The San Diego Foundation

Consolidated Financial Statements

Years Ended June 30, 2015 and 2014

Mayer Hoffman McCann P.C.
An Independent CPA Firm

The San Diego Foundation

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Mayer Hoffman McCann P.C.
An Independent CPA Firm

10616 Scripps Summit Court
San Diego, California 92131
858-795-2000 ph
858-795-2001 fx
www.mhm-pc.com

Independent Auditors' Report

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

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, 2015 and 2014, and the related consolidated statements of activities, 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.

Auditors' 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 auditors' 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 consolidated financial position of **The San Diego Foundation** as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

San Diego, California
November 18, 2015

The San Diego Foundation

Consolidated Statements of Financial Position
As of June 30, 2015 and 2014
(In thousands)

Assets	**2015**	2014
Cash and cash equivalents	**$ 72,001**	$ 60,001
Investments	**548,326**	544,619
Receivable from estates	**4,460**	4,765
Property, plant, and equipment - net	**9,777**	10,478
Beneficial interest in deferred gifts	**22,051**	22,063
Other assets	**29,078**	32,368
Total assets	**$ 685,693**	$ 674,294
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 1,122**	$ 1,364
Grants payable	**9,778**	7,458
Deferred gift liabilities	**4,238**	4,579
Amounts held on behalf of others	**60,697**	57,569
Note payable	**13,045**	13,397
Total liabilities	**88,880**	84,367
Net assets:		
Unrestricted	**183,521**	198,740
Temporarily restricted	**108,365**	117,842
Permanently restricted	**304,927**	273,345
Total net assets	**596,813**	589,927
Total liabilities and net assets	**$ 685,693**	$ 674,294

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

The San Diego Foundation

Consolidated Statement of Activities

Year Ended June 30, 2015

(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue:				
Gifts and bequests from donors	$ 36,401	$ 1,732	$ 21,826	$ 59,959
Less: amounts raised or received on behalf of others	(5,963)	-	-	(5,963)
Net gifts and bequests from donors	30,438	1,732	21,826	53,996
Investment gains and other income	6,864	3,102	-	9,966
Less: net investment income allocated to funds held for others	(229)	-	-	(229)
Net investment gains and other income	6,635	3,102	-	9,737
Other and transfers to (from) funds	(3,415)	(6,341)	9,756	-
Sub-total	33,658	(1,507)	31,582	63,733
Change in value of split interest agreements	-	192	-	192
Net assets released from restrictions	8,162	(8,162)	-	-
Total revenue	41,820	(9,477)	31,582	63,925
Expenses:				
Program grants				
Cultural activities	8,027	-	-	8,027
Health and human services	10,436	-	-	10,436
Education	11,161	-	-	11,161
Urban/civic and religion	18,505	-	-	18,505
Total program grants	48,129	-	-	48,129
Less: amounts distributed on behalf of others	(2,839)	-	-	(2,839)
Net program grants	45,290	-	-	45,290
Charitable expenses	2,561	-	-	2,561
Operating and administrative expenses	9,412	-	-	9,412
Less: administrative expenses and investment management fees allocated to funds held for others	(224)	-	-	(224)
Total expenses	57,039	-	-	57,039
Change in net assets	(15,219)	(9,477)	31,582	6,886
Net assets at beginning of year	198,740	117,842	273,345	589,927
Net assets at end of year	$ 183,521	$ 108,365	$ 304,927	$ 596,813

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

The San Diego Foundation

Consolidated Statement of Activities

Year Ended June 30, 2014

(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue:				
Gifts and bequests from donors	$ 29,409	$ 1,473	$ 6,412	$ 37,294
Less: amounts raised or received on behalf of others	(3,510)	-	-	(3,510)
Net gifts and bequests from donors	25,899	1,473	6,412	33,784
Investment gains and other income	40,781	49,468	-	90,249
Less: net investment income allocated to funds held for others	(7,449)	-	-	(7,449)
Net investment gains and other income	33,332	49,468	-	82,800
Other and transfers to (from) funds	7,097	(7,226)	129	-
Sub-total	66,328	43,715	6,541	116,584
Change in value of split interest agreements	-	626	-	626
Net assets released from restrictions	7,746	(7,746)	-	-
Total revenue	74,074	36,595	6,541	117,210
Expenses:				
Program grants				
Cultural activities	6,642	-	-	6,642
Health and human services	14,255	-	-	14,255
Education	12,471	-	-	12,471
Urban/civic and religion	17,301	-	-	17,301
Total program grants	50,669	-	-	50,669
Less: amounts distributed on behalf of others	(2,977)	-	-	(2,977)
Net program grants	47,692	-	-	47,692
Charitable expenses	3,002	-	-	3,002
Operating and administrative expenses	9,799	-	-	9,799
Less: administrative expenses and investment management fees allocated to funds held for others	(233)	-	-	(233)
Total expenses	60,260	-	-	60,260
Change in net assets	13,814	36,595	6,541	56,950
Net assets at beginning of year	184,926	81,247	266,804	532,977
Net assets at end of year	$ 198,740	$ 117,842	$ 273,345	$ 589,927

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

The San Diego Foundation

Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014
(In thousands)

	2015	2014
Cash flows from operating activities:		
Change in net assets	**$ 6,886**	$ 56,950
Adjustments and reclassifications to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (gains) losses on investments	**7,674**	(66,731)
Contributions restricted for long-term investments	**(21,064)**	(6,082)
Contribution of stock and securities; restricted for long-term investments	**(762)**	(330)
Contribution of stock and securities	**(7,398)**	(6,407)
Contribution of units in limited partnerships	**(152)**	-
Depreciation and amortization	**865**	898
Change in value of split interest agreements	**(192)**	(626)
Write-off of bond issuance costs	**-**	325
Write-off of uncollectible receivable from estates	**-**	367
(Increase) decrease in assets:		
Increase in receivable from estates	**(169)**	-
(Increase) decrease in beneficial interest in deferred gifts	**75**	(408)
(Increase) decrease in other assets	**3,393**	(3,685)
Increase (decrease) in liabilities:		
(Decrease) increase in accounts payable and accrued expenses	**(242)**	121
Increase (decrease) increase in grants payable	**2,320**	(2,580)
Decrease in deferred gift liabilities	**(341)**	(277)
Increase in amounts held on behalf of others	**3,128**	7,784
Net cash used in operating activities	**(5,979)**	(20,681)
Cash flows from investing activities:		
Purchases of investments	**(270,939)**	(453,953)
Proceeds from sale of investments	**266,956**	458,755
Purchases of equipment	**(164)**	(340)
Net cash (used in) provided by investing activities	**(4,147)**	4,462
Cash flows from financing activities:		
Contributions restricted for long-term investments	**21,826**	6,412
Notes receivable issued	**-**	(982)
Collections restricted for long-term investments	**474**	786
Principal payments on debt	**(352)**	(190)
Principal payments received on notes receivable	**178**	146
Net cash provided by financing activities	**22,126**	6,172
Net change in cash and cash equivalents	**12,000**	(10,046)
Cash and cash equivalents at beginning of year (Note 1)	**60,001**	70,047
Cash and cash equivalents at end of year	**$ 72,001**	$ 60,001
Cash and cash equivalents:		
Available for operations	**$ 4,237**	$ 3,720
Available for specific purposes	**67,764**	56,281
	$ 72,001	$ 60,001
Supplemental disclosures of cash flow information:		
Cash paid for interest during the year	**$ 351**	$ 417

Noncash financing activities:

During the year ended June 30, 2014, the Foundation entered into a term note in the amount of $13,397,000 to extinguish the outstanding debt related to the bonds and the interest rate swap agreement.

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

1. Organization and Significant Accounting Policies

Organization

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

Basis of presentation

In order to accommodate the various alternatives for donors' distribution objectives, The Foundation's records are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund. The consolidated financial statements of The Foundation have been presented in accordance with authoritative guidance which requires that consolidated net assets, revenue, gains, expenses, and losses be classified as unrestricted, temporarily restricted, and permanently restricted.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Restricted gifts whose restrictions are met in the same reporting periods are reported as unrestricted gifts.

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

Unrestricted

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

- Operational and administrative functions;

Basis of presentation, cont'd

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

Temporarily Restricted

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

Permanently Restricted

Permanently restricted net assets represent those assets contributed to The Foundation where the original dollar value is to remain in perpetuity as a permanent endowment of The Foundation subject to all stipulations of donor agreements. 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 permanently restricted net assets.

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

Cash and cash equivalents

Cash and cash equivalents consist of cash and money market funds.

Receivable from estates

Receivables from estates are recognized as contribution revenue in the period The Foundation receives notification the court has deemed the will of the donor's estate to be valid and all conditions have been substantially met and are stated at the amount which management estimates to collect. At June 30, 2015, receivables from estates are considered by management to be fully collectible and, accordingly, an allowance has not been provided.

Custodian and management fees

Custodian, investment, and management fees are recognized in the fiscal year in which they occur. Third party investment and custodian fees are netted with investment gains (losses) and other income on the accompanying consolidated statements of activity.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of The Foundation and the supporting organizations under the control of The Foundation. These supporting organizations and their total asset balances as of June 30, 2015 and June 30, 2014, respectively are: Sol Price Retailing/Service Scholarship Program, $2,425,000 and $3,042,000; the San Diego Charitable Real Estate Foundation ("CREF"), $621,000 and $3,620,000; the San Diego Women's Foundation, $3,339,000 and $3,276,000 and the San Diego Regional Disaster Fund, $234,000 and $331,000. All inter-entity accounts and transactions have been eliminated.

Concentrations

Banking and Investment Risks

The Foundation maintains cash 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 US 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 in marketable and non-marketable securities include 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.

Investments

Investments of The Foundation are accounted for in accordance with authoritative guidance which states that investments in equity securities with readily determinable fair market values and all debt securities should be reported at fair market value with gains and losses included in the consolidated statements of activity.

Investments acquired by gift are recorded at their fair market value at the date of the gift. The Foundation's policy is to liquidate all gifts of 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.

Investments consisted of marketable securities and non-marketable securities and are described as follows:

Marketable Securities

Marketable securities include listed mutual funds and exchange-traded equity securities held in professionally managed separate accounts, with valuation based upon quoted prices in active markets.

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

Non-Marketable Securities

Non-marketable securities include shares in funds, such as unlisted mutual funds, limited exempted corporations, limited partnership interests (LPs), and common trust funds (collectively, "commingled funds"). Commingled

Investments, cont'd

funds have a net asset value (NAV) determined by market corroborated pricing or models using observable and unobservable inputs and are invested by professional asset management firms overseeing private equity, private real asset, commodity, and hedge funds.

Fair value measurements

The Foundation measures fair value at the price that would be received upon sale of an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

Management has determined that the carrying values of cash, receivables, other assets, accounts payable, accrued expenses, grants payable, deferred gift liabilities, amounts held on behalf of others, and note payable approximates fair value given the short-term and variable nature of these instruments.

Units in Limited Partnerships

Investments in units in limited partnerships are recorded either at the net present value of the estimated future cash flows at the date the units were received, based on an independent appraisal at the date of the donation or at the original cost basis. After acquisition, investments in units in limited partnerships recorded at cost are carried at the lower of cost or fair value. At June 30, 2015 and 2014, units in limited partnerships held by The Foundation were recorded at original cost basis.

Depreciation

Fixed assets are depreciated using the straight-line method over the estimated useful lives of the related assets or, in the case of leasehold improvements, over the lesser of the useful life of the related asset or the lease term. Depreciation on purchased fixed assets is calculated based on cost. Acquisitions of property and equipment in excess of $1,000 are capitalized.

Long-lived assets

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

The Foundation does not believe that there are any significant factors indicating a material adjustment for impairment as of June 30, 2015.

Beneficial interest in deferred gifts

The Foundation is a beneficiary of certain trust funds held by others and has recorded assets related to these funds at the net present value of the estimated future amount to be received. These assets are included on the accompanying consolidated statements of financial position.

In 2004, The Foundation received its California insurance license, allowing it to offer charitable gift annuities. Charitable gift annuities are recognized in the period in which the contract is executed. The assets received are recognized at fair value when received, and an annuity payment liability is recognized at the present value of future cash flows expected to be paid to the lifetime beneficiary based on current life expectancy tables and a discount rate equal to the original rate of return on the investment as initially agreed upon with the donor.

The change in the fair value of these assets is included in the change in value of split interest agreements on the accompanying consolidated statements of activities.

Grants payable

The Foundation records a liability for grants when they have been approved by the Board of Governors. Grants which are conditional are recorded as liabilities when the conditions to the grants have been substantially met. Each year, The Foundation evaluates the facts and circumstances to determine if a discount related to grants payable is necessary.

Expense allocation

Expenses that can be identified with program grants are charged directly to the related program or charitable expenses. Charitable expenses are direct program costs paid to a party other than the benefiting non-profit organization. Operating and administrative expenses include those expenses that provide for the overall support and direction of the organization. Included in operating expenses are fundraising expenses of approximately $2,460,000 and $2,377,000, for fiscal years 2015 and 2014, respectively.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these consolidated financial statements include those assumed in computing the estimated future cash flow of deferred gifts, the functional allocation of expenses, endowment receivables, and deferred compensation calculations.

Income tax status

The Foundation is exempt from income taxes under the current provisions of the Internal Revenue Code Section 501(c)(3) and Section 23701(d) of the California Franchise Tax Code. All tax exempt entities are subject to review and audit by federal, state and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes.

At June 30, 2015, the federal statute of limitation remains open for the 2012 through 2015 years. The statute of limitations for the state income tax returns remains open for the 2011 through 2015 years.

Change in accounting principle

During 2015 The Foundation changed its accounting policy related to the presentation of money market funds in the accompanying consolidated financial statements. Previously, a portion of the money market funds were presented in investments. The Foundation believes that presenting these funds as cash equivalents provides a more meaningful and clear presentation of its cash equivalents. The new accounting policy has been accounted for as a change in accounting principle with retroactive application to prior periods. As such, the 2014 and 2013 consolidated financial statements have been recast, which resulted in an increase in cash and cash equivalents and decrease in investments of approximately $19,835,000 and $38,308,000, respectively.

Reclassifications

Certain amounts in the 2014 consolidated financial statements have been reclassified to conform to the 2015 classifications. These reclassifications have no material effect on total net assets.

2. Investments

Investments consisted of the following at June 30:

	2015	2014
	(In thousands)	(In thousands)
Marketable securities	**$ 320,235**	$ 325,695
Non-marketable securities	**228,091**	218,924
Total investments	**$ 548,326**	$ 544,619

Investment securities

Investment securities consisted of the following at June 30:

	2015	2014
	(In thousands)	(In thousands)
Equity securities:		
Domestic	**$ 160,316**	$ 164,353
Foreign	**136,820**	138,892
	297,136	303,245
Fixed-income securities:		
Corporate obligations	**63,379**	65,160
Government obligations	**16,223**	15,311
Foreign obligations	**35,988**	35,381
	115,590	115,852
Commodities	**21,610**	21,441
Alternative and other investments	**113,990**	104,081
Total investment securities	**$ 548,326**	$ 544,619

Summary of return on investments

The following schedule summarizes the return on investments and its classification in the consolidated statements of activities for fiscal years 2015 and 2014:

Year Ended June 30, 2015:	Unrestricted	Temporarily Restricted	Total
	(In thousands)	(In thousands)	(In thousands)
Net realized/unrealized loss on investments	$ (3,256)	$ (4,418)	$ (7,674)
Interest, dividends, and other income	10,134	7,520	17,654
Less: investment fees	(243)	-	(243)
Net gain on investments	$ 6,635	$ 3,102	$ 9,737

Year Ended June 30, 2014:	Unrestricted	Temporarily Restricted	Total
	(In thousands)	(In thousands)	(In thousands)
Net realized/unrealized gain on investments	$ 23,978	$ 42,753	$ 66,731
Interest, dividends, and other income	9,659	6,715	16,374
Less: investment fees	(305)	-	(305)
Net gain on investments	$ 33,332	$ 49,468	$ 82,800

3. Fair Value Measurements

The following table summarizes the valuation of The Foundation's fair value measurements in accordance with authoritative guidance at June 30, 2015:

	Level 1	Level 2	Level 3	Total
	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Domestic equity securities	$ 77,789	$ 82,527	$ -	$ 160,316
Foreign equity securities	105,202	31,618	-	136,820
Government obligations	16,223	-	-	16,223
Corporate obligations	63,379	-	-	63,379
Foreign obligations	35,988	-	-	35,988
Hedge funds	18,768	20,444	20,049	59,261
Commodities	2,886	12,216	6,508	21,610
Private real assets	-	-	37,245	37,245
Private equity securities	-	-	17,484	17,484
Investments	320,235	146,805	81,286	548,326
Split interest agreements	-	-	24,350	24,350
Money market funds	47,019	-	-	47,019
Total	$ 367,254	$ 146,805	$ 105,636	$ 619,695

Changes in Level 3 fair value measurements during 2015 were as follows:

	Hedge Funds	**Commodities**	**Private Real Assets**
	(In thousands)	(In thousands)	(In thousands)
Balance July 1, 2014	$ 22,446	$ 6,215	$ 31,706
Change in value of split interest agreements	-	-	-
Contributions	-	-	-
Total gains and losses (realized/unrealized)	240	293	4,091
Purchases	-	-	4,350
Sales	(2,637)	-	(2,902)
Settlements	-	-	-
Balance June 30, 2015	$ 20,049	$ 6,508	$ 37,245

3. Fair Value Measurements, Cont'd

	Private Equity Securities	Split Interest Agreements	Total
	(In thousands)	(In thousands)	(In thousands)
Balance July 1, 2014	$ 9,293	$ 23,671	$ 93,331
Change in value of split interest agreements	-	192	192
Contributions	3,000	1,882	4,882
Total gains and losses (realized/unrealized)	1,812		6,436
Purchases	7,555	-	11,905
Sales	(4,176)	-	(9,715)
Settlements	-	(1,395)	(1,395)
Balance June 30, 2015	$ 17,484	$ 24,350	$ 105,636

The Organization recognizes transfers between levels in the fair value hierarchy, if there are any, at the end of the reporting period.

The following table represents the Level 3 financial instruments, 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.

Instrument	Fair Value (In thousands)	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values
Hedge funds	$ 20,049	Net asset value	Investment period (Liquidity)	3 – 6 months
Commodities	$ 6,508	Net asset value	Investment period (Liquidity)	1 – 5 years
Private real assets	$ 37,245	Net asset value	Investment period (Liquidity)	4.5 months – 15 years
Private equity securities	$ 17,484	Independent valuation	-	-
Split interest agreements	$ 24,350	Net present value of the estimated future amount to be received	Discount rate	2.45%
			Years remaining	2.2-25.3

Investment commitments

Included in alternative and other investments at June 30, 2015 and 2014 are certain investments totaling approximately $44,237,000 and $32,083,000, respectively, 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 $63,685,000 and $53,685,000 as of June 30, 2015 and 2014, respectively. Remaining capital calls associated with these investments are approximately $14,444,000 and $14,045,000 as of June 30, 2015 and 2014, respectively.

The following table summarizes the valuation of The Foundation's fair value measurements in accordance with authoritative guidance at June 30, 2014:

	Level 1	Level 2	Level 3	Total
	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Domestic equity securities	$ 79,013	$ 85,340	$ -	$ 164,353
Foreign equity securities	106,762	32,130	-	138,892
Government obligations	15,311	-	-	15,311
Corporate obligations	65,160	-	-	65,160
Foreign obligations	35,381	-	-	35,381
Hedge funds	21,342	19,294	22,446	63,082
Commodities	2,726	12,500	6,215	21,441
Private real assets	-	-	31,706	31,706
Private equity securities	-	-	9,293	9,293
Investments	325,695	149,264	69,660	544,619
Split interest agreements	-	-	23,671	23,671
Money market funds	44,387	-	-	44,387
	$ 370,082	$ 149,264	$ 93,331	$ 612,677

3. Fair Value Measurements, Cont'd

Changes in Level 3 fair value measurements during 2014 were as follows:

	Hedge Funds	Commodities	Private Real Assets
	(In thousands)	(In thousands)	(In thousands)
Balance July 1, 2013	$ 29,156	$ 5,614	$ 26,211
Change in value of split interest agreements	-	-	-
Contributions	-	-	-
Total gains and losses (realized/unrealized)	1,673	601	2,085
Purchases	-	-	6,400
Sales	(8,383)	-	(2,990)
Settlements	-	-	-
Balance June 30, 2014	$ 22,446	$ 6,215	$ 31,706

	Private Equity Securities	Split Interest Agreements	Total
	(In thousands)	(In thousands)	(In thousands)
Balance July 1, 2013	$ 16,313	$ 22,457	$ 99,751
Change in value of split interest agreements	-	626	626
Contributions	20	2,911	2,931
Total gains and losses (realized/unrealized)	11,964	-	16,323
Purchases	2,011	-	8,411
Sales	(21,015)	-	(32,388)
Settlements	-	(2,323)	(2,323)
Balance June 30, 2014	$ 9,293	$ 23,671	$ 93,331

Unrealized gains associated with Level 3 fair value measurements were approximately $6,102,000 for the year ended June 30, 2015. Unrealized gains were approximately $4,044,000 for the year ended June 30, 2014.

Investments

Investments are stated at fair value, which is based on quoted market prices, except for alternative investments for which quoted market prices are not available.

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

Investments, cont'd

Domestic equity securities invested in commingled funds without quoted market prices are classified as Level 2. These investments are stated at fair value based on the net asset value of units held by The Foundation. Net asset value of these funds is determined using the unadjusted quoted market prices for the underlying securities held by funds, which are traded in active markets. The Foundation's investment in these vehicles may not be equal to the ratable portion of market values of those securities.

Non-marketable, nonredeemable interests in private equities and private asset funds are classified within Level 3. Additionally, non-marketable, redeemable investments, such as hedge funds and real estate investment trusts, are classified in Level 3.

Management determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring and nonrecurring measurements. At least annually, management: (1) determines if the current valuation techniques used in fair value measurements are still appropriate, and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

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

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

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

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

Hedge Funds

The Foundation invests in various hedge funds that pursue multiple strategies to diversify risks and reduce volatility. Investments in this category for which a readily determinable pricing mechanism exists are classified as Level 1. Investments in this category for which there is no readily determinable fair value are classified as Level 2, as the valuation is based on similar, not identical, assets or liabilities, or other observable inputs. In addition, certain other hedge funds are classified as Level 3, as the valuation is based on significant unobservable inputs. The fair values of these investments have been estimated by either readily observable market prices or by using the net asset value per share of the investments, as provided by the hedge fund managers.

Commodities

The Foundation invests in commodities funds in order to diversify the asset base. The Foundation's commodity exposure consists of Level 1 and Level 2 assets. For our Level 2 assets, there is no public daily pricing of the investment vehicle, though liquidity is offered on a daily basis. The fair values of these investments have been estimated using the net asset value per share of the investments as provided by the managers.

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

Private Real Asset Funds

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

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

Private Equity Funds

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

Private Equity Securities

Periodically, The Foundation acquires shares of stock in privately held companies that are not publicly traded. Investments in this category, for which there is no readily determinable fair value, are classified as Level 3, as the valuation is based on significant unobservable inputs. In fiscal year 2012, The Foundation received a gift of stock from a donor with the initial book value of the gift based on an independent appraisal provided by the donor. During fiscal year 2014, all of these shares were sold and The Foundation recorded a realized gain of approximately $11,000,000.

Split Interest Agreements

Split interest agreements classified as Level 3 are recorded at the net present value of the estimated future amount to be received from such assets.

4. Endowment Funds

In August 2008, the Financial Accounting Standards Board ("FASB") issued authoritative guidance for endowments which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The State of California approved a version of UPMIFA in September 2008, effective January 1, 2009.

The Foundation adopted this authoritative guidance and UPMIFA in fiscal year 2009. The Board of Governors of The San Diego Foundation interprets UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The

4. Endowment Funds, Cont'd

Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, The Foundation considers the following factors in making a determination to invest or appropriate donor-restricted endowment funds:

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

The Foundation's endowment investment policy and strategy is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income in an attempt to provide a 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

4. Endowment Funds, Cont'd

dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

Endowment funds are maintained in pooled investment portfolios. Interest, dividends, and realized and unrealized gains and losses in the investment pools are allocated monthly to the endowment funds in proportion to each fund's share in the investment pools. The Foundation's spending policy is to allocate 5% per annum of the preceding thirty-six-month average fair market value invested in the pool to each fund's distributable balance, which is available for program grants. If the fair market value of the endowment principal of any fund, at the end of each month, is less than the corpus, which includes the initial and all subsequent gifts from donors, the distribution is limited to interest and dividends received. Accordingly, over the long term, The Foundation expects 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.

Endowment net asset composition by type of fund as of June 30, 2015 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Donor restricted endowment funds	$ -	$ 84,899	$ 304,927	$ 389,826
Board designated endowment fund	7,932	-	-	7,932
Total	$ 7,932	$ 84,899	$ 304,927	$ 397,758

Endowment net asset composition by type of fund as of June 30, 2014 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Donor restricted endowment funds	$ -	$ 94,636	$ 273,345	$ 367,981
Board designated endowment fund	8,210	-	-	8,210
Total	$ 8,210	$ 94,636	$ 273,345	$ 376,191

4. Endowment Funds, Cont'd

Changes in endowment net assets for the year ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Endowment net assets, beginning of year	$ 8,210	$ 94,636	$ 273,345	$ 376,191
Interest and dividends	142	6,625	-	6,767
Net depreciation	(90)	(4,044)	-	(4,134)
Total investment return	52	2,581	-	2,633
Contributions, net	-	-	31,582	31,582
Endowment assets appropriated for expenditure	(330)	(12,318)	-	(12,648)
Endowment net assets, end of year	$ 7,932	$ 84,899	$ 304,927	$ 397,758

Changes in endowment net assets for the year ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Endowment net assets, beginning of year	$ 7,293	$ 63,702	$ 266,804	$ 337,799
Interest and dividends	141	5,950	-	6,091
Net appreciation	951	42,984	-	43,935
Total investment return	1,092	48,934	-	50,026
Contributions	-	-	6,412	6,412
Other and transfers to(from) funds	-	-	10,129	10,129
Released from restriction	-	-	(10,000)	(10,000)
Total other and transfers to(from) funds	-	-	129	129
Endowment assets appropriated for expenditure	(175)	(18,000)	-	(18,175)
Endowment net assets, end of year	$ 8,210	$ 94,636	$ 273,345	$ 376,191

4. Endowment Funds, Cont'd

During fiscal year 2014, donors released the restrictions on endowment funds totaling $10,000,000.

As of June 30, 2015 and 2014, The Foundation held endowment funds where the principal had fallen below the historical gift value due to market conditions. The amount of the shortfall for 2015 and 2014 totaled approximately $2,076,000 and $881,000, respectively.

5. Property, Plant, Equipment

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

	2015	2014
	(In thousands)	(In thousands)
Building	**$ 8,256**	$ 8,256
Building and leasehold improvements	**3,904**	3,860
Office and computer equipment	**2,791**	2,670
Debt issuance costs	**195**	196
Less: accumulated depreciation and amortization	**(6,584)**	(5,719)
Net depreciable property and equipment	**8,562**	9,263
Land	**1,215**	1,215
Total property, plant and equipment	**$ 9,777**	$ 10,478

Depreciation and amortization expense was approximately $865,000 and $1,223,000. Included in the fiscal year 2014 expense was approximately $325,000 related to write off of original bond issuance costs.

6. Beneficial Interest in Deferred Gifts

Deferred gift assets at June 30, 2015 and 2014 include pooled income funds of approximately $1,969,000 and $1,366,000, respectively, and charitable trusts of approximately $13,971,000 and $13,988,000, respectively.

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

6. Beneficial Interest in Deferred Gifts, Cont'd

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

Also included in beneficial interest in deferred gifts are assets relating to 84 charitable gift annuities with a combined value of approximately $6,111,000, and 87 charitable gift annuities with a combined value of approximately $6,709,000 as of June 30, 2015 and 2014, respectively. See Note 10 for additional disclosure relating to these arrangements.

7. Other Assets

Other assets consisted of the following at June 30:

	2015	2014
	(In thousands)	(In thousands)
Units in limited partnerships	**$ 25,372**	$ 25,220
Cash surrender value of life insurance policies	**1,443**	1,314
Notes receivable, net	**1,382**	1,560
CREF receivables	**375**	3,629
Miscellaneous	**296**	392
Interest and dividends receivable	**210**	253
Total other assets	**$ 29,078**	$ 32,368

The Foundation is a limited partner in a partnership whose purpose is to hold, manage, develop, license, market, and/or dispose of intellectual property rights associated with certain literary figures. The Foundation owns a 3.82% and 36.32% interest in the partnership's book and non-book revenues, respectively. The carrying value of The Foundation's interest in the partnership was approximately $25,220,000, at June 30, 2015 and 2014 and is included in the total units in limited partnerships above. The Foundation received distributions from the limited partnership of approximately $2,702,000 and $3,016,000, in fiscal years 2015 and 2014, respectively.

7. Other Assets, Cont'd

Cash surrender value of life insurance policies are those policies where the donor has identified The Foundation as the beneficiary. The value is predetermined by the insurance company as the value to be paid if the policy were to be surrendered prior to the death of the insured. The change in the fair value of these assets is included in the change in value of split interest agreements on the accompanying consolidated statements of activities.

Notes receivable consisted of secured and unsecured notes receivable with maturity dates through 2039 and have various repayment requirements. The non-recourse promissory note, in the amount of approximately $3,708,000, dated March 28, 1997, has been fully reserved at June 30, 2015 and 2014, since 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.

CREF receivables consisted of amounts relating to the sale of various real estate assets donated to CREF where the sale of the assets to a third party has been finalized during the fiscal year and cash settlement was not completed by June 30. Collection of these amounts is expected within the next fiscal year and management believes no circumstances exist that would require a discount to be recorded related to these balances.

8. Accounts Payable and Accrued Expenses

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

	2015	2014
	(In thousands)	(In thousands)
Accrued retirement	**$ 383**	$ 569
Accounts payable	**367**	298
Accrued payroll and paid time off	**343**	396
Investment and custodian fees payable	**29**	101
Total accounts payable and accrued expense	**$ 1,122**	$ 1,364

In June 2014, The Foundation entered into a $3,000,000 line of credit agreement which matured in June 2015 and was renewed for another year. The line of credit has a variable interest rate, due monthly, with a minimum rate of 2.75% per annum unless changed at the interest change dates

8. Accounts Payable and Accrued Expenses, Cont'd

occurring quarterly beginning August 2014 until maturity. Advances on the line are collateralized by all of the assets of The Foundation. There were no outstanding balances on the line of credit at June 30, 2015 and 2014.

The line of credit contains certain financial and non-financial covenants. At June 30, 2015, management was not aware of any violations of the covenants.

9. Grants Payable

Grants payable consisted of the following at June 30:

	2015	2014
	(In thousands)	(In thousands)
Payable in less than one year	**$ 5,547**	$ 3,191
Payable in one to five years	**4,307**	4,369
Payable in more than five years	**-**	8
Grants payable discount	**(76)**	(110)
Total grants payable	**$ 9,778**	$ 7,458

Grants payable are discounted using rates ranging from 0.02% to 1.63%, depending on duration of the payable period.

10. Deferred Gift Liabilities

Charitable gift annuities

Donors have contributed assets to The Foundation in exchange for a promise by The Foundation to pay a fixed amount over the life of the beneficiary to individuals or organizations designated by the donor. Under the terms of such agreements, no trust exists, as the assets received are held by The Foundation. The liability is an obligation of The Foundation. The Foundation records contribution revenue using the fair value of the assets less the present value of the payments expected to be made to the beneficiaries. The present values of the payments to beneficiaries were calculated by using current life expectancy tables and discount rates in place at the time of the gift. The Foundation received approximately $47,000 and $223,000, in charitable gift annuities during fiscal years 2015 and 2014, respectively.

At June 30, 2015 and 2014, The Foundation had a liability for charitable gift annuities of approximately $4,238,000 and $4,579,000, 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.

11. Amounts Held on Behalf of Others

Amounts held on behalf of others at June 30, 2015 and 2014 included approximately $31,358,000 and $30,787,000, respectively, for non-endowment funds and approximately $29,339,000 and $26,782,000, respectively, for endowment funds set up by unaffiliated nonprofit organizations for their own benefit.

12. Long Term Debt

In June 2014, The Foundation entered into a Tax Exempt Loan ("Loan") in the amount of $13,397,000 to extinguish the outstanding debt related to the bonds and the interest rate swap agreement. The Loan has a fixed interest rate of 2.6% until June 2021 and thereafter a variable rate until maturity date of July 1, 2039, not to exceed 8.0% per annum. The Loan is collateralized by all of the assets of The Foundation.

These agreements contain certain financial and non-financial covenants. At June 30, 2015, management was not aware of any violations of the covenants.

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

Fiscal Year	Principal Payment
	(In thousands)
2016	$ 392
2017	404
2018	415
2019	426
2020	436
Thereafter	10,972
	$ 13,045

13. 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.

14. 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 2015 and 2014 totaled approximately $83,000 and $85,000, respectively.

14. Retirement Plans, Cont'd

The Plan also allows for four categories of participants to receive employer discretionary annual contributions normally between 4% and 9%. Employer discretionary contributions to the Plan in fiscal years 2015 and 2014 were approximately $227,000 and $204,000, respectively.

The Foundation previously set up a qualified 457(b) plan for a top executive of The Foundation. Employer contributions to this plan totaled approximately $4,000 and $31,000 for fiscal years 2015 and 2014, respectively. In 2015, the executive retired and the plan was discontinued.

15. Subsequent Events

The Foundation has evaluated subsequent events through November 18, 2015, 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.