

AUDITED FINANCIAL STATEMENTS
December 31, 2013



San Diego
Human Dignity
Foundation

Presented By
Douglas R. Ashbrook, CPA
San Diego, CA

**SAN DIEGO HUMAN DIGNITY FOUNDATION
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DECEMBER 31, 2013**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
San Diego Human Dignity Foundation

I have audited the accompanying financial statements of San Diego Human Dignity Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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, I 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 financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Human Dignity Foundation as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

I have previously audited San Diego Human Dignity Foundation's 2013 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated August 28, 2013. In my opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

October 29, 2014

Douglas R. Ashbrook, CPA

SAN DIEGO HUMAN DIGNITY FOUNDATION
Statement of Financial Position
December 31, 2013
(With Summarized Totals as of December 31, 2012)

ASSETS

	<u>2013</u>	<u>2012</u>
Cash & cash equivalents	\$ 400,399	\$ 298,823
Investments held at Vanguard (Note 13)	3,253,399	3,010,474
Prepaid expenses (Note 7)	5,879	1,800
Deposits	1,028	1,028
Endowment-SDF (Note 14)	67,788	61,271
Computer equipment, net of accumulated depreciation of \$779	<u>583</u>	<u>1,480</u>
Total Assets	<u>\$ 3,729,076</u>	<u>\$ 3,374,876</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable	\$ 4,892	\$ 464
Accrued payroll liabilities	<u>12,349</u>	<u>1,251</u>
Total Liabilities	<u>17,241</u>	<u>1,715</u>

NET ASSETS:

Unrestricted	226,450	147,622
Temporarily restricted (Note 15)	2,877,385	2,618,539
Permanently restricted (Note 15)	<u>608,000</u>	<u>607,000</u>
Total Net Assets	<u>3,711,835</u>	<u>3,373,161</u>
Total Liabilities and Net Assets	<u>\$ 3,729,076</u>	<u>\$ 3,374,876</u>

See accompanying notes and independent auditor's report

SAN DIEGO HUMAN DIGNITY FOUNDATION
Statement of Activities
For the Year Ended December 31, 2013
(With Summarized Totals for the Year Ended December 31, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
<u>REVENUE & OTHER SUPPORT:</u>					
Contributions	\$ 169,558	\$ 390,584	\$ 1,000	\$ 561,141	\$ 766,005
Special events income, net (Note 5)	3,867	-	-	3,867	24,572
Fund advisory fees	47,475	-	-	47,475	45,277
Program fees	93,365	-	-	93,365	59,000
Donations in-kind (Note 6)	3,139	-	-	3,139	-
Donated services (Note 6)	1,470	-	-	1,470	2,650
Interest & dividends (Note 13)	50,190	39,751	-	89,941	96,399
Net assets released from restriction:					
Restrictions satisfied by payment	<u>274,727</u>	<u>(274,727)</u>	-	-	-
Total Revenues and Other Support	643,789	155,608	1,000	800,397	993,903
<u>EXPENSES:</u>					
Program Services:					
Grants	433,173	-	-	433,173	577,149
Operating Expenses	<u>322,988</u>	-	-	<u>322,988</u>	<u>211,561</u>
Total Program Services	<u>756,161</u>	-	-	<u>756,161</u>	<u>788,710</u>
Supporting Services:					
Management & general	63,383	-	-	63,383	51,529
Fundraising	<u>18,988</u>	-	-	<u>18,988</u>	<u>14,803</u>
Total Supporting Services	<u>82,370</u>	-	-	<u>82,370</u>	<u>66,332</u>
Total Expenses	<u>838,531</u>	-	-	<u>838,531</u>	<u>855,042</u>
Change in Net Assets before Net Realized and Unrealized Gains/(Losses)	(194,742)	155,608	1,000	(38,134)	138,861
Net Realized and Unrealized Gains/(Losses)	<u>273,571</u>	<u>103,238</u>	-	<u>376,808</u>	<u>250,364</u>
Change in Net Assets	78,829	258,845	1,000	338,674	389,225
Net Assets, Beginning of Year	<u>147,622</u>	<u>2,618,539</u>	<u>607,000</u>	<u>3,373,161</u>	<u>2,983,936</u>
Net Assets, End of Year	<u>\$ 226,450</u>	<u>\$ 2,877,385</u>	<u>\$ 608,000</u>	<u>\$ 3,711,835</u>	<u>\$ 3,373,161</u>

See accompanying notes and independent auditor's report

SAN DIEGO HUMAN DIGNITY FOUNDATION
Statement of Cash Flows
For the Year Ended December 31, 2013
(With Summarized Totals for the Year Ended December 31, 2012)

	2013	2012
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ 338,674	\$ 389,225
<u>Adjustments to Reconcile Change in Net Assets to Net Cash Provided/(Used) Operating Activities:</u>		
Unrealized gains on investments	(333,938)	(242,967)
Loss on Asset Disposal	119	-
Depreciation	779	982
<u>(Increase)/Decrease in Current Assets:</u>		
Prepaid expenses	(4,079)	496
Investment Accounts and Endowments (net of realized and unrealized gains)	(132,239)	(97,872)
Pledges receivable net of bad debt expense	-	225
<u>Increase/(Decrease) in Current Liabilities:</u>		
Accounts payable	4,428	(5,901)
Accrued payroll liabilities	11,098	(9,353)
Net Cash Provided/(Used) by Operating Activities	(115,158)	34,835
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from sales of investments	946,844	476,839
Purchases of investments	(730,111)	(422,438)
Net Cash Provided/(Used) by Investing Activities	216,734	54,401
Net Increase/(Decrease) in Cash and Cash Equivalents	101,576	89,236
<u>Cash and Cash Equivalents at:</u>		
Beginning of Year	298,823	209,587
End of Year	\$ 400,399	\$ 298,823

See accompanying notes and independent auditor's report

SAN DIEGO HUMAN DIGNITY FOUNDATION
Statement of Functional Expenses
For the Year Ended December 31, 2013
(With Summarized Totals for the Year Ended December 31, 2012)

	<u>SUPPORTING SERVICES</u>			<u>2013</u>	<u>2012</u>
	<u>Program Services</u>	<u>Management & General</u>	<u>Fund Raising</u>		
<u>FUNCTIONAL EXPENSES:</u>					
Salaries and wages	\$ 84,510	\$ 16,252	\$ 7,584	\$ 108,347	\$ 81,756
Payroll taxes	7,141	1,373	641	9,156	6,077
Payroll benefits	1,721	331	154	2,207	1,830
Bad debt	-	300	-	300	-
Bank service fees	6	1,284	-	1,290	1,333
Depreciation	-	779	-	779	982
Loss on Assets Disposal	-	119	-	119	-
Dues & Subscriptions	1,887	1,952	450	4,290	1,970
Investment fees	149,728	-	-	149,728	117,126
Board Development	-	-	46	46	68
Grants made (Note 10)	433,173	-	-	433,173	577,149
Insurance	6,134	1,180	550	7,864	3,899
In-kind services	80	1,390	-	1,470	2,650
Marketing	10,822	819	-	11,640	-
Computer Maintenance	2,413	464	217	3,094	537
Occupancy	9,370	1,802	841	12,013	11,460
Office expense	2,680	487	237	3,404	2,146
Outside Services	-	11,724	-	11,724	6,719
Postage & delivery	1,987	384	176	2,547	1,387
Printing	85	4,040	1,513	5,638	696
Professional fees	34,983	12,163	5,118	52,263	25,334
Telephone	2,178	419	195	2,792	2,656
Travel, Meetings & Education	7,262	6,122	1,265	14,649	9,267
Total Expenses	\$ <u>756,161</u>	\$ <u>63,383</u>	\$ <u>18,988</u>	\$ <u>838,531</u>	\$ <u>855,042</u>

See accompanying notes and independent auditor's report

San Diego Human Dignity Foundation
Notes to Financial Statements
December 31, 2013

Note 1 - Nature of Activities

San Diego Human Dignity Foundation (the Foundation) was incorporated as a California non-profit corporation in 1996. The Foundation is committed to providing perpetual and significant funding to community based organizations serving the San Diego area's lesbian, gay, bisexual and transgender population. The Foundation raises, invests and distributes funds in partnership with donors and grantees.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting – The financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles in the United States (GAAP) and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its ASC 958, *Not-for-Profit Entities*. Under ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recognized when the donor makes a promise to give to the Foundation, in substance and unconditionally. It is the agency's policy to treat donor restricted contributions whose restrictions are met in the same reporting period as unrestricted.

Donated Services – The Foundation receives a substantial amount of donated services, however, not all donated services meet the criteria for recognition established by FASB ASC 958, *Not-for-Profit Entities*.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents – For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, money market funds and certificates of deposits with an original maturity of three months or less.

Property and Equipment – Property and equipment costing \$1,000 or more is capitalized at cost and depreciated. The fair market value of donated fixed assets is similarly capitalized. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, generally five years. Depreciation expense for the year ended December 31, 2013 is \$779.

San Diego Human Dignity Foundation
Notes to Financial Statements
December 31, 2013

Note 3 - Income Tax Status

Income Taxes

The Foundation is a private not-for-profit corporation organized under the laws of the State of California. As a Section 501(c)(3) organization, it is exempt from income taxes on the basis that it qualifies for exemption under section 501(a) of the Internal Revenue Code, and Section 23701(d) of the State Revenue and Taxation Code. The Foundation is liable for income tax on unrelated business income. This income is limited to advertising income received for ads placed in their Gala program. The advertising income is offset by the direct costs of the advertising. The net amount of this unrelated business income is immaterial and therefore no provision for income taxes is included in the accompanying financial statements.

Uncertain Tax Positions

The accounting standards on accounting for uncertainty in income taxes address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, The Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Foundation and various position related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from a tax position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the calendar year 2013.

Management has considered its tax position and believes that all of the positions taken in its exempt organization tax returns are more likely than not to be sustained upon examination. As of December 31, 2013, the Organization believes it does not have any taxable unrelated business income, and has not accrued interest or penalties related to uncertain tax positions. The Foundation file its Form 990 in the U.S. federal jurisdiction and a copy of it with the Office of the State's Attorney General for the State of California. The Foundation is generally no longer subject to examination by the Internal Revenue Service and the State of California for years before 2009.

Note 4 - Concentration of Credit Risk

The Foundation maintains its cash balances in various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2013, the foundation has uninsured balances of \$46,559.

San Diego Human Dignity Foundation
Notes to Financial Statements
December 31, 2013

Note 5 - Special Events

The Foundation hosts special events to raise funds. As of December 31, 2013, revenue from special events is as follows:

	<u>Revenue</u>	<u>Expense</u>	<u>Net Income</u>
Gala/Reunion	\$ <u>16,015</u>	\$ <u>12,148</u>	\$ <u>3,867</u>

Note 6 - In-kind Donations and Donated Services

As of December 31, 2013, The Foundation received in-kind donations valued at \$3,139 consisted of various gifts and supplies. The Foundation also received various donated services valued at \$1,470 that met the criteria for recognition under FASB ASC 958, *Not-for-Profit Entities*. Services include caterer services and discounted accounting fees.

Note 7 - Prepaid Expenses

Prepaid expenses as of December 31, 2013 are as follows:

Insurance	\$	1,020
Prepaid Fees		3,860
Rent		<u>999</u>
Total	\$	<u>5,879</u>

Note 8 – Subsequent Events

Subsequent events are events or transactions occurring subsequent to the balance sheet date but prior to the issuance of financial statements that have a material effect on the financial statements that would require adjustment to or disclosure in the financial statements. Management has evaluated subsequent events through October 29, 2014, the date on which the financial statements were available to be issued.

Note 9 – Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with San Diego Human Dignity Foundation's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

San Diego Human Dignity Foundation
Notes to Financial Statements
December 31, 2013

Note 10 - Grants

San Diego Human Dignity Foundation makes various grants in accordance with donors, donor advised fund agreements, and its mission to improve the quality of life within San Diego's lesbian, gay, bisexual and transgender community by addressing specific needs. During the year ended December 31, 2013, the Foundation awarded the following grants:

ACLU	\$	135
AIDS Walk San Diego		6,000
Christie's Place		32,500
Diversions Theatre		10,000
Family Health Centers of San Diego		10,502
Fraternity House		20,000
HFC Pool		110,000
Lambda Archives of SD		7,199
Mama's Kitchen		35,000
North County Health Services		30,000
North County LGBTQ Resource Center		2,500
Other Qualified Individuals		8,712
Rob Benson Foundation		1,000
San Diego Diplomacy Council		12,500
San Diego Gay Men's Chorus		10,475
San Diego Public Library Foundation		2,500
San Diego Volunteer Lawyer Program		17,500
San Diego Youth Services		13,300
San Diego Youth Symphony and Conservatory		500
San Ysidro Health Center		20,000
The Campanile Foundation		2,500
The Center		25,000
The Clarity Foundation		350
The Imperial Court de San Diego		500
The Priory in the U.S. Order of St John		1,000
The San Diego Museum of Art		10,000
UC San Diego Foundation		22,500
Vista Community Clinic		20,000
World Affairs Council		1,000
Total:	\$	<u>433,173</u>

San Diego Human Dignity Foundation
Notes to Financial Statements
December 31, 2013

Note 11 - Employee Benefits

The Foundation has a SIMPLE-IRA for the staff's retirement. The plan requires a 3% matching contribution, except that in 2 out of 5 years the Foundation can reduce the matching contribution to 1% with proper advance notification to all employees. For the year ending December 31, 2013, the Foundation contributed \$2,207.

Note 12 - Fair Value Measurement

Effective January 1, 2008, the Foundation adopted ASC 820 -10 *Fair Value Measurements and Disclosures*, for measuring and reporting financial assets and liabilities at fair value. ASC 820 -10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

ASC 820 -10 establishes a three-level disclosure hierarchy to indicate the level of judgment used to estimate fair value measurements.

Level 1 – Quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and inputs other than quoted prices (such as interest rate and yield curves).

Level 3 – Uses inputs that are unobservable, supported by little or no market activity and reflect significant management judgment.

Financial assets and liabilities, by level, for items measured at fair value on a recurring basis as of December 31, 2013, are as follows:

Note 13 - Investments

Investments, charitable donor-advised funds and endowment funds are combined in two separate investment accounts. Earnings are allocated accordingly among the various funds. The San Diego Foundation (SDF) Endowment Fund is a separate investment established to encourage contributions for the SDHDF's exempt purpose and held by The San Diego Foundation. Investments are carried at fair market value; realized and unrealized gains and losses are reflected in the statement of activities.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Investments:</u>				
SD Foundation Endowment Fund	\$ 67,788	\$ -	\$ -	\$ 67,788
Fixed income-Bonds	1,188,063	-	-	1,188,063
Equities	2,065,336	-	-	2,065,336
	<u>\$ 3,321,187</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,321,187</u>

San Diego Human Dignity Foundation
Notes to Financial Statements
December 31, 2013

Note 13 – Investments (cont)

The Investment accounts as of December 31, 2013 consist of the following:

SD Foundation Endowment Fund	\$	67,788
Fixed income-Bonds		1,188,063
Equities		<u>2,065,336</u>
Total investments	\$	<u>3,321,187</u>

Investment return is summarized as follows:

Interest & dividend income	\$	89,941
Net realized & unrealized gains & (losses)		<u>376,808</u>
Total investment return	\$	<u>466,749</u>

Additional interest income of \$236 was earned on savings accounts considered as cash and cash equivalents.

Note 14 - Endowments

The Foundation has approximately ten (10) individual endowment funds established for a variety of purposes maintained in two separate investment accounts. The primary purpose of the majority of the funds is to support qualified lesbian, gay, bisexual and transgender organizations in San Diego County and throughout the United States and to support qualified arts, sciences, health, and educational organizations as well.

The Board of Trustees of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate 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 organization.
- (7) The investment policies of the organization.

San Diego Human Dignity Foundation
Notes to Financial Statements
December 31, 2013

Note 14 - Endowments (cont.)

Endowment Net Asset Composition by Type of Fund
as of December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (208)	\$ 38,599	\$ 222,434	\$ 260,825
SD Human Dignity Fdtn. general endowment	-	33,910	385,566	419,476
Total Funds	\$ <u>(208)</u>	\$ <u>72,510</u>	\$ <u>608,000</u>	\$ <u>680,301</u>

Change in Endowment Net Assets
for the Year Ended December 31, 2013

Description of Amounts Classified as Permanently Restricted Net Assets and
Temporarily Restricted Net Assets (Endowment Only)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets beginning of year	\$ (818)	\$ 185,560	\$ 607,000	\$ 791,742
<u>Investment return:</u>				
Investment income	309	27,292	-	27,601
Brokerage fees	-	(14,623)	-	(14,623)
Net gain/(loss) (realized and unrealized)	<u>300</u>	<u>78,497</u>	<u>-</u>	<u>78,797</u>
Total investment return	609	91,166	-	91,775
Contributions	-	122,097	1,000	123,097
Appropriation of assets for expenditure	-	(73,582)	-	(73,582)
Reclassify/Adjustment	<u>-</u>	<u>(252,731)</u>	<u>-</u>	<u>(252,731)</u>
Endowment net assets, end of year	\$ <u>(208)</u>	\$ <u>72,510</u>	\$ <u>608,000</u>	\$ <u>680,301</u>

San Diego Human Dignity Foundation
Notes to Financial Statements
December 31, 2013

Note 14 - Endowments (cont.)

Permanently Restricted Net Assets

The portion of perpetual endowment funds required to be retained permanently either by explicit donor stipulation or by SPMIFA	\$ <u>608,000</u>
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Temporarily Restricted Net Assets

The portion of perpetual endowment funds subject to a time Restriction under SPMIFA	\$ <u>72,510</u>
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Endowment Investment Policies

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration.

In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$208 as of December 31, 2013. These deficiencies are a result from prior year adjustment to unrestricted net assets.

Return Objectives and Risk Parameters

The Foundation's primary investment objective is to earn a reasonable rate of return while preserving capital over a market cycle. The success of the program at achieving this objective shall be to calculate performance results in terms of the total rate of return, and compare the results to appropriate market benchmarks.

The Foundation's assets will be adequately diversified by asset class in order to manage risk and volatility of overall results from year-to-year, relative to market performance. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on total investment performance.

The Board recognizes that attainment of these objectives is, for any given period of time, largely dictated by the returns available from the capital markets in which the Foundation assets are invested. It is also recognized that the appropriate measurement period for evaluation must be of sufficient length to cover complete economic and capital market cycles.

The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 10% annually based on total return (income and capital appreciation) appraisal of investment performance. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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's finance committee shall supervise the management of the assets maintained and shall, as appropriate, obtain investment advice from independent sources, including other Foundations, Registered Investment Advisors, Securities Dealers, and other Financial Institutions.

San Diego Human Dignity Foundation
Notes to Financial Statements
December 31, 2013

Note 14 - Endowments (cont.)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution an amount equivalent to the income from investments. Appropriations from the Endowment shall be made in accordance with the Foundations procedures for requesting disbursements.

This process includes preparing a formal request of funds including a description of the proposed use of the funds, the proposed budget, the amount requested, and a statement as to how the intended request meets the objectives of the endowment fund as well as other detail information regarding the request for distribution.

Note 15 - Net Assets

Unrestricted net assets are the portion of net assets that are neither temporarily nor permanently restricted by donor stipulations on their use. Temporarily restricted net assets are the portion of net assets resulting from contributions or other inflows whose use is limited by donor imposed stipulations that can be removed by the passage of time or action of the Foundation pursuant to those stipulations. If a restriction is fulfilled in the same reporting period in which the contribution is received, the Foundation reports the contribution as unrestricted. Permanently restricted net assets are the portion of net assets whose use is limited by donor imposed stipulations that cannot be removed by the passage of time or action of the Foundation.

As of December 31, 2013, net assets are classified as follows:

Description of Purpose	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SD Fdtn.Endowment Fund	\$ -	\$ 67,788	\$ -	\$ 67,788
Endowment Funds	(208)	72,510	608,000	680,301
Donor Advised Funds	-	2,572,543	-	2,572,543
Alliance Grant	-	-	-	-
HFC Pool Grant	-	164,544	-	164,544
Operating - unrestricted	<u>226,658</u>	<u>-</u>	<u>-</u>	<u>226,658</u>
Total Net Assets	\$ <u>226,450</u>	\$ <u>2,877,385</u>	\$ <u>608,000</u>	\$ <u>3,711,835</u>

The Foundation has received funds to establish permanently restricted endowment funds. Earnings allocated by the Foundation to the endowment funds are available for distribution for various purposes under the endowment agreements. The Foundation also maintains donor-advised charitable funds. Donors are given the opportunity to make recommendations for grants to charities to be paid from the fund, but the Foundation keeps control over these funds and makes grants at its sole discretion. Principal and earnings allocated by the Foundation to the donor-advised funds are available for distribution for various purposes under the donor advised agreements and become unrestricted at date of distribution.