

THE SAN FRANCISCO FOUNDATION

JUNE 30, 2019

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

The San Francisco Foundation

Independent Auditors' Report and Consolidated Financial Statements

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A Century Strong

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, 2019, the related consolidated statements 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 consolidated 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

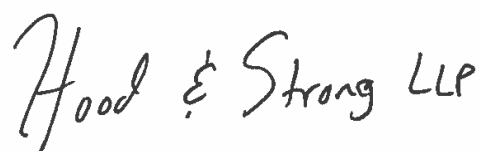
Other Matter

Report on Summarized Comparative Information

We have previously audited the Foundation's June 30, 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our audit report dated December 13, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Effect of Adopting New Accounting Standard

As described in Note 2(r), the Foundation adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14: *Not-for-Profit Entities – Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. Accordingly, the accounting change has been retrospectively applied to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to that matter.

A handwritten signature in black ink that reads "Hood & Strong LLP". The signature is written in a cursive, flowing style.

San Francisco, California
December 10, 2019

The San Francisco Foundation

Consolidated Statement of Financial Position (in thousands)

<i>June 30, 2019 (with comparative totals for 2018)</i>	2019	2018
Assets		
Cash and cash equivalents	\$ 1,355	\$ 16,043
Investments	1,468,139	1,469,968
Contributions and other accounts receivable, net	7,820	7,653
Charitable trust assets	23,695	23,174
Fixed assets, net	782	786
Program related investments	11,554	8,965
Other assets	4,080	4,562
Total assets	\$ 1,517,425	\$ 1,531,151
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	\$ 3,226	\$ 928
Grants payable, net	20,401	23,667
Liability to beneficiaries	12,539	12,523
Agency funds	25,463	24,605
Total liabilities	61,629	61,723
Net Assets:		
Without donor restrictions	538,203	566,125
With donor restrictions	917,593	903,303
Total net assets	1,455,796	1,469,428
Total liabilities and net assets	\$ 1,517,425	\$ 1,531,151

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, 2019 (with comparative totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue and Support:				
Contributions and bequests	\$ 87,144	\$ 32,997	\$ 120,141	\$ 134,929
Investment income, net	24,221	42,113	66,334	103,050
Change in value of split interest agreements		505	505	(1,744)
Unrealized (loss) gain on interest in perpetual trust		(28)	(28)	100
Other income	468	2	470	435
Net assets released from restrictions	61,299	(61,299)	-	-
Total revenue and support	173,132	14,290	187,422	236,770
Expenses:				
Program services	181,270		181,270	165,167
Management and general	5,754		5,754	5,283
Fundraising	1,691		1,691	1,731
Total expenses	188,715		188,715	172,181
Change in Net Assets Before Transfer of Supporting Organization	(15,583)	14,290	(1,293)	64,589
Transfer of Supporting Organization (Note 1)	(12,339)		(12,339)	-
Change in Net Assets	(27,922)	14,290	(13,632)	64,589
Net Assets - beginning of year	566,125	903,303	1,469,428	1,404,839
Net Assets - end of year	\$ 538,203	\$ 917,593	\$ 1,455,796	\$ 1,469,428

See accompanying notes to consolidated financial statements.

The San Francisco Foundation

Consolidated Statement of Functional Expenses (in thousands)

Year Ended June 30, 2019 (with comparative totals for 2018)

	Program Services	Management and General	Fundraising	2019 Total	2018 Total
Grant expenses	\$ 170,196			\$ 170,196	\$ 154,751
Salaries and benefits	6,614	\$ 3,765	\$ 1,117	11,496	9,820
Advertising	66	27	38	131	105
Convening and special events	361	118	85	564	783
Depreciation and amortization	129	66	19	214	362
Dues and memberships	103	62	5	170	165
Equipment rental and maintenance	610	311	91	1,012	767
Insurance	25	109	4	138	138
Occupancy	773	367	110	1,250	1,184
Office expenses	42	100	12	154	133
Professional fees and consultants	1,935	737	190	2,862	3,414
Taxes, fees, and licenses	88	7	2	97	44
Training and professional development	112	55	6	173	168
Travel	162	29	12	203	227
Loan guarantee loss reserve	54			54	118
Miscellaneous expenses		1		1	2
Total other expenses	11,074	5,754	1,691	18,519	17,430
Total	\$ 181,270	\$ 5,754	\$ 1,691	\$ 188,715	\$ 172,181

See accompanying notes to consolidated financial statements.

The San Francisco Foundation

Consolidated Statement of Cash Flows (in thousands)

<i>Year Ended June 30, 2019 (with comparative totals for 2018)</i>	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	\$ (13,632)	\$ 64,589
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	214	362
Net realized and unrealized gain on investments	(62,039)	(98,150)
Notes receivable loan loss reserve	54	118
Change in operating assets and liabilities:		
Contributions and other accounts receivable	(167)	119
Charitable trust assets	(521)	(900)
Other assets	482	(536)
Accounts payable and other liabilities	2,298	(192)
Grants payable	(3,266)	(1,152)
Liability to beneficiaries	16	2,472
Agency funds	858	5,447
Net cash used by operating activities	(75,703)	(27,823)
Cash Flows from Investing Activities:		
Purchases of investments	(128,499)	(143,458)
Proceeds from sale of investments	192,367	187,345
Purchases of fixed assets	(210)	(47)
Other program related investments	(1,727)	(257)
Collections of other program related investments		255
Investments in notes receivable - program related investments	(1,068)	(2,623)
Collection on notes receivable - program related investments	152	249
Net cash provided by investing activities	61,015	41,464
Change in Cash and Cash Equivalents	(14,688)	13,641
Cash and Cash Equivalents - beginning of year	16,043	2,402
Cash and Cash Equivalents - end of year	\$ 1,355	\$ 16,043

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 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 non-profit 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 charity under Section 501(c)(3) of the Internal Revenue Code (the Code) 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.

Effective July 1, 2018, the East Bay Foundation on Aging transferred to East Bay Community Foundation and is no longer a supporting organization to the San Francisco Foundation. Net assets of \$12,339 related to the supporting organization were transferred to East Bay Community Foundation during the fiscal year ended June 30, 2019.

Effective September 20, 2018, the Foundation dissolved two supporting organizations, TSFF Foundation on Community Resiliency and TSFF Foundation on Health. Effective December 20, 2018, the Foundation dissolved the two remaining supporting organizations, TSFF Foundation on Social Justice and TSFF Foundation on Community Development.

As of June 30, 2019, there were no supporting organizations associated with the Foundation.

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 States of America (U.S. GAAP). Accordingly, the Foundation presents information regarding its net assets and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets without donor restrictions – The portion of net assets that is not subject to time or donor-imposed restrictions and may be expended for any purpose in performing the primary objective of the Foundation. Net assets without donor restrictions represent total donor advised and other client funds held by the Foundation with variance power. The Trustees have designated certain net assets for additional program related investments and operating reserve (Note 14).

Net Assets with donor restrictions – 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 donor-restricted endowment funds. Also included in net assets with donor restrictions is the Foundation's interest in a perpetual trust. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities and Changes in Net Assets as net assets released from restrictions.

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 5), 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.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Due to the inherent uncertainty of the 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 NAV 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 valuation.

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 Foundation 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 (UPMIFA), and Enhanced Disclosures for All Endowment Funds.” The State of California adopted a version of the UPMIFA as its State Prudent Management of Institutional Funds Act (SPMIFA).

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Interpretation of Relevant Law

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

The corpus value of funds subject to SPMIFA represents the fair value of the original gift as of the gift date and the original value of subsequent gifts and is classified as with donor restriction in cases where the donor indicated that a portion of the fund be retained permanently. The excess balance is classified as with donor restrictions until appropriated, at which time the appropriation is reclassified to net assets without donor restrictions.

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 Foundation, and (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 historical gift value. There are no underwater endowment funds as of June 30, 2019.

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 endowments 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 16-quarter rolling average. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment assets to grow at an average rate of inflation annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

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, which are recorded at fair value 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 (2.8%).

h. Beneficial Interest in Perpetual Trust

The Foundation is the beneficiary of an irrevocable trust, from which the Foundation receives the income 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

The Foundation capitalizes capital expenditures with a cost over \$2,000 and a useful life greater than one year. Fixed assets and leasehold improvements are recorded at cost. Depreciation is computed using the straight-line basis over the estimated useful lives of assets ranging from three to seven years. Amortization of leasehold improvements is computed over the lesser of the useful life or the term of the related lease.

j. Program Related Investments

Program related investments consist of loans which are measured at cost, and other programmatic investments, including a fixed income mutual fund, a promissory note with proceeds used to make loans to Community Development Financial Institutions, money market accounts and certificates of deposit in community banks.

These investments are evaluated for impairment annually and the loan loss reserve adjusted periodically based on risk and other factors. Interest rates charged on loan receivables are generally below market rates. The Foundation's loan receivables are recorded at the time the loan is funded and agreed to by both parties. The Foundation records other programmatic investments at fair value.

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 2012 Individual Annuity Reserve (IAR) mortality table and a discount rate of 7%.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

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 on the date donated. 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 2(a) above, the Foundation receives contributions subject to time or purpose restrictions. When the restriction is met in the same period the contribution is received, the contribution is recorded as with donor restrictions and net assets released from restrictions in the Consolidated Statement of Activities and Changes in Net Assets.

m. Grant Expenses

Grant expenses are recognized when unconditional promises to give are approved by the Trustees. Grant refunds are recorded as reductions of grant expenses at the time the grants are 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 fundraising. 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 fundraising 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 based on actual average full-time employee equivalent percentages to departmental expenses among program, management and general, and fundraising.

o. Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain amounts. Accordingly, actual results could differ from these estimates.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

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, 2018, from which the summarized information is derived.

Certain reclassifications have been made to the 2018 consolidated financial statements in order to conform to the 2019 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 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. However, the Foundation is subject to tax on unrelated business income, such as 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, 2019, 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

Pronouncement Adopted

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*, which changes presentation and disclosure requirements for nonprofit entities to provide more relevant information about their resources (and the changes in those resources) to donors, granters, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, and liquidity. Accordingly, the accounting change has been retrospectively applied to all periods presented with the exception of the omission of prior year functional expense and liquidity and availability of resource information as permitted by the ASU.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Net assets have been reclassified as of June 30, 2018 due to the adoption of ASU 2016-14 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Unrestricted	\$ 566,125		\$ 566,125
Temporarily restricted		\$ 789,749	789,749
Permanently restricted		113,554	113,554
Total	\$ 566,125	\$ 903,303	\$ 1,469,428

Pronouncements Effective in the Future

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The ASU does not apply to transfers of assets from governments to businesses. The amendments in the update are effective for the Foundation for its fiscal year ending June 30, 2020. The Foundation is currently evaluating the impact of this pronouncement on its consolidated financial statements.

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. The ASU 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 for its fiscal year ending June 30, 2021, with early application permitted. The Foundation is currently evaluating the impact of this pronouncement on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework- Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)*. The ASU removes the requirements for transfers between Levels 1 and 2 as well as the valuation processes for Level 3 fair value measurements. In lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 as well as purchases and issues of Level 3 assets and liabilities. It clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The amendments in the update are effective for the Foundation for its fiscal year ending June 30, 2021. 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)

s. Subsequent Events

The Foundation evaluated subsequent events with respect to the consolidated financial statements for the year ended June 30, 2019 through December 10, 2019, 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 5, 9, and 10.

Note 3 - Availability of Financial Assets and Liquidity:

The Foundation's financial assets available within one year for general expenditures are as follows:

Financial assets at June 30, 2019:	
Cash and cash equivalents	\$ 1,355
Investments	1,468,139
Contributions and other accounts receivable, net	7,820
Program related investments – notes receivable	8,061
Other program related investments	3,493
Charitable trust assets	23,695
	<hr/>
Total financial assets	1,512,563
Less amounts not available to be used within one year:	
Perpetual endowments and accumulated earnings, net of estimated appropriation and fees for the next year of \$41,389	(804,201)
Investments not convertible to cash within one year	(170,324)
Net assets with donor restrictions	(62,394)
Contributions receivable collectible beyond one year	(652)
Program related investments – notes receivable collectible beyond one year	(7,600)
Agency funds	(25,463)
Charitable trust assets	(23,695)
Net assets designated by the Trustees:	
Program related investments	(15,290)
Operating reserve	(2,894)
	<hr/>
	(1,112,513)
	<hr/>
Financial assets available to meet general expenditures within one year	\$ 400,050

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

The Foundation's goal is to generally maintain ample liquidity in its investment portfolios by managing targets set by the investment committee and approved by the Trustees, reflecting the cashflow needs and variability for each portfolio. The Foundation's management regularly forecasts liquidity needs for cashflow planning purposes and plans ahead for investment redemptions. The cash required for the annual operating expense budget is moved to the short-term pool and checking account at the beginning of each fiscal year. The Foundation's short-term portfolio, which is used for administrative funds along with the portion of donor advised funds intended for expenditure in the near term, holds marketable fixed income securities and maintains a weighted average maturity of less than one year. Additionally, board-designated assets are designated for future program related investments and an operating reserve, which could be undesignated by the Trustees and made available for general operations as needed.

The predictability of the Foundation's spending policy enables management to target a higher, but still conservative proportion of illiquid investments with endowed fund balances compared with other fund types. The Foundation's program-related investment fund, the Bay Area Community Impact Fund, makes long-term loans and consequently, management requires that funds are invested with a minimum commitment of five years to ensure ample available cash for lending.

Note 4 - Contributions and Other Accounts Receivable, Net:

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

	2019	2018
Contributions receivable (net of discount of \$48 and \$103 for the years ended June 30, 2019 and 2018, respectively)	\$ 6,460	\$ 6,417
Accrued interest on investments	1,329	1,223
Other accounts receivable	31	13
Total	\$ 7,820	\$ 7,653

Contributions receivable as of June 30, 2019 are expected to be received as follows: \$5,808 within one year and \$652 within two to five years.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Note 5 - Investments:

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

	2019	2018
Cash and cash equivalents	\$ 27,778	\$ 59,268
Fixed income	354,876	329,378
Domestic equities	281,896	301,605
International equities	165,303	207,176
Global equities	197,667	167,525
Alternative investments	431,950	398,300
Subtotal	1,459,470	1,463,252
Receivables for unsettled transactions	12,743	8,987
Payables for unsettled transactions	(4,074)	(2,271)
Total	\$ 1,468,139	\$ 1,469,968

The Foundation's investment income consists of the following for the year ended June 30:

	2019	2018
Realized and unrealized gain	\$ 62,039	\$ 98,150
Fees (management and performance)	(6,644)	(6,200)
Dividends and interest	11,531	10,760
Unrelated business income tax (expense) refund	(592)	340
Investment income, net	\$ 66,334	\$ 103,050

The majority of donor advised fund investments are allocated among long-term, short-term, and mission-aligned investments pools as recommended by donor advisors. The short-term pool provides liquidity for current giving requirements. Approximately 35% 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 mission-aligned investments pool has a market rate return investment objective, and is appropriate for the portion of a donor advised fund with a long-term horizon where the advisor seeks to invest using a variety of impact investment and socially-responsible strategies, such as social screens and environmental, social and governance considerations. Donor advised funds invested outside the pools are invested in cash, liquid fixed income and equity strategies, based on the donor's plans for current giving.

Subsequent to year-end, the Foundation redeemed \$73 million from current investments and reinvested \$38 million in new or current investments. The balance proceeds from these redemptions were allocated utilized for the Foundation's cash needs.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Note 6 - Fair Value Measurements and Net Asset Value:

Fair Value Measurement

The table below presents the balances of assets measured at fair value at June 30, 2019 on a recurring basis:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	(a) <u>NAV</u>
Cash and Cash Equivalents	\$ 27,778	\$ 27,778			
Fixed Income:					
U.S. government and agency	113,808	113,808			
U.S. corporate	142,522		\$ 142,522		
Non-agency and asset backed	17,326		17,326		
Global	12,717		12,717		
Investment grade U.S. fixed income mutual funds and ETFs	19,476	19,476			
Pooled funds	49,027				\$ 49,027
Domestic Equities:					
Publicly traded:					
Consumer/staples	14,296	14,296			
Energy/materials	1,957	1,957			
Financials	13,030	13,030			
Health care	13,821	13,821			
Industrials	6,358	6,358			
IT/telecom/utilities	13,803	13,803			
Other	1,396	1,396			
Mutual funds:					
Large cap	3,184	3,184			
Alternative strategies	1,352	1,352			
Pooled funds	212,699				212,699
International Equities:					
Developed markets	2,272	2,272			
Mutual funds:					
Developed	1,879	1,879			
Emerging	1,533	1,533			
Pooled funds	159,619				159,619
Global Equities:					
Pooled funds	197,667				197,667
Alternative Investments:					
Pooled funds	431,950				431,950
Subtotal	1,459,470	235,943	172,565		1,050,962
Charitable trust assets	23,695		23,695		
Beneficial interest in perpetual trust	2,441		2,441		
Programmatic investments at fair value	1,059		1,059		
Total assets measured at fair value	\$ 1,486,665	\$ 235,943	\$ 199,760	\$ -	\$ 1,050,962

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

(a) In accordance with FASB ASC subtopic 820-10, certain investments that are measured at fair value using the NAV 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

The Foundation uses 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, 2019:

<u>Strategies</u>	<u># of Funds</u>	<u>Valuation</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Pooled Funds:					
Fixed income (a):					
Redeemable	2	\$ 49,027		Semi-monthly to Monthly	5-15 days
Domestic equities (b):					
Redeemable	1	6,113		Monthly	5 days
Redeemable with restrictions	5	206,586		Quarterly to Annually	45-90 days
International equities (c):					
Redeemable	3	72,406		Monthly	10-30 days
Redeemable with restrictions	2	87,213		Quarterly to 3 Years	90-180 days
Global Equities (d):					
Redeemable	3	124,947		Daily to Quarterly	1-30 days
Redeemable with restrictions	2	72,720		Quarterly to Semi-annually	30-60 days
Alternative Investments:					
Hedged equity (e):					
Redeemable	1	20,159		Monthly	90 days
Redeemable with restrictions	9	226,486		Monthly to 3 Years	60-180 days
Non-redeemable	2	543	\$ 3,212	None	
Multi-strategy (f):					
Redeemable with restrictions	3	56,434		None to Annually	45-60 days
Long/short credit (g):					
Redeemable with restrictions	1	37,413		Quarterly	65 days
Non-redeemable	1	747		None	
Private equity (h):					
Non-redeemable	27	74,942	35,200	None	
Real assets (i):					
Non-redeemable	10	15,226	3,495	None	
Total	72	\$ 1,050,962	\$ 41,907		

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

- a) The fixed income strategies are actively managed, diversified portfolios of United States (U.S.) investment grade and below investment grade fixed income and non-U.S. fixed income investments.
- b) The domestic equity funds invest in actively managed funds benchmarked to U.S. equity indices. Restrictions on redemptions of the assets in this category include three funds that can be redeemed quarterly subject to redemption gates of 20%, 25% and 33%, respectively. A fourth fund permits only annual redemptions. The remaining investment fund is being fully liquidated.
- c) The international equity strategies are all actively managed and invest in both emerging and developed market equities. Restrictions on redemptions of the assets in this category include one investment that has a rolling three year lock up with liquidity next available in September 2020, and the second fund can be redeemed quarterly, subject to a redemption gate of 50% of the Master Fund.
- 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. Restrictions on redemptions of the assets in this category include one fund that permits semi-annual redemptions. The Foundation has five tranches in the second fund, each with a respective two year lock up and subsequent quarterly redemption window.
- 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 amount of fixed income and derivative securities. This category also includes opportunistic investment strategy funds. Restrictions on redemptions of the assets in this category include the following, with applicable gates shown in parenthesis: one fund with three year (each 20%), two funds with annual (1/3 and 20%), three funds with semi-annual (50%, 1/3 and 16 2/3%), two investments with quarterly (16.7%), and one with monthly (5% annual max).
- 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, one fund is redeemable annually; a second includes quarterly redemptions with a 25% gate restriction; the third investment is in the process of liquidation.
- g) Long/short credit strategies invest in both long and short positions in high yield fixed income. There is one fund in this asset class, which is redeemable quarterly with a 25% gate.

The San Francisco Foundation

Notes to Consolidated Financial Statements (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. The partnerships 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. The partnerships have a remaining life span of up to 10 years with no redemption rights for the limited partners.

Note 7 - Charitable Trust Assets:

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

	2019	2018
Assets held in charitable trusts in which the Foundation is both trustee and secondary beneficiary	\$ 19,389	\$ 19,000
Contributions receivable from non-trusteed charitable trusts	4,306	4,174
Total	\$ 23,695	\$ 23,174

Assets associated with charitable trusts consist primarily of cash equivalents, equities, and fixed income securities.

Note 8 - Fixed Assets:

Fixed assets consist of the following as of June 30:

	2019	2018
Leasehold improvements	\$ 1,380	\$ 1,292
Furniture and fixtures	857	841
Computer equipment and software	2,630	2,524
Office equipment	59	59
	4,926	4,716
Less accumulated depreciation and amortization	(4,144)	(3,930)
Fixed assets, net	\$ 782	\$ 786

Depreciation and amortization expense was \$214 for the year ended June 30, 2019.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Note 9 - Program Related Investments:

Program related investments consist of the following as of June 30:

	2019	2018
Notes receivable	\$ 8,494	\$ 7,577
Notes receivable loan loss reserve	(433)	(379)
Mission deposits and other programmatic investments	3,493	1,767
Total	\$ 11,554	\$ 8,965

Notes receivable as of June 30, 2019 are expected to be received as follows: \$894 within one year, \$4,352 within two to five years, and \$3,248 beyond five years.

As of June 30, 2019, the Foundation has two revolving loans of \$1,375 of which \$136 has been disbursed and is included in notes receivable. The drawdown period expires in 2021 and the loan matures in 2025.

Subsequent to year-end, the Foundation made loans of \$1,239 and committed to additional loans of \$1,245.

Note 10 - Other Assets:

Other assets consist of the following as of June 30:

	2019	2018
Beneficial interest in perpetual trust	\$ 2,441	\$ 2,469
Real estate	895	1,515
Artwork	347	347
Security deposit and prepaid rent	101	122
Other	296	109
Total	\$ 4,080	\$ 4,562

The real estate category includes the Foundation's ownership in a single member LLC. The LLC owned two condominium units in San Francisco as of June 30, 2019. Real estate is held at fair value as of the date the contributed real estate assets were received and is evaluated annually for impairment.

During 2019, the Foundation sold a condominium located in San Mateo that was held by the Foundation as of June 30, 2018.

Subsequent to year-end, the Foundation sold a condominium unit in San Francisco held by the single member LLC for a gain of approximately \$360.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Note 11 - Grants Payable, Net:

Grants payable at June 30, 2019 are scheduled to be disbursed as follows:

Year Ending June 30,	
2020	\$ 18,334
2021	1,931
2022	192
2023	103
	<hr/>
	20,560
Less discount on multi-year grants payable	(159)
	<hr/>
Grants payable, net	\$ 20,401

The Foundation has approved \$1,395 of conditional grants at June 30, 2019, which is not included in grants payable.

Note 12 - 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 in the Consolidated Statement of Financial Position and their activities are excluded from the Consolidated Statement of Activities and Changes 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, 2018	\$ 24,605
Contributions	859
Interest and dividends	301
Net gain (realized and unrealized)	521
Grants out of agency funds	(628)
Other expenses	(195)
	<hr/>
Balance at June 30, 2019	\$ 25,463

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Note 13 - Endowments:

Changes in donor restricted endowment funds for the year ended June 30, 2019:

Endowment net assets, beginning of year	\$ 856,250
Change in endowment net assets:	
Interest and dividends	3,337
Investment management fees	(3,186)
Net gain (unrealized and realized)	40,827
Change in value of split interest agreements	37
Contributions	405
Appropriation for expenditure	(39,741)
Transfer of endowed funds in supporting organization	(12,339)
Change in endowment net assets	(10,660)
Endowment net assets, end of year	\$ 845,590

Note 14 - Net Asset Composition and Releases:

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, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor endowment funds		\$ 845,590	\$ 845,590
Split interest agreements		9,609	9,609
Donor advised funds	\$ 510,547		510,547
Operating funds	9,469		9,469
Board designated funds:			
Program related investments	15,290		15,290
Operating reserve	2,894		2,894
Project and special purpose funds	3	62,394	62,397
Total	\$ 538,203	\$ 917,593	\$ 1,455,796

As of June 30, 2019, the Trustees have designated \$18,184 of net assets without donor restrictions to be used for program related investments and an operating reserve.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

The following table summarizes the net assets released from restriction during the year ended June 30, 2019:

Donor endowment funds	\$ 39,741
Project and special purpose funds:	
Equity Agenda	11,497
Partnership for the Bay Area	2,719
Other	2,118
Transfer of supporting organization	12,339
Donor advised assets transferred to restricted projects	(7,115)
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Total	\$ 61,299

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, 2019, 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 15 - 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, 2019:

Year Ending June 30,	
2020	\$ 1,126
2021	1,145
2022	1,131
2023	1,153
2024	341
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Total future minimum lease payments	\$ 4,896

Rental expense was approximately \$1,214 for the year ended June 30, 2019.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Note 16 - 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 17 - Retirement Plan:

The Foundation provides a defined contribution plan under Section 401(k) of the 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 2019, the Foundation contributed 12% of salary to the 401(k) Plan for all eligible employees, as defined.

Retirement plan expense related to the 401(k) Plan was \$722 for the year ended June 30, 2019.

Note 18 - 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 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 10% of the contributions and bequest revenue is comprised of funds from one contributor for the year ended June 30, 2019.