



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

THE SAN DIEGO FOUNDATION

June 30, 2021 and 2020

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Report of Independent Auditors

The Board of Governors
The San Diego Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The San Diego Foundation (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2021 and 2020, 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.

Moss Adams LLP

San Diego, California

November 18, 2021

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

ASSETS		June 30,	
		2021	2020
ASSETS			
Cash and cash equivalents	\$	95,260	\$ 105,846
Investments		1,011,496	766,361
Receivable from estates		2,537	1,969
Property, plant, and equipment, net		6,251	6,632
Beneficial interest in deferred gifts		26,689	20,923
Other assets		166,641	168,445
Total assets	\$	1,308,874	\$ 1,070,176
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued liabilities	\$	7,466	\$ 6,932
Grants payable, net		10,192	17,322
Deferred gift liabilities		4,547	4,460
Amounts held on behalf of others		121,560	97,990
Notes payable		10,851	12,074
Total liabilities		154,616	138,778
NET ASSETS			
Without donor restrictions			
Undesignated		427,047	365,353
Board-designated endowment funds		11,002	7,725
Total without donor restrictions		438,049	373,078
With donor restrictions			
		716,209	558,320
Total net assets		1,154,258	931,398
Total liabilities and net assets	\$	1,308,874	\$ 1,070,176

The San Diego Foundation

Consolidated Statement of Activities (In Thousands)

	Year Ended June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	2021 Total
REVENUE			
Gifts and bequests from donors	\$ 61,401	\$ 24,788	\$ 86,189
Government grants and agreements	39,000	-	39,000
Less: amounts raised or received on behalf of others	(3,244)	-	(3,244)
Net gifts and bequests from donors, and other support	97,157	24,788	121,945
Investment income, net	70,566	156,906	227,472
Less: net investment income allocated to funds held for others	(26,793)	-	(26,793)
Net investment income	43,773	156,906	200,679
Other income	4,637	-	4,637
Transfers to (from) funds	2,526	(2,526)	-
Change in value of beneficial interest in deferred gifts	-	6,145	6,145
Net assets released from restrictions	27,424	(27,424)	-
Total revenue	175,517	157,889	333,406
EXPENSES			
Grants awarded			
Education	39,943	-	39,943
Health and human services	33,548	-	33,548
Urban/civic and religion	19,588	-	19,588
Cultural activities	11,080	-	11,080
Total program grants	104,159	-	104,159
Less: amounts distributed on behalf of others	(5,116)	-	(5,116)
Net grants awarded	99,043	-	99,043
Program	5,075	-	5,075
General and administrative	5,006	-	5,006
Fundraising and development	2,799	-	2,799
Less: administrative expenses and investment management fees allocated to funds held for others	(433)	-	(433)
Total expenses	111,490	-	111,490
Change in net assets before other changes	64,027	157,889	221,916
OTHER CHANGES IN NET ASSETS			
Gain on forgiveness of debt	944	-	944
CHANGE IN NET ASSETS	64,971	157,889	222,860
NET ASSETS			
Beginning of year	373,078	558,320	931,398
End of year	\$ 438,049	\$ 716,209	\$ 1,154,258

The San Diego Foundation

Consolidated Statement of Activities (In Thousands)

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

The San Diego Foundation

Consolidated Statements of Functional Expenses (In Thousands)

	Year Ended June 30, 2021			Total
	Program Services	General & Administrative	Fundraising & Development	
Program grants	\$ 104,159	\$ -	\$ -	\$ 104,159
Less: grants distributed on behalf of others	(5,116)	-	-	(5,116)
Net program grants	99,043	-	-	99,043
Advertising and marketing	89	175	13	277
Conferences and donor meetings	76	95	13	184
Information technology	59	355	18	432
Insurance	62	43	38	143
Interest	99	69	60	228
Miscellaneous	152	171	21	344
Occupancy	369	498	217	1,084
Personnel	3,363	2,438	2,400	8,201
Professional services	806	1,162	19	1,987
Less: administrative expenses allocated to funds held for others	(433)	-	-	(433)
Total expenses	<u>\$ 103,685</u>	<u>\$ 5,006</u>	<u>\$ 2,799</u>	<u>\$ 111,490</u>

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

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

	Years Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from gifts and bequests from donors, and other support	\$ 123,882	\$ 66,341
Net investment gains and other income	11,221	16,679
Payments for expenses – grants, program, general and administrative, fundraising, and development	<u>(117,453)</u>	<u>(69,688)</u>
Net cash provided by operating activities	<u>17,650</u>	<u>13,332</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant, and equipment	(250)	(227)
Proceeds from sale of investments	206,671	121,719
Purchase of investments	<u>(248,428)</u>	<u>(119,498)</u>
Net cash (used in) provided by investing activities	<u>(42,007)</u>	<u>1,994</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt issuance costs	-	(133)
Proceeds from new debt	-	12,413
Principal payments on debt	(290)	(11,619)
Contributions restricted for long-term investments	<u>14,061</u>	<u>17,447</u>
Net cash provided by financing activities	<u>13,771</u>	<u>18,108</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(10,586)	33,434
CASH AND CASH EQUIVALENTS, beginning of year	<u>105,846</u>	<u>72,412</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 95,260</u>	<u>\$ 105,846</u>

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies

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

Significant accounting policies

Principles of consolidation – The accompanying consolidated financial statements include the accounts of the Foundation, supporting organizations, and a limited liability company (LLC) under the control of the Foundation. The supporting organizations and their approximate total asset balances as of June 30, 2021 and 2020, respectively, are: Sol Price Retailing/Service Scholarship Program, \$0 and \$94,000; the San Diego Charitable Real Estate Foundation, \$685,000 and \$125,000; the San Diego Women’s Foundation, \$5,496,000 and \$4,343,000; and the San Diego Regional Disaster Fund, \$279,000 and \$401,000. 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, 2021 and 2020, are \$3,454,000 and \$3,913,000, respectively. During fiscal year 2021, the Sol Price Retailing/Service Scholarship Program completed operations and was dissolved. In addition, a new wholly owned subsidiary was established; the San Diego Regional Policy and Innovation Center was incorporated in June 2021 and there was no activity in fiscal year 2021. All inter-entity accounts and transactions have been eliminated.

Basis of presentation – In order to accommodate the various alternatives for donors’ distribution objectives, the Foundation’s records are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund. The consolidated financial statements of the Foundation have been presented in accordance with authoritative guidance which requires that consolidated net assets, revenue, gains, and losses be classified as net assets with and without donor restrictions.

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

- **Without donor restrictions** – The portion of net assets that has no use or time restrictions. Without donor restriction amounts represent amounts that are available for various activities including the Foundation’s support of community activities and charitable endeavors at the discretion of the Foundation’s Board of Governors. Also included are board-designated endowment amounts, which are considered by the Board of Governors to be endowments, even though the donors did not specify that the principal be invested in perpetuity. Restricted gifts whose restrictions are met in the same reporting period as the gift is recorded are included as gifts without donor restrictions.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

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

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

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

Investments acquired by gift are recorded at their fair value at the date of the gift. The Foundation's policy is to liquidate all gifts of investments as timely as possible, taking into consideration the impact on the market price.

Investments are made according to the Investment Policy Statement adopted by the Foundation's Board of Governors. These guidelines provide for investments in equities, fixed income, and other securities, including investments classified as alternative investments with performance measured against appropriate indices. The Foundation contracts with an external investment consultant for the purpose of providing investment management and consulting services.

Realized gains or losses on the sale of investments are calculated using the average cost method. Unrealized gains and losses represent the change in the fair value of the individual investments for the year or since the acquisition date, if acquired during the year, and are recorded as a component of net assets with or without donor restrictions until those amounts are appropriated for expenditure by the Foundation.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

Endowment funds – The Board of Governors of the Foundation interprets the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies net assets with donor restrictions as (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) earnings on endowment funds invested until appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to invest or appropriate donor-restricted endowment funds:

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

The Foundation's endowment investment policy and strategy is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income in an attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Within this framework, specific investment objectives for endowment investments include liquidity, preservation of capital, preservation of purchasing power, and long-term growth of capital.

The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to produce, after investment expenses, a minimum annual compound total rate of return of 5% in excess of the rate of inflation. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

Endowment funds are maintained in pooled investment portfolios. Interest, dividends, and realized and unrealized gains and losses in the investment pools are allocated monthly to the endowment funds in proportion to each fund's share in the investment pools. The Foundation's spending policy is to allocate 5% per annum of the preceding thirty-six-month average fair value invested in the pool to each fund's distributable balance, which is available for program grants. If the fair value of the endowment principal of any fund, at the end of each month, is less than the corpus, which includes the initial and all subsequent gifts from donors, the distribution is limited to interest and dividends received. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment assets to grow at or above the average rate of inflation annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns.

Receivables from estates – Receivables from estates are recognized as contribution revenue in the period the Foundation receives notification of the irrevocable gift from a donor's estate and the amount which management expects to collect is able to be estimated. Receivables are expected to be collected between 4 and 7 years as provided for in the gift instrument. There is no allowance recorded related to the receivables from estates as of June 30, 2021 and 2020.

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

Each year, the Foundation reviews the carrying value of its property, plant, and equipment to determine if facts and circumstances exist which suggest that these assets may be impaired or that the amortization period, if any, needs to be modified. The Foundation does not believe that there are any significant factors indicating a material adjustment for impairment as of June 30, 2021 or 2020.

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. One trust made the final required payment during the fiscal year ended June 30, 2021. The charitable lead annuity trusts are recorded at fair value, which is calculated based on the present value of the expected future cash inflows.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

- **Pooled income funds** – This is an arrangement whereby donors contribute cash into a fixed income investment account. Donors are assigned a specific number of units based on the fair value of their contribution to the pool. Investment income is distributed to each donor proportionally based on the donor's units. When a donor passes, the donor's share in the fund is distributed to the Foundation. Pooled income funds are recorded at fair value with related liabilities for investment income to be distributed and an adjustment for the present value representing amounts to be paid over the lifetime of the donors. As of June 30, 2021 and 2020, these deferred gift liabilities total approximately \$571,000 and \$827,000, respectively. The present value calculation is calculated using current life expectancy tables and discounted at a rate commensurate with the risks involved.
- **Charitable gift annuities** – Donors have contributed assets to the Foundation in exchange for a promise by the Foundation to pay a fixed amount over the life of the beneficiary to individuals or organizations designated by the donor. Under the terms of such agreements, no trust exists, as the assets received are held by the Foundation. The deferred gift liability of approximately \$3,977,000 and \$3,633,000 as of June 30, 2021 and 2020, 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 \$940,000 and \$163,000 in charitable gift annuities during fiscal years 2021 and 2020, respectively. There were 84 and 87 charitable gift annuities as of June 30, 2021 and 2020, respectively. The liability amount associated with the charitable gift annuities at each year end represents the minimum required reserve and is held with the trustee. This reserve is required by the State of California and is invested in accordance with the California State Board of Insurance guidelines.

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

Annually, the Foundation reviews the carrying value of its units in limited partnerships to determine if facts and circumstances exist which would suggest that these assets may be impaired. Among the factors considered by the Foundation in making the evaluation are distributions from the limited partnerships and other factors relevant to the partnerships. Using these factors, if indicators are present which may indicate impairment is probable, the Foundation will prepare a projection of the undiscounted cash flows of the asset and determine if the carrying value of the asset is recoverable. If impairment is indicated, then an adjustment will be made to reduce the carrying value to equal the estimated undiscounted cash flows of the related assets. The Foundation concluded there are no significant factors indicating a material adjustment for impairment as of June 30, 2021 or 2020.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

Annually, the Foundation also considers relevant transactions that occurred on or before the date the consolidated financial statements are available to be issued that are known or can be reasonably known to identify whether there are observable price changes that may indicate an adjustment in the value of the units in a limited partnership. A significant observable price change that the Foundation is aware of is analyzed to determine whether the change occurred in an orderly transaction for the identical or similar investment and, if so, the fair value is estimated as of the date of the observable price change. See Note 7 for discussion of an observable price change in the fair value of the units in a limited partnership held by the Foundation during the year ended June 30, 2020. There were no observable price changes in the fair value of the units in a limited partnership held by the Foundation identified during the year ended June 30, 2021.

Grants payable – The Foundation records a liability for grants when approved by the Chief Executive Officer for grants under \$500,000 and by the Executive Officers of the Board of Governors for grants over \$500,000. Grants which are conditional are recorded as liabilities when the conditions to the grants have been substantially met. Each year, the Foundation evaluates the facts and circumstances to determine if a discount related to grants payable is necessary.

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

Revenue recognition

- **Gifts and bequests from donors** – Unconditional contributions of cash and other assets and unconditional promises to give are recorded as revenue in the period received and are classified as without donor restrictions or with donor restrictions based on donor stipulations. Unconditional promises to give that are expected to be collected in future years are recognized at fair value based on estimated future cash flows. Conditional contributions are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Gifts of assets other than cash are recorded at their estimated fair value.
- **Government grants and agreements** – Revenue from government contracts and agreements that is unconditional is recognized as revenue in the period received. Conditional grants, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. A portion of the Foundation's revenue from government grants and agreements is conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when expenditures have been incurred in compliance with the specific contract or agreement. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the consolidated statements of financial position. Deferred revenue as of June 30, 2021, is not material to the consolidated financial statements.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

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

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

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

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

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

Level 2 – Valuations based on unadjusted quoted market prices for similar assets and liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability; and

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

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

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

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

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 (IRC) 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 IRC and applicable state statutes. The Foundation does not have any material uncertain tax positions.

Recently adopted accounting standards – As of June 30, 2021, the Foundation adopted FASB ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. For nonpublic entities, this standard eliminated certain disclosure requirements and modified other disclosure requirements. There was minimal impact on the Foundation's footnote disclosures.

Note 2 – Concentrations and Credit Risks

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

The Foundation's cash equivalents consist of U.S. Treasury, government, and prime money market funds. For money market funds, the Foundation has established guidelines relative to diversification and maturities that target certain safety and liquidity risk levels. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 2 – Concentrations and Credit Risks (continued)

The Foundation's investments include domestic and foreign equities, U.S. government securities, corporate debt instruments, corporate stocks, and various alternative investments. Investment securities, in general, are subject to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Gifts and bequests from donors and other support – During the year ended June 30, 2021, one government grant accounted for 20% of net gifts and bequests from donors and other support. During the year ended June 30, 2020, there were no concentrations in gifts and bequests from donors and other support.

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, 2021:

(In thousands)	June 30, 2021				
	Level 1	Level 2	Level 3	NAV	Total
ASSETS					
Investments					
Equities					
Domestic equity	\$ 45,145	\$ -	\$ -	\$ 201,531	\$ 246,676
Foreign equity	73,855	-	-	106,705	180,560
Global equity	-	-	-	57,489	57,489
Bonds					
Global fixed income	7,170	-	-	6,075	13,245
High yield fixed income	549	-	-	6,077	6,626
Core fixed income	24,057	194	-	-	24,251
Core plus fixed income	135,741	-	-	-	135,741
Short-term fixed income	19,800	-	-	-	19,800
Alternatives					
Hedge funds	5,798	-	-	124,798	130,596
Private real assets	-	-	-	99,521	99,521
Private equity	-	-	-	96,991	96,991
Total investments	312,115	194	-	699,187	1,011,496
Beneficial interest in deferred gifts					
Pooled income funds					
Domestic equity	825	-	-	-	825
Global and domestic fixed income	1,719	-	-	-	1,719
	2,544	-	-	-	2,544
Charitable gift annuities					
Domestic equity	3,205	-	-	-	3,205
Global and domestic fixed income	2,879	-	-	-	2,879
	6,084	-	-	-	6,084
Charitable remainder trusts	-	-	16,920	-	16,920
Charitable lead annuity trusts	-	-	1,141	-	1,141
Total beneficial interest in deferred gifts	8,628	-	18,061	-	26,689
Cash surrender value of life insurance	-	-	1,056	-	1,056
Total fair value of assets	\$ 320,743	\$ 194	\$ 19,117	\$ 699,187	\$ 1,039,241

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 3 – Fair Value Measurements (continued)

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

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

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

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 San Diego Foundation

Notes to Consolidated Financial Statements

Note 3 – Fair Value Measurements (continued)

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

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

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

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

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

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

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

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 3 – Fair Value Measurements (continued)

The following schedule summarizes the changes in fair value for Level 3 assets for the years ended June 30, 2021 and 2020:

<i>(In thousands)</i>	Beneficial Interest in Deferred Gifts			CSV Life Insurance
	Charitable Remainder Trusts	Charitable Lead Annuity Trusts	Total	
BALANCE, July 1, 2019	\$ 13,280	\$ 1,752	\$ 15,032	\$ 983
Contributions	1,685	-	1,685	-
Settlements/other	(2,758)	(370)	(3,128)	-
Change in value of deferred gifts	(222)	115	(107)	32
BALANCE, June 30, 2020	11,985	1,497	13,482	1,015
Settlements/other	-	(370)	(370)	-
Change in value of deferred gifts	4,935	14	4,949	41
BALANCE, June 30, 2021	\$ 16,920	\$ 1,141	\$ 18,061	\$ 1,056

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

The following summarizes the investments by major class where NAV or its equivalent is used to measure fair value as of June 30, 2021:

Investment Class	Fair Value <i>(in thousands)</i>	Unfunded Commitments <i>(in thousands)</i>	Redemption Frequency	Redemption Notice	Note
Equities	\$ 365,725	\$ -	Daily-monthly	0–15 days	a
Bonds	12,152	-	Monthly	5–10 days	b
Hedge funds	124,798	1,845	Monthly–3 years	30–90 days	c
Private real assets	99,521	52,994	Daily-illiquid	1 day-illiquid	d
Private equity securities	96,991	75,315	Illiquid	N/A	e
Total	\$ 699,187	\$ 130,154			

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 commingled trusts or limited partnership structures. The portions that can be redeemed on a daily, bi-monthly, and monthly basis are 59%, 12%, and 29%, 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. 100% of bond funds held at NAV can be redeemed on a monthly basis.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 3 – Fair Value Measurements (continued)

c – Hedge funds – This class includes investments in actively managed hedge funds employing a variety of strategies, including but not limited to multi-strategy, absolute return, long/short equity, arbitrage, event-driven, distressed debt, and credit. Hedge funds have the ability to invest long and short positions, shift from a net long position to a net short position, apply leverage, invest in derivatives, and invest in the debt or equity of public and private companies in domestic and foreign markets. Hedge funds generally invest through limited partnerships. 5% of the assets in this class can be redeemed monthly with no restrictions, and the remaining 95% can be redeemed subject to lockup periods of 90 days or more. The managers representing this 95% may also employ fund-level or investor-level gates.

d – 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. Other private real assets include infrastructure investments and debt and equity investments in commodity-producers. One investment in this class representing 55% of the assets consists of a daily liquid commingled fund. Another investment in this class representing 17% 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 28% 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.

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

Investment commitments – Included in alternative and other investments at June 30, 2021, are certain investments totaling approximately \$149.1 million which cannot be liquidated for a minimum of one year, but not more than 15 years, unless the Foundation can find an assignee. Total initial commitments for these investments are approximately \$259 million. Remaining capital calls associated with these investments are approximately \$115.5 million, and callable distributions total approximately \$14.6 million as of June 30, 2021.

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 San Diego Foundation

Notes to Consolidated Financial Statements

Note 3 – Fair Value Measurements (continued)

The following table represents the Level 3 financial instruments as of June 30, 2021, 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.

	<u>Fair Value</u> <i>(in thousands)</i>	<u>Valuation</u> <u>Technique</u>	<u>Unobservable</u> <u>Inputs</u>	<u>Range</u>
Charitable remainder trusts	\$ 16,920	Discounted cash flow	Discount rate Life expectancies	1.75% 5–18 years
Charitable lead annuity trusts	\$ 1,141	Discounted cash flow	Discount rate Remaining payments	1.75% 5 years
Cash surrender value of life insurance	\$ 1,056	Market, cost, or income	Policy surrender date	Various

Note 4 – Net Assets

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

<i>(In thousands)</i>	<u>2021</u>	<u>2020</u>
Subject to the passage of time		
Deferred giving		
Beneficial interest in deferred gifts, net	\$ 22,142	\$ 16,463
Receivable from estates	2,537	1,969
Cash surrender value of life insurance policies	1,056	1,015
Subject to purpose restrictions	<u>2,199</u>	<u>-</u>
	<u>27,934</u>	<u>19,447</u>
Subject to the Foundation's spending policy and appropriation		
Donor corpus restricted in perpetuity	475,937	450,782
Unappropriated endowment earnings	<u>212,338</u>	<u>88,091</u>
	<u>688,275</u>	<u>538,873</u>
	<u>\$ 716,209</u>	<u>\$ 558,320</u>

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 4 – Net Assets (continued)

During fiscal years 2021 and 2020, net assets with donor restrictions totaling approximately \$27,424,000 and \$13,653,000, respectively, were released due to the satisfaction of donor-imposed restrictions related to the timing or purpose of the contribution.

The composition of endowment funds at June 30, 2021 and 2020, was as follows:

<i>(In thousands)</i>	2021	2020
Board-designated endowment funds	\$ 11,002	\$ 7,725
Donor-restricted endowment funds		
Donor corpus restricted in perpetuity	475,937	450,782
Unappropriated endowment earnings	212,338	88,091
	\$ 699,277	\$ 546,598

Changes in endowment net assets for the years ended June 30, 2021 and 2020, were as follows:

<i>(In thousands)</i>	Without Donor Restrictions	With Donor Restrictions			Total
	Board- Designated	Accumulated Endowment Earnings	Original Gift Amount	Total With Donor Restrictions	
Endowment net assets at July 1, 2019	\$ 8,030	\$ 103,224	\$ 423,892	\$ 527,116	\$ 535,146
Contributions and transfers, net	-	-	26,890	26,890	26,890
Investment income, net	107	6,736	-	6,736	6,843
Endowment assets appropriated for expenditure	(412)	(21,869)	-	(21,869)	(22,281)
Endowment net assets at June 30, 2020	7,725	88,091	450,782	538,873	546,598
Contributions and transfers, net	-	-	25,155	25,155	25,155
Investment income, net	2,551	146,907	-	146,907	149,458
Endowment assets appropriated for expenditure	726	(22,660)	-	(22,660)	(21,934)
Endowment net assets at June 30, 2021	\$ 11,002	\$ 212,338	\$ 475,937	\$ 688,275	\$ 699,277

The San Diego Foundation
Notes to Consolidated Financial Statements

Note 5 – Property, Plant, and Equipment

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

<i>(In thousands)</i>	2021	2020
Building	\$ 8,256	\$ 8,256
Building improvements	4,016	3,939
Office and computer equipment	2,639	2,466
Less: accumulated depreciation and amortization	(9,875)	(9,244)
Net depreciable property and equipment	5,036	5,417
Land	1,215	1,215
Total property, plant, and equipment, net	\$ 6,251	\$ 6,632

Depreciation and amortization expense for fiscal years 2021 and 2020 was approximately \$635,000 and \$636,000, respectively.

Note 6 – Beneficial Interest in Deferred Gifts

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

<i>(In thousands)</i>	2021	2020
Charitable remainder trusts	\$ 16,920	\$ 11,985
Charitable gift annuities	6,084	4,906
Pooled income funds	2,544	2,535
Charitable lead annuity trusts	1,141	1,497
Beneficial interest in deferred gifts	26,689	20,923
Less: deferred gift liabilities	(4,547)	(4,460)
Beneficial interest in deferred gifts, net	\$ 22,142	\$ 16,463

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 7 – Other Assets

Other assets consisted of the following at June 30:

<i>(In thousands)</i>	2021	2020
Units in limited partnerships	\$ 159,528	\$ 159,528
Other receivable	4,939	2,000
Cash surrender value of life insurance policies	1,056	1,015
Miscellaneous	618	902
Property held for resale	500	-
Contribution receivable	-	5,000
Total other assets	\$ 166,641	\$ 168,445

Units in limited partnerships – The Foundation is a limited partner in a partnership whose purpose is to hold, manage, develop, license, market, and/or dispose of intellectual property rights associated with certain literary figures. The Foundation owns a 3.82% and 36.32% interest in the partnership's book and non-book revenues, respectively. The Foundation does not have significant influence over the partnership. The carrying value of the Foundation's interest in the partnership was approximately \$157,234,000, at June 30, 2021 and 2020, and is included in the total units in limited partnerships above.

During the year ended June 30, 2020, the Foundation received notification of a distribution of interests in this limited partnership to other organizations pursuant to a trust agreement naming these other organizations as beneficiaries of the trust. The Foundation received an appraisal which included the current fair value of the interests in this limited partnership. This distribution of interests in the limited partnership was considered to be an observable price change and to represent an orderly transaction of an identical asset as the one held by the Foundation. Therefore, the Foundation recorded an increase of approximately \$132,014,000 in the recorded value of its limited partnership interest based on the appraised value of the units in the partnership prepared in connection with this distribution. This adjustment is recorded as change in value of units in limited partnership on the accompanying consolidated statement of activities for the year ended June 30, 2020. The Foundation received distributions from the limited partnership of approximately \$4,017,000 and \$5,369,000 during the years ended June 30, 2021 and 2020, respectively.

Other receivable – The receivable is related to a loan program established in conjunction with the County of San Diego (the "County") to support small businesses during the coronavirus pandemic. The Foundation received \$5,000,000 from the County to establish the loan program. These funds will be advanced to a nonprofit partner to process the loans. The amount advanced to the partner was approximately \$4,939,000 and \$2,000,000 as of June 30, 2021 and 2020, respectively. Amounts advanced are required to be repaid to the Foundation as the loans are collected from borrowers. As such, a receivable for \$4,939,000 and \$2,000,000 is included in other assets as of June 30, 2021 and 2020, respectively. Additionally, the \$5,000,000 received is to be repaid to the County quarterly as loan repayments are collected from borrowers with the entire \$5,000,000 to be returned to the County no later than January 31, 2026. This amount is included in accounts payable and accrued liabilities as of June 30, 2021 and 2020, in the accompanying consolidated statement of financial position.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 7 – Other Assets (continued)

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

Miscellaneous – Included in other assets is a non-recourse promissory note in the amount of approximately \$3,708,000 dated March 28, 1997, which has been fully reserved at June 30, 2021 and 2020. 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.

Property held for resale – The value at June 30, 2021, represents the appraised value of the property. In September 2021, sale of the property was finalized.

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

Note 8 – Grants Payable

Grants payable consisted of the following at June 30:

<i>(In thousands)</i>	2021	2020
Payable in less than one year	\$ 8,461	\$ 14,303
Payable in one to five years	1,749	3,167
Grants payable discount	(18)	(148)
Total grants payable, net	\$ 10,192	\$ 17,322

Grants payable are discounted using rates ranging from 0.2% to 0.3%, depending on duration of the payable period.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 9 – Amounts Held on Behalf of Others

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

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

<i>(In thousands)</i>	2021	2020
Endowment funds	\$ 43,269	\$ 34,327
Non-endowment funds	78,291	63,663
Total amounts held on behalf of others	\$ 121,560	\$ 97,990

Note 10 – Notes Payable and Line of Credit

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

<i>(In thousands)</i>	2021	2020
Note payable, JPMorgan Chase Bank, monthly payments of approximately \$43 including principal and interest at 1.99% for 20 years, amortized over 30 years, due in full in September 2049, secured by certain financial resources without donor restrictions	\$ 10,976	\$ 11,266
Note payable, United States Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, monthly payments of principal and interest at 0.98% after deferral period of six months, to extent note is not forgiven, balance due in full in April 2022, unsecured	-	938
Notes payable	10,976	12,204
Less: unamortized note issuance costs	(125)	(130)
Notes payable, net	\$ 10,851	\$ 12,074

During the years ended June 30, 2021 and 2020, interest expense was approximately \$228,000 and \$244,000, respectively.

The Foundation received notice for forgiveness on the United States Small Business Administration note in January 2021. The amount of debt forgiven is \$944,000 and includes principal and interest. The gain on forgiveness of debt is included on the consolidated statement of activities for the year ended June 30, 2021.

The San Diego Foundation

Notes to Consolidated Financial Statements

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

The Foundation has a \$3,000,000 line of credit agreement with JPMorgan Chase bearing interest at LIBOR plus 0.776% per annum with a maturity date of January 1, 2022. The line of credit is secured by certain financial resources (cash, investments, and gross revenues) without donor restrictions of the Foundation. There was no outstanding balance on the line of credit as of June 30, 2021 and 2020.

Future minimum principal payments are as follows (*in thousands*):

Years Ending June 30,	
2022	\$ 293
2023	299
2024	304
2025	311
2026	317
Thereafter	<u>9,452</u>
	<u>\$ 10,976</u>

Note 11 – Commitments and Contingencies

Government grants and agreements – The Foundation’s government grants and agreements are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, the Foundation has no provisions for the possible disallowance of program costs on its financial statements.

Future grants – Certain government grants and agreements include terms which require the Foundation to grant funds totaling \$11 million over the next five years. As of June 30, 2021, \$2 million has been granted.

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.

Uncertainties – On January 30, 2020, the World Health Organization (WHO) announced a global health emergency stemming from a new strain of coronavirus that was spreading globally (the “COVID-19 outbreak”). On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, triggering volatility in financial markets and a significant impact on the global economy. The value of the Foundation’s investments will fluctuate in response to changing market conditions, and the amount of gains/losses that could be recognized in subsequent periods, if any, cannot be determined. In addition, a number of the Foundation’s tenants have been financially impacted. The impact of COVID-19 on the Foundation’s rental income has been minimal in relation to the overall financial statements. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report.

The San Diego Foundation

Notes to Consolidated Financial Statements

Note 12 – Retirement Plans

The Foundation maintains an employee benefit plan that is qualified as tax deferred under Section 403(b) of the IRC. Elective pre-tax compensation deferrals are available to employees who have been employed by the Foundation and who work at least 1,000 hours per year. The Foundation currently matches employee contributions to the plan dollar for dollar, up to 4% of each employee's compensation. Employer matching contributions to the plan in fiscal years 2021 and 2020 were approximately \$221,000 and \$175,000, respectively. The plan also allows for four categories of participants to receive employer discretionary annual contributions of up to 8.5%. Employer discretionary contributions to the plan in fiscal years 2021 and 2020 were approximately \$448,000 and \$443,000, respectively.

The Foundation also maintains a benefit plan that is qualified as tax deferred under Section 457(b) of the IRC. The plan is for employees of a select group of management. The employees may elect to make contributions to the plan under a salary-reduction agreement. The Foundation is not required to make contributions to the plan. Plan assets are included in investments and liabilities related to the plan are included in accounts payable and accrued liabilities on the statements of financial position. Plan assets and liabilities are not considered material to the consolidated financial statements.

Note 13 – Liquidity and Funds Available

The following table reflects the Foundation's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general expenditures due to contractual or donor-imposed restrictions within one year. Amounts not available include trust assets, estate receivables, assets held for others, endowments and accumulated earnings net of appropriations within one year, and board-designated endowments. These board designations could be drawn upon if the Board of Governors approves that action. General expenditures include grant awards, operating and administrative expenses, capital spending, and other financial liabilities, expected to be paid in the subsequent year.

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Notes to Consolidated Financial Statements

Note 13 – Liquidity and Funds Available (continued)

Financial assets available to meet cash needs for general expenditures within one year as of June 30, 2021 and 2020, are as follows:

<i>(In thousands)</i>	2021	2020
Financial assets		
Cash and cash equivalents	\$ 95,260	\$ 105,846
Investments	1,011,496	766,361
Receivable from estates	2,537	1,969
Beneficial interest in deferred gifts	26,689	20,923
Other assets	4,939	7,000
Total financial assets	1,140,921	902,099
Less: assets unavailable for general expenditures within one year		
Endowments and accumulated earnings subject to appropriation beyond one year, net of amounts held on behalf of others, receivables from estates, and deferred gifts	(679,878)	(529,232)
Amounts held on behalf of others	(121,560)	(97,990)
Receivable from estates	(2,537)	(1,969)
Beneficial interest in deferred gifts	(26,689)	(20,923)
Commitments of other assets	(4,939)	(7,000)
Total assets unavailable for general expenditure within one year	(835,603)	(657,114)
Financial assets available to meet cash needs for general expenditures within one year	\$ 305,318	\$ 244,985

Included in the financial assets available to meet cash needs for general expenditures within one year are approximately 690 non-endowed donor-advised funds totaling approximately \$242,305,000 and 690 non-endowed donor-advised funds totaling approximately \$182,979,000 as of June 30, 2021 and 2020, respectively. While the balance is available for granting, historically approximately 20% of the balance of these funds is granted within one year.

The Foundation manages its cash available as general expenditures come due and invests cash in excess of immediate requirements in short-term or other investment pools. The Foundation designates a portion of any operating surplus to its liquidity reserve, which was approximately \$4,997,000 and \$4,356,000 as of June 30, 2021 and 2020, respectively, and was established through approval of the Finance Committee to be drawn upon in the event of financial distress or immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In addition, since June 2014, the Foundation has maintained a line of credit agreement in the amount of \$3,000,000 (see Note 10). No funds were borrowed under this agreement during the years ended June 30, 2021 and 2020.

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Notes to Consolidated Financial Statements

Note 14 – Subsequent Events

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

The Foundation has evaluated subsequent events through November 18, 2021, 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.