THE SAN FRANCISCO FOUNDATION

JUNE 30, 2017

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

The San Francisco Foundation

Independent Auditors' Report and
Consolidated Financial Statements

Independent Auditors' Report

THE BOARD OF TRUSTEES
THE SAN FRANCISCO FOUNDATION
San Francisco, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **THE SAN FRANCISCO FOUNDATION and its supporting organizations, (collectively, the Foundation)** which comprise the consolidated statement of financial position as of June 30, 2017, the related consolidated statement of activities and changes in net assets, functional expenses, and cash flows for the year 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 Foundation'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 Foundation'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 financial statements referred to above present fairly, in all material respects, the financial position of The San Francisco Foundation and its supporting organizations as of June 30, 2017, and changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Report on Summarized Comparative Information

We have previously audited the Foundation's June 30, 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our audit report dated December 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
December 21, 2017

The San Francisco Foundation

Consolidated Statement of Financial Position
(in thousands)

June 30, 2017 (with comparative totals for 2016)	2017	2016
Assets		
Cash and cash equivalents	$ 2,402	$ 1,482
Investments, at fair value	1,415,705	1,298,802
Contributions and other accounts receivable, net	7,772	5,934
Charitable trust assets	22,274	21,541
Fixed assets, net	1,101	1,420
Other assets	10,733	13,725
Total assets	$ 1,459,987	$ 1,342,904
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	$ 1,120	$ 1,480
Grants payable, net	24,819	12,745
Liability to beneficiaries	10,051	9,902
Agency funds	19,158	19,224
Total liabilities	55,148	43,351
Net Assets:		
Unrestricted	546,714	533,275
Temporarily restricted	744,796	653,164
Permanently restricted	113,329	113,114
Total net assets	1,404,839	1,299,553
Total liabilities and net assets	$ 1,459,987	$ 1,342,904

See accompanying notes to consolidated financial statements.

The San Francisco Foundation

Consolidated Statement of Activities and Changes in Net Assets
(in thousands)

Year Ended June 30, 2017 (with comparative totals for 2016)

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and Support:					
Contributions and bequests	$ 78,280	$ 15,062	$ 65	$ 93,407	$ 149,883
Change in value of split interest agreements		1,183	(18)	1,165	285
Net realized and unrealized gain (loss) on investments	49,058	117,580	24	166,662	(42,399)
Unrealized gain (loss) on interest in perpetual trust			144	144	(152)
Investment income, net of fees	4,112	1,844		5,956	6,476
Other income	816	2		818	265
Net assets released from restrictions	42,435	(42,435)		-	-
Total revenue and support	174,701	93,236	215	268,152	114,358
Expenses:					
Program services:					
Grant expenses	146,891			146,891	132,871
Other program expenses	8,432			8,432	8,704
Total program services	155,323			155,323	141,575
Management and general	4,639			4,639	4,676
Development and donor services	1,300			1,300	2,002
Total expenses	161,262			161,262	148,253
Change in Net Assets Before Transfer of Supporting Organization	13,439	93,236	215	106,890	(33,895)
Transfer of Supporting Organization (Note 1)		(1,604)		(1,604)	-
Change in Net Assets	13,439	91,632	215	105,286	(33,895)
Net Assets - beginning of year	533,275	653,164	113,114	1,299,553	1,333,448
Net Assets - end of year	$ 546,714	$ 744,796	$ 113,329	$ 1,404,839	$ 1,299,553

See accompanying notes to consolidated financial statements.

The San Francisco Foundation

Consolidated Statement of Functional Expenses
(in thousands)

Year Ended June 30, 2017 (with comparative totals for 2016)

	Program Services	Management and General	Development and Donor Services	2017 Total	2016 Total
Grant expenses	$ 146,891			$ 146,891	$ 132,871
Salaries and benefits	3,725	$ 2,349	$ 676	6,750	6,381
Payroll taxes	279	153	47	479	461
Retirement plan contributions	279	205	56	540	548
Other employee benefits	584	312	90	986	1,003
Accounting fees		119		119	125
Advertising	64	12	24	100	169
Books and subscriptions	3	3	1	7	11
Convening and special events	201	74	42	317	444
Depreciation and amortization	218	108	36	362	388
Dues and memberships	46	66	2	114	111
Equipment rental and maintenance	224	101	34	359	417
Insurance		138		138	139
Legal fees	53	16	16	85	107
Occupancy	663	322	108	1,093	1,039
Outside temporary staff	253	76	33	362	264
Payroll processing		22		22	17
Postage and shipping	1	11	1	13	15
Printing and publications	21	6	11	38	81
Professional fees and consultants	1,327	240	67	1,634	1,930
Recruiting		99		99	7
Storage and moving	8	7		15	12
Supplies	14	67	2	83	66
Taxes, fees and licenses	187	26		213	44
Telephone	16	7	3	26	32
Tickets to fundraisers	47	26	31	104	51
Training and professional development	78	44	6	128	113
Travel	129	30	14	173	183
Loan guarantee loss reserves	11			11	-
Miscellaneous expenses	1			1	3
Operating expenses - Latino Community Foundation				-	1,221
Total other expenses	8,432	4,639	1,300	14,371	15,382
Total	$ 155,323	$ 4,639	$ 1,300	$ 161,262	$ 148,253

See accompanying notes to consolidated financial statements.

The San Francisco Foundation

Consolidated Statement of Cash Flows
(in thousands)

Year Ended June 30, 2017 (with comparative totals for 2016)	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	$ 105,286	$ (33,895)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	362	388
Net realized and unrealized (gain) loss on investments	(166,662)	42,399
Change in operating assets and liabilities:		
Contributions and other accounts receivable	(1,838)	3,268
Charitable trust assets	(733)	3,129
Other assets	4,667	(3,872)
Accounts payable and other liabilities	(360)	(21)
Grants payable	12,074	(12,765)
Liability to beneficiaries	149	(690)
Agency funds	(66)	(220)
Net cash used by operating activities	(47,121)	(2,279)
Cash Flows from Investing Activities:		
Purchases of investments	(101,801)	(158,195)
Proceeds from sale of investments	151,560	159,435
Purchases of fixed assets	(43)	(113)
Investments through notes receivable - program related investments	(1,796)	(2,680)
Collection on notes receivable - program related investments	121	590
Net cash provided (used) by investing activities	48,041	(963)
Change in Cash and Cash Equivalents	920	(3,242)
Cash and Cash Equivalents - beginning of year	1,482	4,724
Cash and Cash Equivalents - end of year	$ 2,402	$ 1,482

See accompanying notes to consolidated financial statements.

Note 1 - Organization:

The San Francisco Foundation (the Foundation) is a public benefit community foundation created in 1948 for the broad-based public benefit of residents in the Bay Area. The Foundation operated as a Trust until July 1, 2003 when it became a non-profit public benefit corporation under the laws of California.

The Foundation mobilizes resources and acts as a catalyst for change to build strong communities, foster civic leadership, and promote philanthropy. Through the generosity of donors, past and present, the Foundation funds nearly 3,000 nonprofit organizations in the Bay Area and across the country each year in response to the ever-changing demographics and needs of our communities. The Foundation's challenge is to ensure that everyone in the Bay Area can thrive and reach their full potential. The Foundation wants to ensure that everyone has a good job, lives in a safe and affordable home, has a strong political voice, and can live in a community that provides real access to opportunity. At the center of this is the need to advance greater racial and economic equity throughout the region. To reach this goal, the Foundation focuses on three interrelated pathways: 1) People: expanding access to opportunity by removing systemic barriers, 2) Place: anchoring communities that reflect people's culture and identity, and 3) Power: nurturing equity movements to ensure a strong political voice for all. The Foundation supports equity-focused efforts through grants, civic leadership, advocacy, and program-related investments.

The bylaws of the Foundation include a variance provision giving the Board of Trustees (the Trustees) the power to modify any restriction or condition placed on gifts to the Foundation if, in its sole judgment, the Trustees determine that the restriction becomes, in effect, incapable of fulfillment or inconsistent with the charitable needs of the community or area served.

Supporting Organizations

A supporting organization is a Section 501(c)(3) charity that is classified as a public charity rather than a private foundation because it supports a publicly supported charity, such as a community foundation. Supporting organizations of the Foundation are consolidated herein. The supporting organizations are East Bay Foundation on Aging, TSFF Foundation on Community Development, TSFF Foundation on Health, TSFF Foundation for Community Resiliency, and TSFF Foundation on Social Justice, all of which are effectively controlled by the Foundation. All of the supporting organizations are Type 1 as defined by the Internal Revenue Service (IRS).

The Latino Community Foundation requested and was granted IRS public charity status and is no longer a supporting organization to the Foundation. Effective, July 1, 2016, The Latino Community Foundation is no longer included in the consolidated financial statements of the Foundation.

Note 2 - Significant Accounting Policies:

a. Basis of Accounting and Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America. The Foundation reports information regarding its financial position and activities according to the class of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets – The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets – The portion of net assets consisting of irrevocable remainder charitable trusts, contributions unconditionally promised which are scheduled to be received in the future, purpose-restricted grants, and the portion of donor-restricted endowment funds that are not classified as permanently restricted net assets. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities and Changes in Net Assets as net assets released from restrictions.

Permanently Restricted Net Assets – The portion of net assets consisting of the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds where the donor indicated that a portion of the fund be retained permanently. Also included in permanently restricted net assets is the Foundation's interest in a perpetual trust.

b. Principles of Consolidation

The accompanying consolidated financial statements include all amounts and operations of the Foundation and its supporting organizations (collectively, the Foundation). Intercompany transactions and accounts have been eliminated in consolidation.

c. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include the Foundation’s operating and checking accounts. Cash and cash equivalents are also maintained within investments (Note 4), which are liquidated as necessary to meet payment obligations.

d. Investments

The Foundation reports investments at fair value. Gains and losses that result from market fluctuations are recognized in the Consolidated Statement of Activities and Changes in Net Assets in the period such fluctuations occur. Dividend and interest income are accrued when earned. Investments received through gifts are recorded at estimated fair value at the date of donation. Due to the inherent uncertainty of valuation of non-marketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

In addition, the Foundation reports certain investments using the Net Asset Value (NAV) per share as determined by investment managers under the so-called "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. On an annual basis, management reviews the audited financial statements for each investment and compares the value reported by the fund manager to the value contained in the audited financial statements to assess the reasonableness of the investment.

For cash flow purposes, purchases of investments represent the total additions to the portfolio from revenues received during the year. Proceeds from the sale of investments represent the withdrawals used for grants and operations.

e. Fair Value Measurements

The Foundation carries certain assets and liabilities at fair value. 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. Fair value measurement standards also require the Foundation to classify these financial instruments into a three-level hierarchy. The Foundation classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than quoted market prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

f. Endowment Funds

The Foundation follows the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-205 "Endowments of Not-for-Profit Organizations – Net Assets Classification of Funds Subject to Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds." The State of California adopted a version of the Uniform Prudent Management of Institutional Funds Act as its State Prudent Management of Institutional Funds Act ("SPMIFA").

Interpretation of Relevant Law

The Board of Trustees has determined that the Foundation holds net assets that meet the definition of endowment funds under SPMIFA.

The corpus value of funds subject to SPMIFA is classified as permanently restricted in cases where the donor indicated that a portion of the fund be retained permanently.

The corpus of these funds represents the fair value of the original gift as of the gift date and the original value of subsequent gifts where the donor indicated that a portion of the fund be retained permanently. The balance is classified as temporarily restricted until appropriated, at which time the appropriation is reclassified to unrestricted net assets.

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 organization 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 Foundation.

From time to time, the fair value of the assets associated with individual donor restricted endowment funds may fall below the level classified as permanently restricted net assets.

Investment and Spending Policies

The Foundation has adopted investment and spending polices for endowment assets that 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. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to earn the spending policy percentage plus inflation, net of investment fees. 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 spending policy calculates the amount of money annually distributed from the Foundation’s various endowed funds, for grantmaking and administration. The current spending policy is to distribute an amount equal to 5% of a moving sixteen quarter rolling average. Accordingly, over the long term, the Foundation expects current spending policy to allow its endowment assets to grow at an average rate of 2.5% to 3% 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 return.

g. Charitable Trust Assets

Charitable trust assets include the estimated fair value of various irrevocable charitable trusts. Trusts in which the Foundation is both trustee and secondary beneficiary are recorded at the fair value of the assets in the trust. The assets of the trusts generally include marketable equity and debt securities, whose fair value is determined based on quoted market prices.

Trusts for which the Foundation is not the trustee are recorded as contributions receivable from charitable trusts and are recorded at the fair value of the assets in the trusts, less the present value of the expected payments, using the IRS Section 7520 rate in effect as of the end of the fiscal year (2.4%).

h. Beneficial Interest in Perpetual Trust

The Foundation is the beneficiary of an irrevocable trust, whereby the Foundation receives the income from the trust in perpetuity. The assets are held by a third-party trustee. The value of the beneficial interest is based upon the fair value of the assets in the trust.

i. Fixed Assets

Fixed assets are stated at cost and depreciated using the straight-line method over the useful lives of the related assets. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful life of the asset or the term of the applicable lease.

j. Program Related Investments

Program related investments consist of loans and certificates of deposit that were made for the purpose of the Foundation's programmatic mission. The Foundation partners with donors to make these investments and several donors have committed funds to be available for five to seven years to further support program related investments.

The Foundation records program related investments at cost. These investments are evaluated for impairment annually and written down if appropriate. Interest on loan receivables is generally charged below market rates. The Foundation’s loan receivables are recorded at the time the loan is funded and agreed to by both parties.

k. Liability to Beneficiaries

Liability to beneficiaries represents the present value of the liability due to primary beneficiaries of the irrevocable charitable trusts for which the Foundation is both trustee and secondary beneficiary. The liability is calculated using life expectancies from the 80CNSMT mortality table, and a discount rate of 8%.

l. Revenue Recognition

Contributions are recognized as revenue when received or unconditionally promised. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate market discount rate. Conditional promises to give are not recorded as contribution revenue until the conditions are substantially met.

As discussed in Note 2a above, the Foundation receives contributions subject to time or purpose restrictions. When the restriction is met in the same period as the contribution is received, temporarily restricted contributions are reported as temporarily restricted support and net assets released from restrictions.

m. Grant Expenses

Grant expenses are recognized when an unconditional promise to give is approved by the Board of Trustees. Grant refunds are recorded as a reduction of grant expense at the time the grant is refunded to the Foundation. Grants payable represent the present value of grants to be paid in the future. The discount on those amounts is computed using market interest rates applicable in the year in which the grant is approved. Amortization of the discount is included in grant expense.

n. Functional Expense Allocations

The Consolidated Statement of Activities and Changes in Net Assets reflects expenses in the categories of program, management and general, and development and donor services. Because departments are organized along functional lines, for most departments, expenses are allocated based upon the primary purpose of the department. Multi-purpose departments (chief executive, development and donor services, and marketing and communications), are split among program, management and general, and development and donor services based upon time estimates made by the Foundation's management staff in these departments.

Overhead expenses (occupancy, equipment rental, and management information systems) are allocated using a weighted average of expenses of all other departments among program, management and general, and development and donor services.

o. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

p. Comparative Information and Reclassifications

The consolidated financial statements include certain comparative information for which the prior year information is summarized in total but not by net asset class. Accordingly, such information should be read in conjunction with the Foundation’s consolidated financial statements for the year ended June 30, 2016, from which the summarized information is derived.

Certain reclassifications have been made to the 2016 consolidated financial statements in order to conform to the 2017 presentation. These reclassifications had no impact on net assets or changes in net assets.

q. Tax Exempt Status

The Foundation is exempt from federal income tax on related income under Section 501(c)(3) of the Internal Revenue Code (the "Code") and has been classified as an organization which is not a private foundation as defined in Sections 509(a)(1) and 170(b)(i)(A)(vi) of the Code. In addition, the Foundation is subject to tax on unrelated business income, generated by its investments.

The Foundation follows the guidance of FASB ASC Topic 740 - Accounting for Uncertainty in Income Taxes. As of June 30, 2017, management evaluated the Foundation's tax positions and concluded that the Foundation had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the consolidated financial statements.

r. Recent Accounting Pronouncements

Pronouncements Adopted

In August 2014, the FASB issued ASU 2014-15 Presentation of Financial Statements—Going Concern (Topic 205). The guidance in this ASU requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern, which is currently performed by the external auditors. Management is required to perform this assessment for both interim and annual reporting periods and must make certain disclosures if it concludes that substantial doubt exists. The guidance is effective for annual periods ending after December 15, 2016, and for annual and interim periods thereafter. The Foundation adopted this standard for the year ending June 30, 2017. The adoption did not have any effect on the consolidated financial statements as no substantial doubt exists about the Foundation's ability to continue as a going concern.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments (Topic 825). The amendments update certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The standard will be effective for the Foundation for fiscal years beginning after December 15, 2018. The Foundation elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included in the consolidated financial statements.

Pronouncements Effective in the Future:

In February 2016, the FASB issued ASU 2016-02 – Leases (Topic 842). The amendments in this update will supersede much of the existing authoritative guidance for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The standard will be effective for the Foundation, since it is not deemed a public business entity, for its fiscal year beginning after December 15, 2019 with early application permitted. The Foundation is currently evaluating the impact of this pronouncement on its consolidated financial statements.

(dollars in thousands)

In August 2016, FASB issued ASU 2016-14 Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities. The amendments in this update are designed to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017 (June 30, 2019). Early application is permitted. Amendments should be applied on a retrospective basis in the year the update is first applied. The Foundation is currently evaluating the impact of this pronouncement on its consolidated financial statements.

s. Subsequent Events

The Foundation evaluated subsequent events with respect to the consolidated financial statements for the year ended June 30, 2017 through December 21, 2017, the date the consolidated financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying consolidated financial statements nor have any subsequent events occurred, the nature of which would require disclosure, except as discussed in Notes 4 and 8.

Note 3 - Contributions and Other Accounts Receivable:

Contributions and other accounts receivable consist of the following as of June 30:

	2017	2016
Contributions receivable (net of discount of $3 and $72 for the years ended June 30, 2017 and 2016, respectively)	$ 6,413	$ 5,084
Accrued interest on investments	1,352	806
Other accounts receivable	7	44
Total	$ 7,772	$ 5,934

Contributions receivable as of June 30, 2017 are expected to be received as follows: $6,358 within one year and $55 within two to five years.

(dollars in thousands)

Note 4 - Investments:

The Foundation's investments consisted of the following as of June 30:

	2017	2016
Cash and cash equivalents	$ 45,534	$ 78,431
Fixed income	379,804	336,263
Domestic equities	266,609	281,486
International equities	251,296	209,305
Global equities	127,037	77,963
Alternative investments	344,608	316,947
Subtotal	1,414,888	1,300,395
Receivables for unsettled transactions	12,735	1,470
Payables for unsettled transactions	(11,918)	(3,063)
Total	$ 1,415,705	$ 1,298,802

The majority of donor advised fund investments are allocated among long term, short term, and socially responsible pools as recommended by Donor Advisors. The short-term pool provides liquidity for current giving requirements. Approximately 36% of the donor advised funds allocate 75% or more of their funds to the short-term pool. The long-term pool has an investment objective of earning 5% above the inflation rate and is appropriate for the portion of a donor advised fund with a very long-term outlook. The socially responsible pool also has a long-term horizon, and has additional screens for social criteria. Donor advised funds invested outside the pools also have an allocation to cash and short-term investments based on the donors' plans for current giving. Fluctuations in the fair value of investments will have occurred subsequent to June 30, 2017, due to fluctuations in capital markets.

Subsequent to year end, the Foundation redeemed $72 million from current investments. The proceeds from these redemptions were allocated to current and new investment managers, or utilized for the Foundation's cash needs. Subsequent to year end, the Foundation reinvested $78 million in new or current investments.

(dollars in thousands)

Note 5 - Fair Value Measurements and Net Asset Value Disclosures:

The table below presents the balances of assets measured at fair value at June 30, 2017 on a recurring basis:

	Total	Level 1	Level 2	Level 3	(a) NAV
Cash and cash equivalents	$ 45,534	$ 45,534			
Fixed income:					
U.S. government and agency	100,540	100,540			
U.S. corporate	96,253		$ 96,253		
Non-agency and asset backed	51,931		51,931		
global	48,291		48,291		
Investment grade U.S. fixed income mutual funds and ETFs	29,545	29,545			
Pooled funds	53,244				$ 53,244
Domestic equities:					
Publicly traded:					
Consumer/Staples	14,571	14,571			
Energy/Materials	882	882			
Financials	8,569	8,569			
Health Care	10,839	10,839			
Industrials	3,648	3,648			
IT/Telecom/Utilities	5,503	5,503			
Other	535	535			
Private common stock consumer goods	3,585			$ 3,585	
Mutual funds:					
Small Cap	20,327	20,327			
Large Cap	12,956	12,956			
Pooled funds	185,194				185,194
International equities:					
Developed markets	2,409	2,409			
Mutual funds:					
Developed	4,310	4,310			
Emerging	44,684	44,684			
Pooled funds	199,893				199,893
Global equities:					
Pooled funds	127,037				127,037
Alternative investments:	344,608				344,608
Subtotal	1,414,888	304,852	196,475	3,585	909,976
Charitable trusts assets	22,274		22,274		
Beneficial interest in perpetual trust	2,368		2,368		
Total assets measured at fair value	$ 1,439,530	$ 304,852	$ 221,117	$ 3,585	$ 909,976

(dollars in thousands)

(a) In accordance with FASB subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Statement of Financial Position.

Net Asset Value Disclosures:

The Foundation uses the Net Asset Value (NAV) as a practical expedient to determine the fair value of all the underlying investments which do not have a readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments valued at NAV by major category as of June 30, 2017:

Strategies	# of Funds	Valuation	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled Funds:					
Fixed income (a):					
Redeemable	2	$ 53,244		Semi-monthly to Monthly	5-15 days
Domestic equities (b):					
Redeemable	1	10,298		Daily	1 day
Redeemable with restrictions	5	174,896		Quarterly to Annually	45-90 days
International equities (c):					
Redeemable	3	110,462		Monthly	10-30 days
Redeemable with restrictions	2	89,431		Quarterly to 3 Years	90-180 days
Global Equities (d):					
Redeemable	1	27,942		Monthly	4 days
Redeemable with restrictions	2	99,095		Quarterly to Semi-annually	30 days
Alternative Investments:					
Hedged equity (e):					
Redeemable	3	73,791		Monthly to Quarterly	60-90 days
Redeemable with restrictions	7	114,563	$ 5,000	Quarterly to 3 Years	60-180 days
Non-redeemable	2	1,496	3,212	None	
Multi-strategy (f):					
Redeemable with restrictions	2	52,053		Quarterly to Annually	45-90 days
Non-redeemable	5	551		None	
Long/short credit (g):					
Redeemable with restrictions	1	35,796		Quarterly	65 days
Non-redeemable	1	955		None	
Private equity (h):					
Non-redeemable	21	42,804	27,196	None	
Real assets (i):					
Non-redeemable	11	22,599	4,933	None	
Total	69	$ 909,976	$ 40,341		

a) The fixed income strategies are actively managed, diversified portfolios of U.S. investment grade and below investment grade fixed income and non-U.S. fixed income investments.

b) The domestic equity funds invest in passive U.S. index funds and actively managed funds benchmarked to U.S. equity indices. The fund with daily redemption is invested in an index fund designed to replicate the Russell 1000 Index. The remaining 94% is allocated across other funds that are actively managed, based on fundamental analysis and holding a concentrated number of positions. Of these investments, 54% can be redeemed quarterly subject to a 20% gate on redemptions, 22% is in concentrated funds allowing quarterly or annual redemptions (7% of these also have a 20% gate on redemptions), 14% can be redeemed annually with a maximum of 50% in each of the next two years, and 4% has annual liquidity with a rolling 5-year withdrawal provision.

c) The international equity strategies are all actively managed and invest in both emerging and developed market equities. Emerging markets make up 33% of the portfolio, developed Pacific, 26%, and developed Europe, 41%. Redeemable investments with restrictions include a rolling 3-year lock-up period (26% of these assets) redeemable every three years.

d) The global equity funds are all actively managed and invested in U.S., non-U.S. developed, and non-U.S. emerging market equities. Of these investments, 49% can be redeemed quarterly subject to a 25% gate on redemptions for the fund.

e) The hedged equity funds consist of directly held funds which, in aggregate, represent a number of underlying funds with a wide range of investment strategies. These funds are primarily long public equity securities, but others are short public equity securities and hold small amounts of fixed income and derivative securities. This category also includes opportunistic investment strategy funds. Restrictions on redemptions of the assets in this category include a three-year lock-up (10%), quarterly and annual redemption with a 33.3% gate (16%), bi-annual redemptions on 50% of the balance (21%), rolling 12-36 month lock-ups (14%), no redemption (1%), and a partnership in liquidation. These investments have various lockup expiration dates that range from July 1, 2017 to December 31, 2019.

f) The multi-strategy funds consist of directly held funds which, in aggregate, represent a number of underlying funds covering a wide array of investment strategies. Approaches include public and private equity, long/short equity and debt strategies, credit arbitrage and active fixed income investing. Of these assets, 38% is redeemable annually with notice of 45 days, and 6% is generally not available for withdrawal or distribution until after the underlying investments are liquidated or distributed. Other restrictions on the remaining assets include quarterly redemptions with a 25% gate restriction (55%), and five funds are in the process of liquidation (1%).

g) Long/short credit strategies invest in both long and short positions in high yield fixed income. Of these assets, 97% have a 25% gate on redemption while the remaining assets are in liquidation.

(dollars in thousands)

h) Private equity strategies invest in various companies and some debt securities, both domestic and international, and using fund of funds as well as directly held funds. 5% of the partnerships are in liquidation and 95% have a remaining legal life span of up to 10 years with no redemption rights for the Limited Partners. Liquidity is expected in the form of distributions from the funds when the underlying assets are sold. It is estimated that the underlying assets will be redeemed over this period and that the Foundation will make new investments in other private equity strategies.

i) Real assets are investments in fund of fund partnerships and private real asset funds which invest in office, commercial, and industrial real estate along with a number of hard asset strategies. 85% of the funds have a remaining legal life span of up to 12 years with no redemption rights for Limited Partners, while the remaining 15% are in liquidation.

Note 6 - Charitable Trust Assets:

Charitable trust assets consist of the following as of June 30:

	2017	2016
Assets held in charitable trusts in which the Foundation is both trustee and secondary beneficiary	$ 18,227	$ 17,629
Contributions receivable from non-trusteed charitable trusts	4,047	3,912
Total	$ 22,274	$ 21,541

Note 7 - Fixed Assets:

Fixed assets consist of the following as of June 30:

	2017	2016
Leasehold improvements	$ 1,292	$ 1,292
Furniture and fixtures	841	838
Computer equipment and software	2,477	2,437
Office equipment	59	59
	4,669	4,626
Less accumulated depreciation and amortization	(3,568)	(3,206)
Fixed assets, net	$ 1,101	$ 1,420

Depreciation and amortization expense was $362 for the year ended June 30, 2017.

(dollars in thousands)

Note 8 - Other Assets:

Other assets consist of the following as of June 30:

	2017	2016
Beneficial interest in perpetual trust	$ 2,368	$ 2,224
Real estate	895	5,170
Program related investments:		
Notes receivable (net of loan reserve of $261 and $250 for the years ended June 30, 2017 and 2016, respectively)	4,942	3,277
Certificate of deposits – community banks	1,510	1,507
Cash deposits – community banks	255	254
Artwork	358	359
Security deposit and prepaid rent	239	363
Other	166	571
Total	$ 10,733	$ 13,725

Real estate includes the Foundation's ownership in a single member LLC. The LLC owns two condominium units in San Francisco. Real estate is held at cost basis.

As of June 30, 2017, the Foundation has a revolving loan of $500 of which $185 has been disbursed and is included in program related investments notes receivable. The drawdown and loan period will expire in 2021.

As of June 30, 2017, the Foundation also has three agreements to provide funding totaling $2,700 with drawdowns at the request of the borrower, subject to conditions to be met by the borrowers. Of these commitments, $272 has been disbursed as of June 30, 2017 and is included in program related investments notes receivable. The drawdowns and loan periods will expire between 2021 and 2027. Subsequent to year end, the Foundation disbursed an additional $875 under these agreements.

In addition, subsequent to year end, the Foundation entered into an agreement for, and fully disbursed, a new program related investment note receivable of $1,000.

(dollars in thousands)

Note 9 - Grants Payable, net:

Grants payable at June 30, 2017 are scheduled to be disbursed as follows:

Year Ending June 30,		
2018	$	20,762
2019		3,375
2020		871
2021		21
		25,029
Less discount on multi-year grants payable		(210)
Grants payable, net	$	24,819

Grant expense for the fiscal year ending June 30, 2017 totaled $146,891. Grant expense includes transfers of donor advised funds to other sponsoring organizations in the amount of $20,605.

Additionally, the Foundation has approved $5,820 of conditional grants at June 30, 2017, which is not included in grants payable.

Note 10 - Agency Funds:

Agency funds represent funds transferred to the Foundation by other not-for-profit organizations that have specified themselves as the beneficiary. These funds are accounted for as assets and liabilities on the consolidated financial statements and are excluded from the Consolidated Statement of Activities and Change in Net Assets. However, the Foundation maintains legal ownership of the assets and has variance power.

The following is a roll-forward of the agency funds:

Balance at June 30, 2016	$	19,224
Contributions		637
Interest and dividends		75
Net gain (realized and unrealized)		2,602
Grants out of agency funds		(3,187)
Other expenses		(193)
Balance at June 30, 2017	$	19,158

(dollars in thousands)

Note 11 - Endowments:

Changes in Donor Restricted Endowment funds for the year ended June 30, 2017:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, beginning of year	$ 624,685	$ 113,114	$ 737,799
Interest and dividends	1,705		1,705
Net gain (realized and unrealized)	117,612	168	117,780
Change in value of split interest agreements		(18)	(18)
Contributions	4,774	65	4,839
Appropriated for expenditure	(35,977)		(35,977)
Change in endowment net assets	88,114	215	88,329
Endowment Net Assets, end of year	$ 712,799	$ 113,329	$ 826,128

Note 12 - Total Net Asset Composition:

In addition to endowment net assets, the Foundation also manages other non-endowed funds.

The following table summarizes all Foundation net assets as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor endowment funds		$ 712,799	$ 111,945	$ 824,744
Split interest agreements		10,839	1,384	12,223
Donor advised	$ 530,664			530,664
Operating funds	16,046			16,046
Project and special purpose funds	4	21,158		21,162
Total	$ 546,714	$ 744,796	$ 113,329	$ 1,404,839

Net assets of $36,557 and $5,878 were released from restrictions due to the expiration of the time and purpose restrictions, respectively, during the year ended June 30, 2017.

(dollars in thousands)

The endowed assets are comprised of over 245 individual funds. The Foundation honors the intent expressed by the donor at the time of the gift. Of the grantmaking made from endowed funds in the year ended June 30, 2017, approximately one-half are funds that have been entrusted by donors to the Foundation to determine the best use of the funds to benefit the community. The balance is allocated according to the intent of the donors across the Foundation's equity focused grantmaking pathways of people, place, and power.

Note 13 - Commitments and Contingencies:

The Foundation leases office facilities and various office equipment under operating leases which expire through 2024.

The following is a schedule of future minimum lease payments required under non-cancelable operating leases at June 30, 2017:

Year Ending June 30,		
2018	$	1,092
2019		1,070
2020		1,085
2021		1,108
2022		1,131
Thereafter		1,495
Total future minimum lease payments	$	6,981

Rental expense was approximately $1,093 for the year ended June 30, 2017.

Note 14 - Related Parties:

The Foundation has and may continue to have Trustees and committee members who hold interests in, or are employed by, corporations or partnerships held as investments by the Foundation. The Foundation has a conflict of interest policy which covers investments and vendor relationships with Trustees, committee members, and staff. The policy requires annual disclosures and discussion of potential conflicts at meetings, so that Trustees, committee members, and staff may continue to serve the Foundation through their professional knowledge and expertise.

Note 15 - Retirement Plan:

Retirement Savings 401(k) Plan

The Foundation provides a defined contribution plan under Section 401(k) of the Internal Revenue Code (the 401(k) Plan). Employees are considered eligible for contributions after they have completed one year of service and 1,000 hours of employment. For 2017 and 2016, the Foundation contributed 12% of salary each year to the 401(k) Plan for all eligible employees, as defined.

Retirement plan expense related to the 401(k) Plan was approximately $540 for the year ended June 30, 2017.

457(b) Deferred Compensation Plan

The Foundation also provides a 457(b)-deferred compensation plan for key employees. Pension expense related to the Foundation's contribution was $0 for the year ended June 30, 2017. Related assets and liabilities total $48 at June 30, 2017.

Note 16 - Concentrations:

Risk

Investments in general are exposed to various risks, such as interest rate, credit and overall market volatility. To address the risk of investments, the Foundation maintains a formal investment policy that sets out performance criteria, investment guidelines, and asset allocation guidelines, and requires review of the investment managers' performance. Investments are managed by multiple investment managers, who have responsibility for investing the funds in various investment classes. An investment consultant is also utilized. This entire process is actively overseen by an Investment Committee that includes members and non-members of the Board of Trustees.

In addition to investments, concentrations of market and credit risk exist for cash and cash equivalents and charitable trust assets. At times, cash amounts might exceed federally insured limits.

Other

The majority of contributions and bequests consist of donations from individuals and estates. Approximately 24% of the contributions and bequest revenue is comprised of funds from three contributors for the year ended June 30, 2017.