

THE SAN FRANCISCO FOUNDATION

JUNE 30, 2016

INDEPENDENT AUDITORS' REPORT,

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

The San Francisco Foundation

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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, 2016, the related consolidated statements of activities and changes in net assets 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 2016, 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 Matters

Report on Summarized Comparative Information

We have previously audited the Foundation's June 30, 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our audit report dated December 8, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Consolidated Functional Expenses on page 25 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Hood & Strang LLP

San Francisco, California
December 15, 2016

The San Francisco Foundation

Consolidated Statement of Financial Position (in thousands)

<i>June 30, 2016 (with comparative totals for 2015)</i>	2016	2015
Assets		
Cash and cash equivalents	\$ 1,482	\$ 4,724
Investments, at fair value	1,298,802	1,342,441
Contributions and other accounts receivable, net	5,934	9,202
Charitable trust assets	21,541	24,670
Property and equipment, net	1,420	1,695
Other assets	13,725	7,763
Total assets	\$ 1,342,904	\$ 1,390,495
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	\$ 1,480	\$ 1,501
Grants payable, net	12,745	25,510
Liability to beneficiaries	9,902	10,592
Agency funds	19,224	19,444
Total liabilities	43,351	57,047
Net Assets:		
Unrestricted	533,275	509,581
Temporarily restricted	653,164	710,893
Permanently restricted	113,114	112,974
Total net assets	1,299,553	1,333,448
Total liabilities and net assets	\$ 1,342,904	\$ 1,390,495

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, 2016 (with comparative totals for 2015)

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and Support:					
Contributions and bequests	\$ 135,666	\$ 14,217		\$ 149,883	\$ 127,538
Change in value of split interest agreements		(7)	\$ 292	285	75
Net realized and unrealized (loss) gain on investments	(13,095)	(29,304)		(42,399)	50,123
Unrealized loss on interest in perpetual trust			(152)	(152)	(130)
Investment income, net of fees	3,852	2,624		6,476	4,681
Other income	263	2		265	550
Net assets released from restrictions	45,261	(45,261)		-	-
Total revenue and support	171,947	(57,729)	140	114,358	182,837
Expenses:					
Program services:					
Grant expenses	132,871			132,871	122,529
Other program expenses	8,704			8,704	8,143
Total program services	141,575			141,575	130,672
Management and general	4,676			4,676	4,409
Development and donor services	2,002			2,002	1,842
Total expenses	148,253			148,253	136,923
Change in Net Assets	23,694	(57,729)	140	(33,895)	45,914
Net Assets - beginning of year	509,581	710,893	112,974	1,333,448	1,287,534
Net Assets - end of year	\$ 533,275	\$ 653,164	\$ 113,114	\$ 1,299,553	\$ 1,333,448

See accompanying notes to consolidated financial statements.

The San Francisco Foundation

Consolidated Statement of Cash Flows (in thousands)

<i>Year Ended June 30, 2016 (with comparative totals for 2015)</i>	2016	2015
Cash Flows from Operating Activities:		
Change in net assets	\$ (33,895)	\$ 45,914
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	388	402
Net realized and unrealized loss (gain) on investments	42,399	(50,123)
Change in operating assets and liabilities:		
Contributions and other accounts receivable	3,268	(114)
Charitable trust assets	3,129	827
Other assets	(3,872)	1,796
Accounts payable and other liabilities	(21)	63
Grants payable	(12,765)	17,013
Liability to beneficiaries	(690)	(574)
Agency funds	(220)	138
Net cash (used) provided by operating activities	(2,279)	15,342
Cash Flows from Investing Activities:		
Purchases of investments	(158,195)	(132,961)
Proceeds from sale of investments	159,435	118,971
Purchases of property and equipment	(113)	(170)
Investments through notes receivable - program related investments	(2,680)	(258)
Collection on notes receivable - program related investments	590	902
Net cash used by investing activities	(963)	(13,516)
Change in Cash and Cash Equivalents	(3,242)	1,826
Cash and Cash Equivalents - beginning of year	4,724	2,898
Cash and Cash Equivalents - end of year	\$ 1,482	\$ 4,724
Supplemental Data for Noncash Investing Activities:		
Purchase of property and equipment in accounts payable and other liabilities	\$ -	\$ 42

See accompanying notes to consolidated financial statements.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Note 1 - Organization:

The San Francisco Foundation (the Foundation) is a public benefit community foundation created in 1948. 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 more than 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. Through a social justice lens, the Foundation focuses its efforts on five core areas -- arts and culture, community development, community health, education, and the environment. The Foundation also provides funding that strengthens the safety net, jobs training and creation, and foreclosure response and neighborhood preservation. The Foundation supports the community through convening with community partners to develop solutions to the challenges facing Bay Area residents and through a program related portfolio investing in local efforts to build affordable housing, create jobs, and improve environmental sustainability. The year ended June 30, 2016 also included grantmaking focused on implementation of the Foundation's equity agenda for racial and economic inclusion.

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.

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 Latino Community Foundation, 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 San Francisco Foundation. All of the supporting organizations are Type 1 as defined by the Internal Revenue Service (IRS). 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 San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

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 San Francisco 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.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

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.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

f. Fair Value of Financial Instruments

Some of the Foundation's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such assets and liabilities include cash and cash equivalents, contributions and other accounts receivables, and payables.

g. 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.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Investment and Spending Policies

The Foundation has adopted investment and spending policies 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.

h. 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 (1.8%).

i. 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.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

j. Property and Equipment

Property and equipment 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.

k. 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 these 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.

l. 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%.

m. 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 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.

n. 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.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

o. 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 are split among program, management and general, and development and donor services based upon estimates made by the Foundation's management.

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.

p. 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.

q. 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, 2015, from which the summarized information is derived.

Certain reclassifications have been made to the consolidated 2015 financial statements in order to conform to the 2016 presentation. These reclassifications had no impact on net assets or changes in net assets.

r. 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, 2016, 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.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

s. Recent Accounting Pronouncements

Adopted:

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The amendments in this update apply to reporting entities that elect to measure the fair value of an investment using the net asset value per share (or its equivalent) as a practical expedient. To alleviate inconsistencies in the categorization of investments within the hierarchy, ASU 2015-07 removes the requirement to categorize all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also clarify that certain disclosure requirements are limited to investments for which the entity has elected to measure fair value using that practical expedient, and not all investments eligible to be measured at fair value using the practical expedient. The amendments in this update will generally be effective for fiscal periods beginning after December 15, 2016, for non public entities, however early application is permitted. The Foundation early adopted this guidance as of June 30, 2016.

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.

In August 2016, FASB issued ASU 2016-04 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. 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.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

t. Subsequent Events

The Foundation evaluated subsequent events with respect to the consolidated financial statements for the year ended June 30, 2016 through December 15, 2016, 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 Note 1, Note 4 and Note 8.

Note 3 - Contributions and Other Accounts Receivable:

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

	2016	2015
Contributions receivable (net of discount of \$72 and \$160 for the years ended June 30, 2016 and 2015, respectively)	\$ 5,084	\$ 7,294
Accrued interest on investments	806	1,867
Other accounts receivable	44	41
Total	\$ 5,934	\$ 9,202

Contributions receivable as of June 30, 2016 are expected to be received as follows: \$3,674 within one year and \$1,410 within two to five years.

The Foundation received a conditional promise to give from one organization amounting to \$6,500, which has not been recorded at June 30, 2016.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Note 4 - Investments:

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

	2016	2015
Cash and cash equivalents	\$ 78,431	\$ 21,820
Fixed income	336,263	360,471
Domestic equities	281,486	323,718
International equities	209,305	232,969
Global equities	77,963	76,142
Alternative investments	316,947	327,718
Subtotal	1,300,395	1,342,838
Receivables for unsettled transactions	1,470	290
Payables for unsettled transactions	(3,063)	(687)
Total	\$ 1,298,802	\$ 1,342,441

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 40% 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, 2016, due to fluctuations in capital markets.

Subsequent to year end, the Foundation received redemption proceeds of \$65 million from current investments. As these funds are received, they are allocated to current and new investment managers, or utilized for the Foundation's cash needs.

The San Francisco Foundation

Notes to Consolidated Financial Statements (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, 2016 on a recurring basis:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>(a)</u> <u>NAV</u>
Cash and cash equivalents	\$ 78,431	\$ 78,431			
Fixed income:					
U.S. Government and agency	103,439	103,439			
U.S. corporate	60,004		\$ 60,004		
Non-agency and asset backed	58,849		58,849		
Global	24,806		24,806		
Investment grade U.S. fixed income mutual funds and ETFs	34,772	34,772			
Pooled funds	54,393			\$ 54,393	
Domestic equities:					
Publicly traded:					
Consumer/Staples	18,173	18,173			
Energy/Materials	955	955			
Financials	9,256	9,256			
Health Care	11,128	11,128			
Industrials	6,057	6,057			
IT/Telecom/Utilities	7,606	7,606			
Other	351	351			
Private common stock					
consumer goods	3,253			\$ 3,253	
Mutual funds:					
Small Cap	36,616	36,616			
Large Cap	15,218	15,218			
Pooled funds	172,873				172,873
International equities:					
Developed markets	2,250	2,250			
Mutual funds:					
Developed	4,889	4,889			
Emerging	47,552	47,552			
Pooled funds	154,614				154,614
Global equities:					
Pooled funds	77,963				77,963
Alternative investments:	316,947				316,947
Subtotal	1,300,395	376,693	143,659	3,253	776,790
Charitable trusts assets	21,541		21,541		
Beneficial interest in perpetual trust	2,224		2,224		
Total assets measured at fair value	\$ 1,324,160	\$ 376,693	\$ 167,424	\$ 3,253	\$ 776,790

The San Francisco Foundation

Notes to Consolidated Financial Statements (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, 2016:

Strategies	# of Funds	Valuation	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled Funds:					
Fixed income (a):					
Redeemable	2	\$ 54,393		Monthly	10-15 days
Domestic equities (b):					
Redeemable	1	20,460		Daily	1 day
Redeemable with restrictions	4	152,413		Quarterly to Annually	45-90 days
International equities (c):					
Redeemable	3	91,103		Monthly	10-30 days
Redeemable with restrictions	2	63,511		Quarterly to 3 Years	90-180 days
Global Equities (d):					
Redeemable	1	46,992		Quarterly	30 days
Redeemable with restrictions	1	30,971		Semi-annually	30 days
Alternative Investments:					
Hedged equity (e):					
Redeemable	4	82,922		Monthly-Quarterly	45-90 days
Redeemable with restrictions	6	78,856		Quarterly to 3 Years	60-180 days
Non redeemable	2	1,872	\$ 2,089	None	
Multi-strategy (f):					
Redeemable with restrictions	7	48,813		Quarterly to Annually	45-90 days
Long/short credit (g):					
Redeemable with restrictions	1	33,310		Quarterly	65 days
Non redeemable	1	780		None	
Private equity (h):					
Non redeemable	21	41,441	32,597	None	
Real assets (i):					
Non redeemable	11	28,953	5,785	None	
Total	67	\$ 776,790	\$ 40,471		

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

- 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 instruments.
- b) The domestic equity funds invest in passive U.S. index fund 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 88% is allocated across other funds that are all actively managed, based on fundamental analysis and holding a concentrated number of positions. Of these investments (59%) can be redeemed quarterly subject to a 20% gate on redemptions, another 6% can be redeemed quarterly subject to a 20% gate on redemptions after the lock up period expires in November 2016, and 23% has annual liquidity with a rolling 5-year withdrawal provision. Not included in the preceding table is a \$25 million investment that was funded but was still held in cash by the manager as of June 30, 2016. The Foundation classified the amount in the cash and cash equivalents portion of investments. These funds will be invested as of July 1, 2016, and will allow annual redemptions.
- c) The international equity strategies are all actively managed and invest in both emerging and developed market equities. Emerging markets make up 30% of the portfolio, developed Pacific, 28%, and developed Europe, 42%. Redeemable investments with restrictions include a rolling 3-year lock up period (25% of these assets) and a 1-year lock up period that expires July 1, 2016 (16%).
- d) The global equity strategies are all actively managed and invested in emerging and developed market equities. Not included in the preceding table is a \$20 million investment that was funded and held in cash by the manager as of June 30, 2016. The Foundation classified the amount in the cash and cash equivalents portion of investments. These funds will be invested as of July 1, 2016, and will allow monthly redemptions.
- 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 (9%), biannual redemptions on 50% of the balance (20%), quarterly redemptions on one third of the investment balance in any 12-month period (7%), rolling 12-36 month lock ups (12%), no redemption on a partnership which extends to 2017 (1%) and a partnership in liquidation (less than 1%).

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

- 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, 45% is redeemable annually with notice of 45 days, of which 8% is generally not available for withdrawal or distribution until after the underlying investments are liquidated or distributed. Other restrictions on remaining assets include quarterly redemptions with a 25% gate restriction (52%), and five funds are in the process of liquidation (3%).
- g) Long/short credit strategies invest in both long and short positions in high yield fixed income. Of these assets, 98% have 25% gate on redemption while the remaining assets are in liquidation.
- h) Private equity strategies invest in various companies and some debt securities, both domestic and international using both fund of funds and directly held funds. The partnerships have a remaining legal life span of up to 12 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 time period and that the Foundation will make new investments in other private equity strategies.
- i) Real assets are investments in a 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. The funds have a remaining legal life span of up to 13 years with no redemption rights for Limited Partners.

Note 6 - Charitable Trust Assets:

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

	2016	2015
Assets held in charitable trusts in which the Foundation is both trustee and secondary beneficiary	\$ 17,629	\$ 18,538
Contributions receivable from non trustee charitable trusts	3,912	6,132
Total	\$ 21,541	\$ 24,670

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Note 7 - Property and Equipment:

Property and equipment consist of the following as of June 30:

	2016	2015
Leasehold improvements	\$ 1,292	\$ 1,246
Furniture and fixtures	838	803
Computer equipment and software	2,437	2,406
Office equipment	59	59
	<u>4,626</u>	<u>4,514</u>
Less accumulated depreciation and amortization	(3,206)	(2,819)
Property and equipment, net	<u>\$ 1,420</u>	<u>\$ 1,695</u>

Depreciation and amortization expense was \$388 for the year ended June 30, 2016.

Note 8 - Other Assets:

Other assets consist of the following as of June 30:

	2016	2015
Beneficial interest in perpetual trust	\$ 2,224	\$ 2,376
Real estate	5,170	1,410
Program related investments:		
Notes receivable (net of loan reserve of \$250 for the years ended June 30, 2016 and 2015)	3,277	1,187
Certificate of deposits – community banks	1,507	1,254
Cash deposits – community banks	254	254
Artwork	359	366
Security deposit and prepaid rent	363	357
Other	571	559
Total	<u>\$ 13,725</u>	<u>\$ 7,763</u>

Real estate includes the Foundation's ownership in a single member LLC and a donated residential property. The LLC owns three condominium units in San Francisco. Real estate is held at cost basis. Subsequent to year end, the residential property was sold for approximately \$3,700.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Program related investments are valued at their original cost unless impaired.

Additionally, as part of its program related investments, the Foundation has committed \$1,375 to a revolving loan program, to expire in 2021. The balance of loans outstanding under the program at June 30, 2016 was \$136.

Note 9 - Grants Payable:

Grants payable at June 30, 2016 are scheduled to be disbursed as follows:

Year Ending June 30,		
2017	\$	8,787
2018		2,613
2019		1,197
2020		350
		<hr/>
		12,947
Less discount on multi-year grants payable		(202)
		<hr/>
Grants payable, net	\$	12,745

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. However, the Foundation maintains legal ownership of the assets and has variance power.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Note 11 - Endowments:

Changes in Donor Restricted Endowment funds for the year ended June 30, 2016:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, beginning of year	\$ 675,612	\$ 112,974	788,586
Interest and dividends	2,515		2,515
Net loss (realized and unrealized)	(29,268)	(152)	(29,420)
Change in value of split interest agreements		292	292
Contributions	8,312		8,312
Appropriated for expenditure	(32,486)		(32,486)
Change in endowment net assets	(50,927)	140	(50,787)
Endowment Net Assets, end of year	\$ 624,685	\$ 113,114	\$ 737,799

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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Endowment Funds		\$ 624,685	\$ 111,711	\$ 736,396
Split Interest Agreements		10,236	1,403	11,639
Donor Advised	\$ 517,507			517,507
Operating Funds	15,764			15,764
Project and Special Purpose Funds	4	16,639		16,643
Non-Endowed Supporting Organizations Funds		1,604		1,604
Total	\$ 533,275	\$ 653,164	\$ 113,114	\$ 1,299,553

Net assets of \$34,255 and \$11,006 were released from restrictions due to the expiration of the time and purpose restrictions, respectively, during the year ended June 30, 2016.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

The endowed assets are comprised of over 240 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, 2016, 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 programmatic areas, including Arts and Culture, Community Health, Education, Environment, Community Development, Social Justice, and Equity grantmaking.

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, 2016:

Year Ending June 30,		
2017	\$	1,083
2018		1,092
2019		1,070
2020		1,085
2021		1,108
Thereafter		2,625
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Total future minimum lease payments	\$	8,063

Rental expense was approximately \$1,039 for the year ended June 30, 2016.

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.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

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 2016 and 2015, 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 \$548 for the year ended June 30, 2016.

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, 2016. Related assets and liabilities total \$325 at June 30, 2016.

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 48% of the contributions and bequest revenue is comprised of funds from two contributors for the year ended June 30, 2016.

The San Francisco Foundation

Schedule of Consolidated Functional Expenses (in thousands) (See Independent Auditors' Report)

Year Ended June 30, 2016 (with comparative totals for 2015)

	Program Services	Management and General	Development & Donor Services	2016 Total	2015 Total
Grant expenses	\$ 132,871			\$ 132,871	\$ 122,529
Salaries and benefits	3,370	\$ 2,256	\$ 755	6,381	5,987
Payroll taxes	254	154	53	461	435
Retirement plan contributions	268	210	70	548	511
Other employee benefits	536	344	123	1,003	853
Professional fees and consultants	1,399	255	276	1,930	1,473
Occupancy	633	304	102	1,039	1,012
Depreciation and amortization	233	116	39	388	402
Equipment rental and maintenance	250	125	42	417	426
Taxes, fees and licenses	12	27	5	44	395
Convening and special events	195	66	183	444	256
Advertising	68	16	85	169	208
Tickets to fundraisers	18	12	21	51	196
Insurance		139		139	145
Recruiting		7		7	132
Travel	137	30	16	183	182
Accounting fees		125		125	116
Dues and memberships	34	72	5	111	134
Office maintenance		1		1	9
Outside temporary staff	140	102	22	264	230
Printing and publications	18	7	56	81	87
Legal fees	96	8	3	107	58
Supplies	6	58	2	66	74
Training and professional development	69	33	11	113	120
Telephone	16	11	5	32	25
Postage and shipping	2	12	1	15	14
Storage and moving	6	6		12	9
Payroll processing		17		17	14
Books and subscriptions	3	3	5	11	5
Federal workforce training contracts					62
Miscellaneous expenses	1	1		2	11
Operating expenses - Latino Community Foundation	940	159	122	1,221	813
Total other expenses	8,704	4,676	2,002	15,382	14,394
Total	\$ 141,575	\$ 4,676	\$ 2,002	\$ 148,253	\$ 136,923