REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

THE SAN DIEGO FOUNDATION

June 30, 2018 and 2017

MOSSADAMS

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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, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, 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.

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 San Diego Foundation as of June 30, 2018 and 2017, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of The San Diego Foundation as a whole. The consolidated statements of functional expenses for the years ended June 30, 2018 and 2017, presented as supplementary information, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as whole.

Moss Adams LLP

San Diego, California
November 13, 2018

Statements of Financial Position (In Thousands)

ASSETS

	June 30, 2018	June 30, 2017
Cash and cash equivalents	$ 62,235	$ 62,620
Investments	702,931	597,904
Receivable from estates	11,106	14,011
Property, plant, and equipment, net	7,596	8,178
Beneficial interest in deferred gifts	23,462	23,588
Other assets	28,226	26,566
Total assets	$ 835,556	$ 732,867

LIABILITIES AND NET ASSETS

	2018	2017
Liabilities		
Accounts payable and accrued liabilities	$ 1,463	$ 1,123
Grants payable	6,582	13,059
Deferred gift liabilities	4,966	4,614
Amounts held on behalf of others	65,232	60,401
Note payable	11,671	12,078
Total liabilities	89,914	91,275
Net Assets		
Unrestricted	208,441	165,452
Temporarily restricted	135,988	126,493
Permanently restricted	401,213	349,647
Total net assets	745,642	641,592
Total liabilities and net assets	$ 835,556	$ 732,867

The San Diego Foundation
Statement of Activities (In Thousands)

	Year Ended June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total
REVENUE				
Gifts and bequests from donors	$ 92,090	$ 3,572	$ 47,287	$ 142,949
Less: amounts raised or received on behalf of others	(3,797)	-	-	(3,797)
Net gifts and bequests from donors	88,293	3,572	47,287	139,152
Investment gains and other income	15,975	28,817	-	44,792
Less: net investment gain allocated to funds held for others	(3,778)	-	-	(3,778)
Net investment gains and other income	12,197	28,817	-	41,014
Other and transfers to (from) funds	5,757	(10,036)	4,279	-
Subtotal	106,247	22,353	51,566	180,166
Change in value of beneficial interest in deferred gifts	-	(661)	-	(661)
Net assets released from restrictions	12,197	(12,197)	-	-
Total revenue	118,444	9,495	51,566	179,505
EXPENSES				
Grants awarded:				
Education	26,110	-	-	26,110
Urban/civic and religion	24,663	-	-	24,663
Health and human services	9,936	-	-	9,936
Cultural activities	6,717	-	-	6,717
Total program grants	67,426	-	-	67,426
Less: amounts distributed on behalf of others	(2,304)	-	-	(2,304)
Net grants awarded	65,122	-	-	65,122
Program	4,254	-	-	4,254
General and administrative	4,599	-	-	4,599
Fundraising and development	1,920	-	-	1,920
Less: administrative expenses and investment management				-
fees allocated to funds held for others	(440)	-	-	(440)
Total expenses	75,455	-	-	75,455
CHANGE IN NET ASSETS	42,989	9,495	51,566	104,050
NET ASSETS				
Beginning of year	165,452	126,493	349,647	641,592
End of year	$ 208,441	$ 135,988	$ 401,213	$ 745,642

See accompanying notes.

Statement of Activities (In Thousands)

	Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
REVENUE				
Gifts and bequests from donors	$ 31,909	$ 10,392	$ 15,647	$ 57,948
Less: amounts raised or received on behalf of others	(3,038)	-	-	(3,038)
Net gifts and bequests from donors	28,871	10,392	15,647	54,910
Investment gains and other income	23,169	45,963	-	69,132
Less: net investment gain allocated to funds held for others	(6,403)	-	-	(6,403)
Net investment gains and other income	16,766	45,963	-	62,729
Other and transfers to (from) funds	3,120	(6,874)	3,754	-
Subtotal	48,757	49,481	19,401	117,639
Change in value of beneficial interest in deferred gifts	-	711	-	711
Net assets released from restrictions	10,595	(10,595)	-	-
Total revenue	59,352	39,597	19,401	118,350
EXPENSES				
Grants awarded:				
Education	14,179	-	-	14,179
Urban/civic and religion	16,244	-	-	16,244
Health and human services	10,942	-	-	10,942
Cultural activities	9,573	-	-	9,573
Total program grants	50,938	-	-	50,938
Less: amounts distributed on behalf of others	(5,612)	-	-	(5,612)
Net grants awarded	45,326	-	-	45,326
Program	4,412	-	-	4,412
General and administrative	4,373	-	-	4,373
Fundraising and development	1,991	-	-	1,991
Less: administrative expenses and investment management fees allocated to funds held for others	(218)	-	-	(218)
Total expenses	55,884	-	-	55,884
CHANGE IN NET ASSETS	3,468	39,597	19,401	62,466
NET ASSETS				
Beginning of year	161,984	86,896	330,246	579,126
End of year	$ 165,452	$ 126,493	$ 349,647	$ 641,592

The San Diego Foundation
Statements of Cash Flows (In Thousands)

	Years Ended June 30, 2018	2017
Cash flows from operating activities:		
Gifts and bequests from donors	$ 89,821	$ 35,651
Net investment gains and other income	13,814	12,901
Payments for expenses - grants, program, general and administrative, fundraising and development	(80,942)	(61,018)
Net cash provided by (used in) operating activities	22,693	(12,466)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(67)	(88)
Proceeds from sale of investments	166,115	215,636
Purchase of investments	(238,800)	(225,491)
Proceeds from sale of limited partnership	-	35
Net cash used in investing activities	(72,752)	(9,908)
Cash flows from financing activities:		
Principal payments received on notes receivable	-	982
Principal payments on debt	(415)	(403)
Amortization of debt issuance costs	8	8
Contributions restricted for long-term investments	47,287	11,611
Collections restricted for long-term investments	2,794	1,063
Net cash provided by financing activities	49,674	13,261
Net decrease in cash and cash equivalents	(385)	(9,113)
Cash and cash equivalents, beginning of year	62,620	71,733
Cash and cash equivalents, end of year	$ 62,235	$ 62,620
Reconciliation of change in net assets to cash flows from operating activities:		
Change in net assets	$ 104,050	$ 62,466
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized gains on investment	(27,122)	(49,780)
Contribution of stock and securities	(5,220)	(5,069)
Contribution restricted for long-term investments	(45,815)	(9,486)
Contribution of stock and securities; restricted for long term investment	(1,471)	(2,125)
Contribution of units in limited partnership	(1,540)	-
Depreciation expense	650	736
Change in value of split interest agreements	661	(711)
Change in operating assets and liabilities		
Receivables from estates	111	(7,495)
Beneficial interest in deferred gifts	(579)	972
Other assets	(78)	(48)
Accounts payable and accrued liabilities	340	199
Grants payable	(6,477)	(6,068)
Deferred gift liabilities	352	59
Amounts held on behalf of others	4,831	3,884
Net cash provided by (used in) operating activities	$ 22,693	$ (12,466)

See accompanying notes.

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") improves the quality of life in the San Diego region by providing leadership for effective philanthropy that builds enduring assets and by promoting community solutions through research, convenings and actions that advance the common good. 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 total asset balances as of June 30, 2018 and 2017, respectively, are: Sol Price Retailing/Service Scholarship Program, $946,000 and $1,442,000; the San Diego Charitable Real Estate Foundation, $41,000 and $119,000; the San Diego Women's Foundation, $4,120,000 and $3,806,000; and the San Diego Regional Disaster Fund, $469,000 and $277,000. 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, 2018 and 2017 are $4,896,000 and $5,411,000, 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, expenses, and losses be classified as unrestricted, temporarily restricted, and permanently restricted.

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

- **Unrestricted** – The portion of net assets that has no use or time restrictions. Unrestricted 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 unrestricted gifts.

Note 1 – Organization and Significant Accounting Policies (continued)

- **Temporarily restricted** – 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 temporarily restricted until the funds are received, and are discounted at a rate commensurate with the risks involved. The accumulation of assets, above historical gift value, in donor restricted endowment funds is classified as temporarily restricted until appropriated for use based on The Foundation's spending policy. 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 statements of activities as net assets released from restrictions.

- **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.

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 unrestricted net assets or temporarily restricted until those amounts are appropriated for expenditure by The Foundation.

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 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 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.

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 2 and 10 years as provided for in the gift instrument. There is no allowance recorded related to the receivables from estates.

Property, plant, and equipment – Acquisitions of property and equipment with a cost in excess of $1,000 are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets ranging from three to thirty years. Leasehold improvements are amortized over the lesser of the useful life of the related asset or the lease term.

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, 2018 or 2017.

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.

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, 2018 and 2017, these liabilities total approximately $885,000 and $757,000, 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 liability of approximately $4,081,000 and $3,857,000 as of June 30, 2018 and 2017, 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 $763,000 and $292,000 in charitable gift annuities during fiscal years 2018 and 2017, respectively. There were 88 and 75 charitable gift annuities as of June 30, 2018 and 2017, 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 – 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, 2018 and 2017, units in limited partnerships held by The Foundation were recorded at original cost basis.

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 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, 2018 or 2017. See Note 7.

Note 1 – Organization and Significant Accounting Policies (continued)

Grants payable – The Foundation records a liability for grants when approved by the Chair of 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.

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 – Contributions of cash, unconditional promises to give, and other assets are recorded as revenue in the period received and are classified as permanently restricted, temporarily restricted, or unrestricted 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 promises to give 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 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 activities.

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

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 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.

Note 1 – Organization and Significant Accounting Policies (continued)

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 measured using the net asset value (NAV) per share (or its equivalent) practical expedient 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.

Reclassifications – Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the 2018 classifications. These reclassifications have no effect on net assets and are not material to the consolidated financial statements.

Note 1 – Organization and Significant Accounting Policies (continued)

Recently issued accounting pronouncements – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement for Not-for-Profit Entities*. This guidance revises the not-for-profit reporting model and requires expenses to be disclosed by both functional and natural classification, reduces the net asset classifications to two (with and without donor restrictions), and requires new disclosures on liquidity. The guidance is effective for fiscal years beginning after December 15, 2017. Management is currently evaluating the impact this will have on The Foundation's future consolidated financial statements.

Note 2 – Concentrations and Credit Risks

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 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 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.

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, 2018:

	June 30, 2018				
(In thousands)	Level 1	Level 2	Level 3	NAV	Total
ASSETS					
Investments					
Equities					
Domestic equity securities	$ 23,533	$ -	$ -	$ 155,471	$ 179,004
Foreign equity securities	92,149	-	-	64,135	156,284
Global equity securities	-	-	-	28,155	28,155
Bonds					
Global fixed income	7,110	-	-	5,338	12,448
High yield fixed income	559	-	-	4,996	5,555
Core fixed income	16,260	309	-	-	16,569
Core plus fixed income	103,472	-	-	-	103,472
Short-term fixed income	11,029	-	-	-	11,029
Alternatives					
Hedge funds	35,530	-	-	66,817	102,347
Commodities	1,873	-	-	20,244	22,117
Private real assets	-	-	-	34,583	34,583
Private equity securities	-	-	-	31,368	31,368
Total investments	291,515	309	-	411,107	702,931
Beneficial interest in deferred gifts					
Pooled income funds:					
Global equity securities	556	-	-	-	556
Global fixed income	2,040	-	-	-	2,040
	2,596	-	-	-	2,596
Charitable gift annuities:					
Global equity securities	2,867	-	-	-	2,867
Global fixed income	2,860	-	-	-	2,860
	5,727	-	-	-	5,727
Charitable remainder trusts	-	-	13,077	-	13,077
Charitable lead annuity trusts	-	-	2,062	-	2,062
Total beneficial interest in deferred gifts	8,323	-	15,139	-	23,462
Cash surrender value of life insurance	-	-	1,031	-	1,031
Total fair value of assets	$ 299,838	$ 309	$ 16,170	$ 411,107	$ 727,424

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, 2017:

	June 30, 2017				
(In thousands)	Level 1	Level 2	Level 3	NAV	Total
ASSETS					
Investments					
Equities					
Domestic equity securities	$ 27,133	$ -	$ -	$ 127,724	$ 154,857
Foreign equity securities	76,706	-	-	57,721	134,427
Global equity securities	-	-	-	24,559	24,559
Bonds					
Global fixed income	22,495	-	-	14,785	37,280
High yield fixed income	-	-	-	13,556	13,556
Core fixed income	10,398	-	-	-	10,398
Core plus fixed income	55,695	-	-	-	55,695
Short-term fixed income	10,550	-	-	-	10,550
Alternatives					
Hedge funds	14,276	-	-	55,301	69,577
Commodities	2,359	-	-	18,986	21,345
Private real assets	-	-	-	32,510	32,510
Private equity securities	-	-	-	33,150	33,150
Total investments	219,612	-	-	378,292	597,904
Beneficial interest in deferred gifts					
Pooled income funds:					
Global equity securities	553	-	-	-	553
Global fixed income	2,155	-	-	-	2,155
	2,708	-	-	-	2,708
Charitable gift annuities:					
Global equity securities	2,812	-	-	-	2,812
Global fixed income	2,623	-	-	-	2,623
	5,435	-	-	-	5,435
Charitable remainder trusts	-	-	13,020	-	13,020
Charitable lead annuity trusts	-	-	2,425	-	2,425
Total beneficial interest in deferred gifts	8,143	-	15,445	-	23,588
Cash surrender value of life insurance	-	-	987	-	987
Total fair value of assets	$ 227,755	$ -	$ 16,432	$ 378,292	$ 622,479

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 in endowments of $500,000 and non-endowments of $1,000,000 or more are eligible to be invested separately from the pools, subject to review and approval by The Foundation’s investment committee.

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

Summary of investment returns – The following schedule summarizes the return on investments and its classification in the consolidated statements of activities for the years ended June 30, 2018 and 2017:

(In thousands)	Unrestricted	Temporarily Restricted	2018 Total
Net realized/unrealized gain on investments	$ 2,802	$ 24,320	$ 27,122
Interest, dividends, and other income	10,846	4,497	15,343
Less: investment fees	(1,451)	-	(1,451)
Net gains and other income	$ 12,197	$ 28,817	$ 41,014

(In thousands)	Unrestricted	Temporarily Restricted	2017 Total
Net realized/unrealized gain on investments	$ 8,447	$ 41,333	$ 49,780
Interest, dividends, and other income	9,713	4,630	14,343
Less: investment fees	(1,394)	-	(1,394)
Net gains and other income	$ 16,766	$ 45,963	$ 62,729

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 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.

Note 3 – Fair Value Measurements (continued)

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 or an appraisal of the asset. 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 fund's 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 include 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.

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, 2018 and 2017:

	Beneficial Interest in Deferred Gifts			
(In thousands)	Charitable Remainder Trusts	Charitable Lead Annuity Trusts	Total	CSV Life Insurance
Balance, July 1, 2016	$ 12,737	$ 2,770	$ 15,507	$ 1,390
Contributions	-	-	-	-
Settlements/other	-	(370)	(370)	(332)
Change in value of deferred gifts	283	25	308	(71)
Balance, June 30, 2017	13,020	2,425	15,445	987
Contributions	1,325	-	1,325	-
Settlements/other	(350)	(370)	(720)	-
Change in value of deferred gifts	(918)	7	(911)	44
Balance, June 30, 2018	$ 13,077	$ 2,062	$ 15,139	$ 1,031

The change in value of deferred gifts is included in the change in value of beneficial interest in deferred gifts on the accompanying June 30, 2018 and 2017 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, 2018:

(in thousands)

Investment Class	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice	Note
Equities	$ 247,761	$ -	Daily - monthly	0 - 15 days	a
Bonds	10,334	-	Monthly	0 - 10 days	b
Hedge funds	66,817	-	Monthly - 3 years	0 - 90 days	c
Commodities	20,244	-	Daily - illiquid	-	d
Private real assets	34,583	15,360	Quarterly - illiquid	45 days	e
Private equity securities	31,368	45,608	Illiquid	-	f
Total	$ 411,107	$ 60,968			

Investment commitments – Included in alternative and other investments at June 30, 2018 are certain investments totaling approximately $48,657,000 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 $130,500,000 as of June 30, 2018. Remaining capital calls associated with these investments are approximately $55,468,000 and recallable distributions total $5,500,000 as of June 30, 2018.

Note 3 – Fair Value Measurements (continued)

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 redeemed on a daily and monthly basis are 63% and 37%, 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.

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. 29% of the assets in this class can be redeemed monthly with no restrictions, and the remaining 71% can be redeemed subject to lockup periods of 90 days or more. The managers representing this 71% 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. 84% of the assets in this class are liquid on a daily basis with no restrictions. The remaining 16% is generally non-redeemable from the fund manager. Instead, distributions are received through the liquidation of the underlying assets of the fund. This single investment fund is expected to be liquidated within the next 2 years.

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 46% 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 54% 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.

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, 2018, 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 *(in thousands)*	Valuation Technique	Unobservable Inputs	Range
Charitable remainder trusts	$ 13,077	Discounted cash flow	Discount rate Life expectancies	3.0% 6-21 years
Charitable lead annuity trusts	$ 2,062	Discounted cash flow	Discount rate Remaining payments	3.0% 3-9 years
Cash surrender value of life insurance	$ 1,031	Market, cost or income	Policy surrender date	Various

Note 4 – Endowment Funds

The State of California enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), effective January 1, 2009. The Foundation is required to provide information about net assets which are defined as endowments. Classifications include endowments which are permanently restricted by donors and endowments which have been board designated. The changes in endowment net assets for the years ended June 30, 2018 and 2017, were as follows:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total
Donor-restricted endowment funds	$ -	$ 105,355	$ 401,213	$ 506,568
Board-designated endowment funds	8,118	-	-	8,118
Total	$ 8,118	$ 105,355	$ 401,213	$ 514,686

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Donor-restricted endowment funds	$ -	$ 91,666	$ 349,647	$ 441,313
Board-designated endowment funds	7,911	-	-	7,911
Total	$ 7,911	$ 91,666	$ 349,647	$ 449,224

Note 4 – Endowment Funds (continued)

Changes in endowment net assets for the years ended June 30, 2018 and 2017:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2017	$ 7,911	$ 91,666	$ 349,647	$ 449,224
Interest and dividends	88	5,359	-	5,447
Net appreciation	444	24,533	-	24,977
Total investment return	532	29,892	-	30,424
Contributions, net	-	-	51,566	51,566
Endowment assets appropriated for expenditure	(325)	(16,203)	-	(16,528)
Endowment net assets at June 30, 2018	$ 8,118	$ 105,355	$ 401,213	$ 514,686

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2016	$ 7,440	$ 60,363	$ 330,246	$ 398,049
Interest and dividends	103	5,809	-	5,912
Net appreciation	776	42,001	-	42,777
Total investment return	879	47,810	-	48,689
Contributions, net	-	-	19,401	19,401
Endowment assets appropriated for expenditure	(408)	(16,507)	-	(16,915)
Endowment net assets at June 30, 2017	$ 7,911	$ 91,666	$ 349,647	$ 449,224

As of June 30, 2018 and 2017, 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 2018 and 2017 totaled approximately $279,000 and $369,000, respectively.

Note 5 – Property, Plant, and Equipment

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

(In thousands)	2018	2017
Building	$ 8,256	$ 8,256
Building improvements	3,951	3,929
Office and computer equipment	3,012	2,966
Less: accumulated depreciation and amortization	(8,838)	(8,188)
Net depreciable property and equipment	6,381	6,963
Land	1,215	1,215
Total property, plant, and equipment, net	$ 7,596	$ 8,178

Depreciation and amortization expense for fiscal years 2018 and 2017 was approximately $650,000 and $736,000, respectively.

Note 6 – Beneficial Interest in Deferred Gifts

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

(In thousands)	2018	2017
Charitable remainder trusts	$ 13,077	$ 13,020
Charitable lead annuity trusts	2,062	2,425
Pooled income funds	2,596	2,708
Charitable gift annuities	5,727	5,435
Beneficial interest in deferred gifts	23,462	23,588
Less deferred gift liability	(4,966)	(4,614)
Beneficial interest in deferred gifts, net	$ 18,496	$ 18,974

Note 7 – Other Assets

Other assets consisted of the following at June 30:

(In thousands)		2018		2017
Units in limited partnerships	$	26,877	$	25,337
Cash surrender value of life insurance policies		1,031		987
Miscellaneous		318		242
Total other assets	$	28,226	$	26,566

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, 2018 and 2017 and is included in the total units in limited partnerships above. The Foundation received distributions from the limited partnership of approximately $2,242,000 and $2,095,000 in fiscal years 2018 and 2017, respectively. The limited partnership will be dissolved on December 31, 2022.

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.

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, 2018 and 2017. 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 – Accounts Payable and Accrued Expenses

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

(In thousands)	2018	2017
Accrued payroll and PTO	$ 598	$ 430
Accounts payable	527	312
Accrued retirement	124	137
Miscellaneous	214	244
Total accounts payable and accrued expenses	$ 1,463	$ 1,123

Note 9 – Grants Payable

Grants payable consisted of the following at June 30:

(In thousands)	2018	2017
Payable in less than one year	$ 4,946	$ 6,855
Payable in one to five years	1,697	6,476
Grants payable discount	(61)	(272)
Total grants payable	$ 6,582	$ 13,059

Grants payable are discounted using rates ranging from 1.4% to 2.6%, depending on duration of the payable period.

Note 10 – Amounts Held on Behalf of Others

The Foundation receives contributions on behalf of others, which are not reflected in The Foundation's consolidated statements of activities as they do not represent revenue to The Foundation. The total amounts of these managed assets set up by unaffiliated nonprofit organizations for their own benefit are reported as offsetting assets and liabilities on The Foundation's statements of financial position. Amounts held on behalf of others consisted of the following at June 30:

(In thousands)	2018	2017
Endowment funds	$ 27,225	$ 25,680
Non-endowment funds	38,007	34,721
Total amounts held on behalf of others	$ 65,232	$ 60,401

Note 11 – Note Payable and Line of Credit

In 2014, Building 907, LLC ("Borrower") entered into a loan ("Loan") with First Republic Bank ("Lender") in the amount of $13,397,000. The Lender obtained funding through a California Enterprise Development Authority ("Issuer") tax-exempt debt offering. In connection with this financing, The Foundation ("Guarantor") entered into a guaranty agreement, in favor of Lender and Issuer, and pledged all assets as collateral under a security 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.

Included in the Loan is a prepayment premium for periods prior to June 30, 2019. The premium applies to the portion of prepaid (not regularly scheduled) principal of the Loan during any consecutive twelve-month period in excess of 20% of the principal amount outstanding at the time of prepayment. For prepayment dates after June 30, 2018 and before June 30, 2019, the premium is 1%.

The Loan contains certain financial and non-financial covenants. At June 30, 2018, management was not aware of any violations of the covenants.

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

Years Ending June 30,	*(In thousands)*
2019	$ 426
2020	436
2021	449
2022	460
2023	473
Thereafter	9,591
Less unamortized debt issuance costs	(164)
Total long-term debt	$ 11,671

During the fiscal years 2018 and 2017, interest paid on the Loan was approximately $317,000 and $328,000, respectively.

The Foundation has a $3,000,000 line of credit agreement which matures on January 31, 2019 and then may be 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 rate dates. Advances on the line are collateralized by all the assets of The Foundation. There were no outstanding balances on the line of credit at June 30, 2018 and 2017.

The line of credit contains certain financial and non-financial covenants. At June 30, 2018, management was not aware of any violations of the covenants.

Note 12 – 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 13 – 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 were $106,000 per year for fiscal years 2018 and 2017.

The Plan also allows for four categories of participants to receive employer discretionary annual contributions of up to 7%. Employer discretionary contributions to the Plan in fiscal years 2018 and 2017 were approximately $270,000 and $205,000, respectively.

Note 14 – Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30:

(In thousands)	2018	2017
Deferred giving:		
Beneficial interest in deferred gifts, net	$ 18,496	$ 18,974
Estates receivable	11,106	14,011
Cash surrender value of life insurance policies	1,031	987
Unappropriated earnings on endowments	105,355	91,666
Miscellaneous	-	855
Total temporarily restricted net assets	$ 135,988	$ 126,493

During fiscal years 2018 and 2017, net assets totaling approximately $12,197,000 and $10,595,000, respectively, were released due to the satisfaction of donor-imposed restrictions related to the timing or purpose of the contribution.

Note 15 – Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date, but before the 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 13, 2018, 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.

Supplementary Information

The San Diego Foundation
Statements of Functional Expenses
Years Ended June 30, 2018 and 2017
(In Thousands)

	Year Ended June 30, 2018			
	Program Services	Management & General	Fundraising & Development	Total
Grants awarded	$ 67,426	$ -	$ -	$ 67,426
Less: grants distributed on behalf of others	(2,304)	-	-	(2,304)
Net grants awarded	65,122	-	-	65,122
Advertising and marketing	30	301	10	341
Conferences and donor meetings	168	234	29	431
Information technology	6	237	10	253
Insurance	673	42	28	743
Interest	136	109	72	317
Miscellaneous	377	228	3	608
Occupancy	528	703	285	1,516
Personnel	2,213	2,188	1,466	5,867
Professional services	123	557	17	697
Less: administrative expenses and investment management fees allocated to funds held for others	(440)	-	-	(440)
Total expenses	$ 68,936	$ 4,599	$ 1,920	$ 75,455

	Year Ended June 30, 2017			
	Program Services	Management & General	Fundraising & Development	Total
Grants awarded	$ 50,938	$ -	$ -	$ 50,938
Less: grants distributed on behalf of others	(5,612)	-	-	(5,612)
Net grants awarded	45,326	-	-	45,326
Advertising and marketing	33	252	18	303
Conferences and donor meetings	130	185	42	357
Information technology	-	222	8	230
Insurance	671	42	29	742
Interest	136	113	79	328
Miscellaneous	531	185	4	720
Occupancy	547	684	314	1,545
Personnel	2,075	2,145	1,490	5,710
Professional services	289	545	7	841
Less: administrative expenses and investment management fees allocated to funds held for others	(218)	-	-	(218)
Total expenses	$ 49,520	$ 4,373	$ 1,991	$ 55,884