Administration note in November 2020. However, at the time of issuance of the June 30, 2020 audited consolidated financial statements, the bank had not yet processed the application or provided a final notice of forgiveness. As such, the amount of any forgiveness to be granted is not yet known.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 10 – Notes Payable and Line of Credit (continued)

The Foundation has a \$3,000,000 line of credit agreement with JPMorgan Chase bearing interest at LIBOR plus 0.776% per annum with a maturity date of October 1, 2021. The line of credit is secured by certain financial resources (cash, investments, and gross revenues) without donor restrictions of the Foundation. There was no outstanding balance on the line of credit as of June 30, 2020 and as of June 30, 2019, under the previous line of credit with First Republic Bank.

Future minimum principal payments, excluding the United States Small Business Administration note, are as follows (*in thousands*):

Years Ending June 30,	<i>(In thousands)</i>
2021	\$ 287
2022	293
2023	299
2024	304
2025	311
Thereafter	<u>9,772</u>
	<u><u>\$ 11,266</u></u>

Note 11 – Litigation

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

Note 12 – Retirement Plans

The Foundation maintains an employee benefit 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 4% of each employee's compensation. Employer matching contributions to the plan in fiscal years 2020 and 2019 were approximately \$175,000 and \$120,000, respectively. The plan also allows for four categories of participants to receive employer discretionary annual contributions of up to 8.5%. Employer discretionary contributions to the plan in fiscal years 2020 and 2019 were approximately \$443,000 and \$299,000, respectively.

The Foundation also maintains a benefit plan that is qualified as tax deferred under Section 457(b) of the Internal Revenue Code. The plan is for employees of a select group of management. The employees may elect to make contributions to the plan under a salary-reduction agreement. The Foundation is not required to make contributions to the plan.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 13 – Liquidity and Funds Available

The following table reflects the Foundation's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general expenditures due to contractual or donor-imposed restrictions within one year. Amounts not available include trust assets, estate receivables, assets held for others, endowments and accumulated earnings net of appropriations within one year, and board-designated endowments. These board designations could be drawn upon if the Board of Governors approves that action. General expenditures include grant awards, operating and administrative expenses, capital spending, and other financial liabilities, expected to be paid in the subsequent year.

Financial assets available to meet cash needs for general expenditures within one year as of June 30, 2020 and 2019, are as follows:

<i>(In thousands)</i>	2020	2019
Financial assets		
Cash and cash equivalents	\$ 105,846	\$ 72,412
Investments	766,361	759,585
Receivable from estates	1,969	1,914
Beneficial interest in deferred gifts	20,923	22,887
Other assets	7,000	-
Total financial assets	902,099	856,798
Less: assets unavailable for general expenditures within one year		
Endowments and accumulated earnings subject to appropriation beyond one year, net of amounts held on behalf of others, receivables from estates, and deferred gifts	(529,232)	(519,827)
Amounts held on behalf of others	(97,990)	(94,380)
Receivable from estates	(1,969)	(1,914)
Beneficial interest in deferred gifts	(20,923)	(22,887)
Commitments of other assets	(7,000)	-
Total assets unavailable for general expenditure within one year	(657,114)	(639,008)
Financial assets available to meet cash needs for general expenditures within one year	\$ 244,985	\$ 217,790

Included in the financial assets available to meet cash needs for general expenditures within one year are approximately 680 non-endowed donor-advised funds totaling approximately \$182,979,000 and 600 non-endowed donor-advised funds totaling approximately \$173,278,000 as of June 30, 2020 and 2019, respectively. While the balance is available for granting, historically approximately 20% of the balance of these funds is granted within one year.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 13 – Liquidity and Funds Available (continued)

The Foundation manages its cash available as general expenditures come due and invests cash in excess of immediate requirements in short-term or other investment pools. The Foundation designates a portion of any operating surplus to its liquidity reserve, which was approximately \$4,356,000 and \$3,915,000 as of June 30, 2020 and 2019, respectively, and was established through approval of the Finance Committee to be drawn upon in the event of financial distress or immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In addition, since June 2014 the Foundation has maintained a line of credit agreement in the amount of \$3,000,000 (see Note 10). No funds were borrowed under this agreement during the years ended June 30, 2020 and 2019.

Note 14 – Subsequent Events

Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before the consolidated financial statements are issued. The Foundation recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Foundation's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements are available to be issued.

The Foundation has evaluated subsequent events through November 17, 2020, which is the date the consolidated financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to the consolidated statement of financial position date that would require adjustment to, or disclosure in, the consolidated financial statements.

Note 15 – Risks and Uncertainties

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency stemming from a new strain of coronavirus that was spreading globally (the "COVID-19 outbreak"). On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, triggering volatility in financial markets and a significant impact on the global economy. The value of the Foundation's investments will fluctuate in response to changing market conditions, and the amount of gains/losses that could be recognized in subsequent periods, if any, cannot be determined. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report.