The San Francisco Foundation

June 30, 2012

Independent Auditors' Report,

Consolidated Financial Statements

and

Supplementary Information

The San Francisco Foundation

Independent Auditors' Report, Consolidated Financial Statements and Supplementary Information

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

We have audited the accompanying consolidated statement of financial position of **THE SAN FRANCISCO FOUNDATION (the Foundation)** as of June 30, 2012, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2011 consolidated financial statements and in our report, dated December 21, 2011, we expressed an unqualified opinion on those financial statements.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The San Francisco Foundation as of June 30, 2012, and the changes in its consolidated net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Consolidated Functional Expenses is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit 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 financial statements as a whole.

Hood & Strong LLP

San Francisco, California
December 19, 2012

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The San Francisco Foundation

Consolidated Statement of Financial Position
(in thousands)

June 30, 2012 (with comparative totals for 2011)	2012	2011
Assets		
Cash and cash equivalents	$ 2,934	$ 1,694
Investments, at fair value	1,039,727	1,058,079
Contributions and other accounts receivable	2,465	5,754
Charitable trust assets	24,441	22,016
Property and equipment, net	505	801
Other assets	11,317	12,725
Total assets	$ 1,081,389	$ 1,101,069
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	$ 1,524	$ 1,169
Grants payable	7,129	4,345
Liability to beneficiaries	10,009	10,615
Agency funds	6,830	6,983
Total liabilities	25,492	23,112
Net Assets:		
Unrestricted	410,468	418,808
Temporarily restricted	533,968	551,153
Permanently restricted	111,461	107,996
Total net assets	1,055,897	1,077,957
Total liabilities and net assets	$ 1,081,389	$ 1,101,069

The accompanying notes are an integral part of this statement.

The San Francisco Foundation

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

Year Ended June 30, 2012 (with comparative totals for 2011)

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and Support:					
Contributions and bequests	$ 59,043	$ 12,925	$ 3,561	$ 75,529	$ 56,712
Change in value of split interest agreements		(168)	(43)	(211)	1,780
Net realized and unrealized (loss) gain on investments	(2,812)	456		(2,356)	157,694
Unrealized (loss) gain on interest in perpetual trust			(53)	(53)	334
Investment income (net of fees)	2,872	1,336		4,208	4,167
Other income (loss)	316	326		642	(218)
Net assets released from restrictions	32,060	(32,060)			
Total revenue and support	91,479	(17,185)	3,465	77,759	220,469
Expenses:					
Program services:					
Grant expenses	88,658			88,658	82,473
Other program expenses	6,674			6,674	5,873
Total program services	95,332			95,332	88,346
Management and general	3,547			3,547	2,985
Development and donor services	940			940	837
Total expenses	99,819			99,819	92,168
Change in Net Assets from Operations	(8,340)	(17,185)	3,465	(22,060)	128,301
Other Changes in Net Assets:					
Net transfer of supporting organization (Note 18)					(7,104)
Change in Net Assets	(8,340)	(17,185)	3,465	(22,060)	121,197
Net Assets - beginning of year	418,808	551,153	107,996	1,077,957	956,760
Net Assets - end of year	$ 410,468	$ 533,968	$ 111,461	$ 1,055,897	$ 1,077,957

The accompanying notes are an integral part of this statement.

The San Francisco Foundation

Consolidated Statement of Cash Flows
(in thousands)

Year Ended June 30, 2012 (with comparative totals for 2011)	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	$ (22,060)	$ 121,197
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	347	367
Partnership interests distributed as grant		6,000
Transfer of supporting organization (Note 18)		7,104
Net realized and unrealized loss (gain) on investments	2,356	(157,694)
Change in operating assets and liabilities:		
Contributions and other accounts receivable	3,289	(75)
Charitable trust assets	(2,425)	(2,799)
Other assets	1,408	1,172
Accounts payable and other liabilities	355	(169)
Grants payable	2,784	(2,372)
Liability to beneficiaries	(606)	1,082
Agency funds	(153)	1,267
Net cash used by operating activities	(14,705)	(24,920)
Cash Flows from Investing Activities:		
Purchases of investments	(83,026)	(63,975)
Proceeds from sale of investments	99,022	87,953
Purchases of property and equipment	(51)	(26)
Net cash provided by investing activities	15,945	23,952
Change in Cash and Cash Equivalents	1,240	(968)
Cash and Cash Equivalents - beginning of year	1,694	2,662
Cash and Cash Equivalents - end of year	$ 2,934	$ 1,694

Supplemental Data for Noncash Investing Activities:		
Donated securities	$ 39,036	$ 33,038

The accompanying notes are an integral part of this statement.

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 San Francisco Foundation mobilizes resources and acts as a catalyst for change to build strong communities, foster civic leadership, and promote philanthropy. Through the generosity of our donors, past and present, the Foundation funds more than 2,600 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, we focus our grantmaking on five core areas -- arts and culture, community development, community health, education, and the environment. In response to the economic downturn and its collateral effects, we also provide funding that strengthens the safety net, jobs training and creation, and foreclosure response and neighborhood preservation.

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 Courtney's Foundation, Latino Community Foundation, the Rose T.Y. Chen Foundation, East Bay Foundation on Aging, TSFF Foundation on Community Development, TSFF Foundation on Health, 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. During the fiscal year ended June 30, 2011, one supporting organization discontinued their supporting organization relationship (Note 18).

Note 2 - Significant Accounting Policies:

a. Basis of Presentation

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 statement of activities 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. $71 of cash is in an account with withdrawal restrictions.

d. Investments

All debt and equity securities with readily determinable market values are carried at estimated fair value based on closing market prices. Pooled funds and alternative investments are valued at the net asset value per unit or percentage of ownership as reported by the funds. 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.

Gains and losses that result from market fluctuations are recognized in the statement of activities in the period such fluctuations occur. Dividend and interest income are accrued when earned.

For cash flow purposes, purchases of investments represent the total additions to the portfolio from revenues received during the year. Proceeds from 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. 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 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. 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, interest receivable, contribution 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, on the advice of legal counsel, has determined that the Foundation holds net assets that meet the definition of endowment funds under SPMIFA.

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

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) The duration and preservation of the fund, (2) The purposes of the organization and the donor-restricted endowment fund, (3) General economic conditions, (4) The possible effect of inflation and deflation, (5) The expected total return from income and the appreciation of investments, (6) Other resources of the organization, (7) The investment policies of the Foundation.

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

Investment and Spending Policies

The Foundation has adopted investment and spending polices for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to earn the spending policy percentage plus inflation, net of investment fees. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters. The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, for grantmaking and administration. The current spending policy is to distribute an amount equal to 5% of a moving sixteen quarter rolling average. Accordingly, over the long term, the Foundation expects current spending policy to allow its endowment assets to grow at an average rate of 2.5% to 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

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.

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 (1.2%).

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.

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 certificate of deposits that were made for the purpose of the Foundation's programmatic mission. Interest on these receivables is generally charged below market rates. The Foundation's loan receivables are recorded at the time the loan is agreed to by both parties.

The Foundation records program related investments at cost if purchased or market value on the date of donation. These investments are evaluated for impairment annually and written down if appropriate.

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.

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.

o. Functional Expense Allocations

The Statement of Activities 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. Certain 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 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, 2011, from which the summarized information is derived. Certain reclassifications have been made to the prior year financial statements in order for them to conform to current year presentation. These reclassifications had no effect on net assets or change 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 could be subject to tax on unrelated business income, if any, generated by its investments.

The Foundation follows the guidance of FASB ASC Topic 740 - Accounting for Uncertainty in Income Taxes. As of June 30, 2012, 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 financial statements. With few exceptions, the Foundation is no longer subject to income tax examinations by the Internal Revenue Service for tax years ending June 30, 2008 and before. Similarly, the Foundation is no longer subject to income tax examinations by the California Franchise Tax Board for tax years ending June 30, 2007 and before.

s. Recent Accounting Pronouncements Adopted or Under Consideration

In May 2011, the FASB issued amendments to existing guidance for fair value measurements. The amendments change the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. The amendments explain how to measure fair value and do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices. These additional disclosures are required for the year ending June 30, 2013.

t. Subsequent Events

The Foundation evaluated subsequent events with respect to the financial statements for the year ended June 30, 2012 through December 19, 2012, the date the financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure, except as discussed in Notes 3 and 13.

(dollars in thousands)

Note 3 - Investments:

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

	2012	2011
Cash and cash equivalents	$ 8,762	$ 26,589
Fixed income	287,246	275,215
Domestic equities	277,526	259,222
International equities	175,692	206,168
Alternative investments	287,416	292,020
Subtotal	1,036,642	1,059,214
Receivables for unsettled transactions	6,147	198
Payables for unsettled transactions	(3,062)	(1,333)
Total	$ 1,039,727	$ 1,058,079

Donor advised fund investments are allocated among the long term, short term, and the socially responsible pools as recommended by Donor Advisors. The short term pool provides liquidity for current giving requirements. Approximately half 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.

Domestic and international capital markets continue to experience significant volatility. As a result, significant fluctuations in the fair value of investments may have occurred subsequent to June 30, 2012.

Subsequent to year end, the Foundation submitted a redemption request for $54 million from current investments. When these funds are received, they will be allocated to current and new investment managers.

(dollars in thousands)

Note 4 - Fair Value Measurements:

The table below presents the balances of assets measured at fair value on a recurring basis at June 30, 2012:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 8,762	$ 8,762		
Fixed income:				
U.S. Government and agency	107,415	107,415		
U.S. corporate	41,048		$ 41,048	
Non-agency and asset backed	6,849		6,849	
Global	31,900		31,900	
Investment grade US fixed income mutual funds and ETFs	41,518	41,518		
Pooled funds	58,516		58,516	
Domestic equities:				
Publicly traded:				
Consumer/Staples	28,228	28,228		
Energy/Materials	3,436	3,436		
Financials	8,722	8,722		
Health Care	15,611	15,611		
Industrials	6,269	6,269		
IT/Telecom/Utilities	12,861	12,861		
Other	211	211		
Private common stock consumer goods	788			$ 788
Mutual funds:				
Small Cap	29,890	29,890		
Large Cap	4,969	4,969		
Hard Assets	930	930		
Pooled funds	165,611		57,435	108,176
International equities:				
Developed markets	1,251	1,251		
Mutual funds:				
Developed	5,720	5,720		
Emerging	22,077	22,077		
Pooled funds	146,644		122,185	24,459
Alternative investments:				
Hedged equity	56,510		1,029	55,481
Multi-strategy	120,021		15,956	104,065
Long/short credit	49,588			49,588
Private equity	34,189			34,189
Real assets	27,108			27,108
Subtotal	1,036,642	297,870	334,918	403,854
Charitable trusts assets	24,441		24,441	
Beneficial interest in perpetual trust	2,155		2,155	
Total	$ 1,063,238	$ 297,870	$ 361,514	$ 403,854

The San Francisco Foundation

Notes to Consolidated Financial Statements
(dollars in thousands)

The changes in investments classified as Level 3 are as follows for the year ended June 30, 2012:

	Pooled Funds								
	Domestic Equities	International Equity	Private Stock	Hedge Equity	Multi Strategy	Long/Short Credit	Private Equity	Real Estate	Total
Balance, June 30, 2011	$ 29,193		$ 596	$ 35,892	$ 114,516	$ 48,985	$ 32,215	$ 20,219	$ 281,616
Transfers to Level 2					(5,646)				(5,646)
Transfers to Level 3	69,164								69,164
Contributions	2,238	$ 20,000	308	30,921			4,434	5,645	63,546
Distribution				(11,847)	(5,250)	(54)	(4,173)	(310)	(21,634)
Realized gain (loss)				13		(18)	2,369	245	2,609
Income				212			180	10	402
Unrealized gain (loss)	7,581	4,459	(116)	290	445	675	(836)	1,299	13,797
Balance, June 30, 2012	$ 108,176	$ 24,459	$ 788	$ 55,481	$ 104,065	$ 49,588	$ 34,189	$ 27,108	$ 403,854

Transfers to level 2 resulted from the expiration of lock-up periods and reduction in percentage of side pocket allocations. Transfers to level 3 are due to gate restrictions.

(dollars in thousands)

Net Asset Value

The Foundation uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which do not have readily determinable fair value. The following table lists investments by major category and investment strategy as of June 30, 2012:

Strategies	# of Funds	Valuation	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled Funds:					
Fixed income [(a)]	3	$ 58,516		Monthly	10-30 Days
Domestic equities [(b)]	5	165,611		Daily to Quarterly	1-90 Days
International equities [(c)]	4	146,644		Monthly to 3 Years	1-90 Days
Alternative Investments:					
Hedged equity [(d)]	8	56,510	$ 14,860	Quarterly to None	30-95 Days
Multi-strategy [(e)]	7	120,021		Quarterly to Annually	45-100 Days
Long/short credit [(f)]	3	49,588		Quarterly to None	65-90 Days
Private equity [(g)]	13	34,189	15,715	None	
Real assets [(h)]	10	27,108	19,159	None	
Total	53	$ 658,187	$ 49,734		

a) The fixed income strategies are actively managed diversified portfolios of U.S. investment grade and below investment grade fixed income and international fixed income instruments.

b) The domestic equity funds invest in passive U.S. index funds, actively managed funds with U.S. equity indexes as benchmarks, and a fund utilizing S&P futures and short term fixed income investments attempting to meet or exceed the S&P 500 index. Of the assets in this category, 29% of these assets can be redeemed daily, 47% can be redeemed quarterly on 60 days notice with a 20% gate on total fund redemptions at the discretion of the manager, 5% can be redeemed monthly with two days notice (redemption requests under $5 million require partnership approval), and 19% have a five year staggered liquidity provision on unlocked dollars of which 16% is subject to a lockup, expiring in December 2012.

c) The international equity strategies are actively managed and invest in both emerging and developed market equities. Of the assets in this category, 68% are redeemable monthly with a notice of 1 to 5 days; 16% is redeemable monthly with a notice of 30 days, and 16% is subject to a rolling 3-year lockup period, with the next liquidity available in 2014.

d) The hedged equity funds are fund of funds and 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 also short public equity securities and hold small amounts of fixed income and derivative securities. This category also includes opportunistic investment strategy funds. Of the assets in this category, 63% is redeemable quarterly with a notice of 30 to 95 days and lockup periods extending to 2014, 16% is redeemable on anniversary dates of 12 and 36 months requiring at least 90 days notice, 15% is redeemable upon first lockup expiring in 2015 and requiring 90 days notice, 5% have a partnership extending to 2017 with no redemption rights for limited partners, and 1% is remaining from full liquidation that was subject to holdback percentage.

e) The multi-strategy funds consists of fund of funds and 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, 84% is redeemable annually with a notice of 45 to 100 days, and 16% is redeemable quarterly or semiannually with a notice of 60 or 65 days. Additionally, 8% is generally not available for withdrawal or distribution until after the underlying investments are liquidated or distributed. 45% is subject to lockups that expire in December 2012. Less than 2% of this category has a future lockup expiring in 2013.

f) Long/short credit strategies invest in both long and short positions in high yield fixed income. Of these assets, 46% is redeemable annually with 90 days notice, 54% is redeemable quarterly with 65 days notice and both an investor-level and fund-level gate limit of 25%, and less than 1% has no redemption rights.

g) Private equity strategies invest in various companies and some debt securities, both domestic and international. The partnerships have a remaining legal life span of 2 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 time period and that the Foundation will make new investments in other Private equity strategies. The majority of the capital calls are expected within two to four years and return of capital is anticipated in five to ten years.

(dollars in thousands)

h) 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. In addition, the Foundation also includes one distressed strategy fund in this category as many of its holdings are backed by real estate. The funds have a remaining legal life span of 4 to 14 years with no redemption rights for Limited Partners. Return of capital is expected to begin in 2012 will full liquidation in seven to fourteen years.

Note 5 - Contributions and Other Accounts Receivable:

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

	2012	2011
Contributions receivable (net of discount of $4 and $0 for the years ended June 30, 2012 and 2011, respectively)	$ 1,645	$ 4,650
Accrued interest on investments	782	1,055
Other accounts receivable	38	49
Total	$ 2,465	$ 5,754

Contributions receivable as of June 30, 2012 are expected to be received as follows: $1,530 within one year and $126 within two to five years.

Note 6 - Charitable Trust Assets:

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

	2012	2011
Assets held in charitable trusts in which the Foundation is both trustee and secondary beneficiary	$ 16,738	$ 17,416
Contributions receivable from non trustee charitable trusts	7,703	4,600
Total	$ 24,441	$ 22,016

(dollars in thousands)

Note 7 - Property and Equipment:

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

	2012	2011
Leasehold improvements	$ 1,035	$ 1,035
Furniture and fixtures	810	801
Computer equipment and software	2,386	2,345
Office equipment	171	170
	4,402	4,351
Less accumulated depreciation and amortization	(3,897)	(3,550)
Property and equipment, net	$ 505	$ 801

Depreciation and amortization expense was $347 for the year ended June 30, 2012.

Note 8 - Other Assets:

Other assets consist of the following as of June 30:

	2012	2011
Beneficial interest in perpetual trust	$ 2,155	$ 2,207
Real estate	4,193	4,274
Program related investments:		
Notes receivable (net of loan reserve of $250 for the years ended June 30, 2012 and 2011)	2,602	2,865
Certificate of deposits – community banks	1,244	2,253
Cash deposits – community banks	430	454
Artwork	421	421
Other	272	251
Total	$ 11,317	$ 12,725

Real estate includes the Foundation's ownership in a single member LLC. The LLC owns five condominium units in San Francisco.

Program related investments are valued at their original cost unless impaired. Included in this amount are program related notes receivable of supporting organizations.

(dollars in thousands)

Additionally, as part if its program related investments, the Foundation has committed $500 to a revolving loan program, to expire in 2021. The balance of loans outstanding under the program at June 30, 2012 was $77.

Note 9 - Grants Payable:

Grants payable at June 30, 2012 are scheduled to be disbursed as follows:

Year Ending June 30,		
2013	$	4,537
2014		1,171
2015		740
2016		705
2017		105
Thereafter		35
		7,293
Less discount on multi-year grants payable		(164)
Grants payable, net	$	7,129

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

(dollars in thousands)

Note 11 - Endowments:

Donor Restricted Endowment funds by Net Asset class for the year ended June 30, 2012:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, beginning of year	$ 538,607	$ 107,996	$ 646,603
Interest and dividends	1,304		1,304
Net gain (realized and unrealized)	478	(53)	425
Change in value of split interest agreements		(43)	(43)
Contributions	368	3,561	3,929
Appropriated for expenditure	(27,748)		(27,748)
Change in endowment net assets	(25,598)	3,465	(22,133)
Endowment Net Assets, end of year	$ 513,009	$ 111,461	$ 624,470

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, 2012.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Endowment Funds		$ 513,009	$ 106,296	$ 619,305
Split Interest Agreements		9,267	5,165	14,432
Donor Advised Funds	$ 396,122	190		396,312
Operating Funds	13,044			13,044
Project and Special Purpose Funds	25	10,987		11,012
Non-Endowed Supporting Organizations Funds	1,277	515		1,792
Total	$ 410,468	$ 533,968	$ 111,461	$1,055,897

Net assets of $27,585 and $4,475 were released from restrictions due to the expiration of the time and purpose restrictions, respectively, during the year ended June 30, 2012.

(dollars in thousands)

The endowed assets are comprised of over 200 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, 2012, 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 wishes of the donors across programmatic areas, including Arts and Culture, Community Health, Education, Environment, Community Development, and Social Justice.

Note 13 - Commitments and Contingencies:

The Foundation leases office facilities and various office equipment under operating leases which expire through 2014.

The following is a schedule of future minimum lease payments required under non-cancelable operating leases at June 30, 2012:

Year Ending June 30,		
2013	$	603
2014		44
Total future minimum lease payments	$	647

Rental expense was approximately $1,015 for the year ended June 30, 2012.

The Foundation's operating lease for its administrative office expires March 2013. Subsequent to June 30, 2012, the Foundation entered into a ten year lease agreement with a third party. Over the term of the lease, monthly payments range between $79 and $98. The landlord will reimburse a portion of the costs of the leasehold improvements by providing a tenant improvement allowance of approximately $1,420.

Note 14 - Related Parties:

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

Note 15 - Guarantees:

The Foundation acts as a loan guarantor for loans to not-for-profit organizations. At June 30, 2012 there was one loan outstanding of $500 which was guaranteed by the Foundation. The loan was repaid in July 2012. Additionally, the Foundation guarantees the rent payments of another not-for-profit organization up to $250. The Foundation considers the guarantees to be part of its program activities. The Foundation believes there to be adequate collateral for these guarantees and does not consider a reserve necessary at June 30, 2012.

Note 16 - 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 2012 and 2011, 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 plan was approximately $415 and $405 for the years ended June 30, 2012 and 2011, respectively.

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 approximately $17 for the years ended June 30, 2012 and 2011. Related assets and liabilities total $259 at June 30, 2012.

Note 17 - 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 June 30, 2012 the Foundation had $3,739 of cash deposits in excess of federally insured limits.

Other

The majority of contributions and bequests consist of donations from estates and individuals. Approximately 9% and 20% of the contributions and bequest revenue is comprised of contributions from one donor for the years ended June 30, 2012 and 2011, respectively.

Note 18 - Transfer of Supporting Organization:

The Joanne and Peter Haas Jr. Supporting Fund, a supporting organization of The San Francisco Foundation, became a supporting organization of The Marin Community Foundation. As a result of this change, The San Francisco Foundation no longer controls the board of that organization. Therefore, Joanne and Peter Haas Jr. Supporting Fund will no longer be included in the consolidated financial statements of The San Francisco Foundation and its supporting organizations. Total assets transferred were approximately $7,104 and is reflected in the Statement of Activities as a reduction in net assets for the year ended June 30, 2011.

The San Francisco Foundation

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

Year Ended June 30, 2012

	Program Services	Management and General	Development & Donor Services	Total
Grant expenses	$ 88,658			$ 88,658
Salaries and benefits	3,043	$ 1,605	$ 375	5,023
Payroll taxes	226	111	26	363
Retirement plan contributions	235	158	22	415
Other employee benefits	393	205	46	644
Miscellaneous expenses	4	7	4	15
Professional fees/consultants	937	75	27	1,039
Printing and publications	24	18	19	61
Advertising	39	41	36	116
Occupancy	624	291	99	1,014
Convening and special events	135	59	31	225
Travel	85	18	6	109
Tickets to fundraisers	39	32	34	105
Training/professional development	47	63	7	117
Depreciation and amortization	210	103	34	347
Supplies	8	54	3	65
Accounting fees		132		132
Equipment rental and maintenance	183	92	31	306
Legal fees	40	8	7	55
Telephone	17	12	3	32
Outside temporary staff	13	2		15
Postage and shipping	2	25	2	29
Recruiting		18		18
Insurance	2	132		134
Books/subscriptions	1	2	1	4
Taxes/fees/licenses	48	5	1	54
Payroll processing		11		11
Storage/moving	4	2		6
Dues/memberships	24	83	2	109
Office maintenance	10	1	1	12
Operating expenses - Latino Community Foundation	281	182	123	586
Total other expenses	6,674	3,547	940	11,161
Total	$ 95,332	$ 3,547	$ 940	$ 99,819