

# THE SAN FRANCISCO FOUNDATION

JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# The San Francisco Foundation

## Independent Auditors' Report and 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 financial statements of **THE SAN FRANCISCO FOUNDATION (the Foundation)** which comprise the statement of financial position as of June 30, 2020, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2020, 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, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our audit report dated December 10, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Hood & Strong LLP*

San Francisco, California  
December 8, 2020

# The San Francisco Foundation

## Statement of Financial Position (in thousands)

<i>June 30, 2020 (with comparative totals for 2019)</i>	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 3,693	\$ 1,355
Investments	1,462,622	1,468,139
Contributions and other accounts receivable, net	11,250	7,820
Charitable trust assets	23,000	23,695
Fixed assets, net	863	782
Program related investments	25,044	11,554
Other assets	3,130	4,080
<b>Total assets</b>	<b>\$ 1,529,602</b>	<b>\$ 1,517,425</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and other liabilities	\$ 2,737	\$ 3,226
Grants payable, net	16,193	20,401
Liability to beneficiaries	11,956	12,539
Agency funds	51,516	25,463
<b>Total liabilities</b>	<b>82,402</b>	<b>61,629</b>
<b>Net Assets:</b>		
Without donor restrictions	566,166	538,203
With donor restrictions	881,034	917,593
<b>Total net assets</b>	<b>1,447,200</b>	<b>1,455,796</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,529,602</b>	<b>\$ 1,517,425</b>

See accompanying notes to financial statements.

# The San Francisco Foundation

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

*Year Ended June 30, 2020 (with comparative totals for 2019)*

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Revenue and Support:</b>				
Contributions and bequests	\$ 195,477	\$ 22,885	\$ 218,362	\$ 120,141
Investment income, net	17,411	21,057	38,468	66,334
Change in value of split interest agreements		107	107	505
Unrealized gain (loss) on interest in perpetual trust		1	1	(28)
Other income	2,015		2,015	470
Net assets released from restrictions	80,609	(80,609)	-	-
Total revenue and support	295,512	(36,559)	258,953	187,422
<b>Expenses:</b>				
Program services	240,686		240,686	181,270
Management and general	6,337		6,337	5,754
Fundraising	1,743		1,743	1,691
Total expenses	248,766		248,766	188,715
<b>Change in Net Assets Before Other Changes</b>	46,746	(36,559)	10,187	(1,293)
<b>Other Changes in Net Assets:</b>				
Transfer of Special Purpose Fund to Agency Fund (Note 11)	(18,783)		(18,783)	-
Transfer of Supporting Organization (Note 1)			-	(12,339)
<b>Change in Net Assets</b>	27,963	(36,559)	(8,596)	(13,632)
<b>Net Assets - beginning of year</b>	538,203	917,593	1,455,796	1,469,428
<b>Net Assets - end of year</b>	\$ 566,166	\$ 881,034	\$ 1,447,200	\$ 1,455,796

See accompanying notes to financial statements.

# The San Francisco Foundation

## Statement of Functional Expenses (in thousands)

*Year Ended June 30, 2020 (with comparative totals for 2019)*

	Program Services	Management and General	Fundraising	2020 Total	2019 Total
Grant expenses	\$ 227,070			\$ 227,070	\$ 170,196
Salaries and benefits	8,149	\$ 3,930	\$ 1,094	13,173	11,496
Advertising	32	6	13	51	131
Convening and special events	288	99	58	445	564
Depreciation and amortization	172	67	18	257	214
Dues and memberships	100	64	2	166	170
Equipment rental and maintenance	796	410	119	1,325	1,012
Insurance	28	118	3	149	138
Occupancy	885	342	101	1,328	1,250
Office expenses	78	108	9	195	154
Professional fees and consultants	2,680	1,011	314	4,005	2,862
Taxes, fees, and licenses	12	120	2	134	97
Training and professional development	94	32	5	131	173
Travel	93	29	5	127	203
Loan guarantee loss reserve	208			208	54
Miscellaneous expenses	1	1		2	1
<b>Total other expenses</b>	<b>13,616</b>	<b>6,337</b>	<b>1,743</b>	<b>21,696</b>	<b>18,519</b>
<b>Total</b>	<b>\$ 240,686</b>	<b>\$ 6,337</b>	<b>\$ 1,743</b>	<b>\$ 248,766</b>	<b>\$ 188,715</b>

See accompanying notes to financial statements.

# The San Francisco Foundation

## Statement of Cash Flows (in thousands)

<i>Year Ended June 30, 2020 (with comparative totals for 2019)</i>	2020	2019
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ (8,596)	\$ (13,632)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	257	214
Net realized and unrealized gain on investments	(32,838)	(62,039)
Notes receivable loan loss reserve	208	54
Change in operating assets and liabilities:		
Contributions and other accounts receivable	(3,430)	(167)
Charitable trust assets	695	(521)
Other assets	950	482
Accounts payable and other liabilities	(489)	2,298
Grants payable	(4,208)	(3,266)
Liability to beneficiaries	(583)	16
Agency funds	26,053	858
<b>Net cash used by operating activities</b>	<b>(21,981)</b>	<b>(75,703)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of investments	(220,208)	(128,499)
Proceeds from sale of investments	258,563	192,367
Purchases of fixed assets	(338)	(210)
Other program related investments	(88)	(1,727)
Investments in notes receivable - program related investments	(14,446)	(1,068)
Collection on notes receivable - program related investments	836	152
<b>Net cash provided by investing activities</b>	<b>24,319</b>	<b>61,015</b>
<b>Change in Cash and Cash Equivalents</b>	<b>2,338</b>	<b>(14,688)</b>
<b>Cash and Cash Equivalents - beginning of year</b>	<b>1,355</b>	<b>16,043</b>
<b>Cash and Cash Equivalents - end of year</b>	<b>\$ 3,693</b>	<b>\$ 1,355</b>

See accompanying notes to financial statements.

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

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### 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 over 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.

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.

As of June 30, 2020, there were no supporting organizations associated with the Foundation.

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

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### Note 2 - Significant Accounting Policies:

#### a. Basis of Accounting and Presentation

The 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 13).

*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 Statement of Activities and Changes in Net Assets as net assets released from restrictions.

#### b. Cash and Cash Equivalents

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

#### c. Investments

The Foundation reports investments at fair value. Gains and losses that result from market fluctuations are recognized in the Statement of Activities and Changes in Net Assets in the period such fluctuations occur. Dividend and interest income are accrued when earned. Investments received through gifts are recorded at estimated fair value at the date of donation.

Due to the inherent uncertainty of 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.

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

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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.

d. 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.

e. 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).

*Interpretation of Relevant Law*

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

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

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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 Foundation and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the 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, 2020.

### *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. In the year ended June 30, 2020, the Foundation originally planned to distribute an amount equal to 5% of a moving 16-quarter rolling average. In response to the extraordinary circumstances of the pandemic and associated economic impacts in the Bay Area, the Trustees activated the Foundation's disaster response program and distributed an additional \$1.1 million from endowed assets, which equated to a 5.27% spending policy for the endowed funds that did not have restrictions preventing their use for this purpose. Over the long term, the Foundation expects its 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.

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

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f. 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 (0.6%).

g. 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.

h. Fixed Assets

The Foundation capitalizes capital expenditures with a cost over \$2 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.

i. 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.

j. 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 Financial Statements (dollars in thousands)

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### k. 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 - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been 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 Statement of Activities and Changes in Net Assets.

### l. 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.

### m. Functional Expense Allocations

The 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.

### n. Use of Estimates

The preparation of 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 Financial Statements (dollars in thousands)

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o. Comparative Information

The 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 financial statements for the year ended June 30, 2019, from which the summarized information is derived.

p. 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, 2020, 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.

q. Recent Accounting Pronouncements

*Pronouncement Adopted*

In June 2018, the FASB issued Accounting Standards Update (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 was adopted as of July 1, 2019. The impact of adopting this guidance is reflected in the financial statements and did not have a significant impact on the financial statement disclosures.

*Pronouncements Effective in the Future*

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The amendments in this update will supersede much of the existing authoritative guidance for leases. 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, 2023, with early application permitted. The Foundation is currently evaluating the impact of this pronouncement on its financial statements.

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

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 disclosure 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 financial statements.

r. Subsequent Events

The Foundation evaluated subsequent events with respect to the financial statements for the year ended June 30, 2020 through December 8, 2020, 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 4 and 8.

**Note 3 - Contributions and Other Accounts Receivable, Net:**

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

	2020	2019
Contributions receivable (net of discount of \$37 and \$48 for the years ended June 30, 2020 and 2019, respectively)	\$ 1,933	\$ 6,460
Bequests receivable	7,729	
Accrued interest on investments	1,396	1,329
Other accounts receivable	192	31
<b>Total</b>	<b>\$ 11,250</b>	<b>\$ 7,820</b>

Contributions and other receivable as of June 30, 2020 are expected to be received as follows: \$10,537 within one year and \$713 within two to five years.

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

### Note 4 - Investments:

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

	2020	2019
Cash and cash equivalents	\$ 75,732	\$ 27,778
Fixed income	392,320	354,876
Domestic equities	336,787	281,896
International equities	144,059	165,303
Global equities	170,021	197,667
Alternative investments	335,439	431,950
Subtotal	1,454,358	1,459,470
Receivables for unsettled transactions	10,496	12,743
Payables for unsettled transactions	(2,232)	(4,074)
Total	\$ 1,462,622	\$ 1,468,139

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

	2020	2019
Realized and unrealized gain	\$ 32,838	\$ 62,039
Fees (management and performance)	(5,229)	(6,644)
Dividends and interest	11,005	11,531
Unrelated business income tax expense	(146)	(592)
Investment income, net	\$ 38,468	\$ 66,334

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 34% 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 committed to \$30,000 in new or current investments.

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

### Note 5 - 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, 2020 on a recurring basis:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>(a)</u> <u>NAV</u>
<b>Cash and Cash Equivalents</b>	\$ 75,732	\$ 75,732		
<b>Fixed Income:</b>				
U.S. government and agency	95,843	95,843		
U.S. corporate	140,215		\$ 140,215	
Non-agency and asset backed	70,109		70,109	
Global	19,943		19,943	
Investment grade U.S. fixed				
Income mutual funds and ETFs	25,155	25,155		
Pooled funds	41,055			\$ 41,055
<b>Domestic Equities:</b>				
Publicly traded:				
Consumer/staples	11,395	11,395		
Energy/materials	2,044	2,044		
Financials	7,362	7,362		
Health care	9,693	9,693		
Industrials	4,237	4,237		
IT/telecom/utilities	15,060	15,060		
Other	932	932		
Mutual funds:				
Large cap	9,559	9,559		
Alternative strategies	1,300	1,300		
Pooled funds	275,205			275,205
<b>International Equities:</b>				
Developed markets	2,847	2,847		
Mutual funds:				
Developed	540	540		
Emerging	902	902		
Pooled funds	139,770			139,770
<b>Global Equities:</b>				
Pooled funds	170,021			170,021
<b>Alternative Investments:</b>				
Pooled funds	335,439			335,439
<b>Subtotal</b>	1,454,358	262,601	230,267	961,490
Charitable trust assets	23,000		23,000	
Beneficial interest in perpetual trust	2,439		2,439	
Programmatic investments –				
Mutual fund	1,113	1,113		
<b>Total assets measured at fair value</b>	<b>\$ 1,480,910</b>	<b>\$ 263,714</b>	<b>\$ 255,706</b>	<b>\$ 961,490</b>

# The San Francisco Foundation

## Notes to 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 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, 2020:

<u>Strategies</u>	<u># of Funds</u>	<u>Valuation</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<b>Pooled Funds:</b>					
Fixed income (a):					
Redeemable	2	\$ 41,055		Semi-monthly to Monthly	5-15 days
Domestic equities (b):					
Redeemable	1	7,144		Monthly	5 days
Redeemable with restrictions	8	268,061		Quarterly to Annually	45-180 days
International equities (c):					
Redeemable	3	62,268		Monthly	10-30 days
Redeemable with restrictions	2	77,502		Quarterly to 3 Years	90-180 days
Global Equities (d):					
Redeemable	3	112,022		Daily to Quarterly	1-30 days
Redeemable with restrictions	2	57,999		Quarterly to Semi-annually	30-60 days
<b>Alternative Investments:</b>					
Hedged equity (e):					
Redeemable	1	20,531		Quarterly	90 days
Redeemable with restrictions	8	151,433		Monthly to 3 Years	60-180 days
Multi-strategy (f):					
Redeemable with restrictions	3	45,330		None to Annually	45-60 days
Long/short credit (g):					
Redeemable with restrictions	2	28,658		None to Quarterly	65 days
Private equity (h):					
Non-redeemable	46	89,487	\$ 53,086	None	
<b>Total</b>	<b>81</b>	<b>\$ 961,490</b>	<b>\$ 53,086</b>		

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

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- 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 four funds that can be redeemed quarterly subject to redemption gates between 20% and 33%. Two other funds permit annual redemptions, with one having a 3-year staggered lockup, and another fund allows semi-annual redemptions of 50% of the balance. The remaining fund is in liquidation.
- 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 December 2021, 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 amounts of fixed income and derivative securities. Restrictions on redemptions of the assets in this category include the following, with applicable gates shown in parenthesis: one fund with a rolling three-year lock up (20%), two funds with annual redemptions (20% and 33%, respectively), three funds with semi-annual (16 2/3%, 16.7% and 33%), one investment with a quarterly redemption (16.7%), and one fund with monthly redemption and a rolling 2-year lockup.
- 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 remaining investment fund is in liquidation.

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

- h) Private asset strategies invest in various domestic and international companies by using fund of funds as well as directly held funds. The partnerships have a remaining legal life span of up to 14 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 asset strategies.

### Note 6 - Charitable Trust Assets:

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

	2020	2019
Assets held in charitable trusts in which the Foundation is both trustee and secondary beneficiary	\$ 18,871	\$ 19,389
Contributions receivable from non-trusteed charitable trusts	4,129	4,306
<b>Total</b>	<b>\$ 23,000</b>	<b>\$ 23,695</b>

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

### Note 7 - Fixed Assets:

Fixed assets consist of the following as of June 30:

	2020	2019
Leasehold improvements	\$ 1,449	\$ 1,380
Furniture and fixtures	865	857
Computer equipment and software	2,891	2,630
Office equipment	59	59
	5,264	4,926
<b>Less accumulated depreciation and amortization</b>	<b>(4,401)</b>	<b>(4,144)</b>
<b>Fixed assets, net</b>	<b>\$ 863</b>	<b>\$ 782</b>

Depreciation and amortization expense was \$257 for the year ended June 30, 2020.

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

### Note 8 - Program Related Investments:

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

	2020	2019
Notes receivable	\$ 22,104	\$ 8,494
Notes receivable loan loss reserve	(641)	(433)
Mission deposits and other programmatic investments	3,581	3,493
<b>Total</b>	<b>\$ 25,044</b>	<b>\$ 11,554</b>

Notes receivable as of June 30, 2020 are expected to be received as follows: \$511 within one year, \$6,587 within two to five years, and \$15,006 beyond five years.

As of June 30, 2020, the Foundation has one revolving loan of \$875 of which \$557 has been disbursed and is included in notes receivable. The drawdown period expires in 2021 and the loan matures in 2025.

As of June 30, 2020, the Foundation has one contingent loan of \$25,000 of which \$5,800 has been disbursed and is included in notes receivable. Additional disbursements of up to \$19,200 are contingent upon raising funds from donors for this purpose. Additional disbursements must be made by April 2021 and the loan matures in 2026.

Subsequent to year-end, the Foundation made loans of \$900 and committed to additional loans of \$5,000.

### Note 9 - Other Assets:

Other assets consist of the following as of June 30:

	2020	2019
Beneficial interest in perpetual trust	\$ 2,439	\$ 2,441
Real estate		895
Artwork	347	347
Security deposit and prepaid rent	101	101
Other	243	296
<b>Total</b>	<b>\$ 3,130</b>	<b>\$ 4,080</b>

The Foundation sold its interest in two condos that were gifted to the Foundation during the year ended June 30, 2020, resulting in a total realized gain of \$1,090.

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

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### Note 10 - Grants Payable, Net:

Grants payable at June 30, 2020 are scheduled to be disbursed as follows:

Year Ending June 30,	
2021	\$ 15,174
2022	742
2023	262
2024	34
2025	24
	<hr/>
	16,236
Less discount on multi-year grants payable	(43)
	<hr/>
Grants payable, net	\$ 16,193

Grant expense for the fiscal year ending June 30, 2020 totaled \$227,070. Grants expense includes transfers of donor advised funds to other sponsoring organizations in the amount of \$54,123.

### Note 11 - 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 Statement of Financial Position and their activities are excluded from the 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, 2019	\$ 25,463
Contributions	7,178
Transfer of special purpose fund to agency fund	18,783
Interest and dividends	302
Net gain (realized and unrealized)	1,219
Grants out of agency funds	(977)
Other expenses	(452)
	<hr/>
Balance at June 30, 2020	\$ 51,516

The transfer of \$18,783 represents a new agreement to create a non-endowed agency fund that had been originally established as a special project fund at the Foundation.

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

### Note 12 - Endowments:

Changes in donor restricted endowment funds for the year ended June 30, 2020:

Endowment net assets, beginning of year	\$ 845,590
Change in endowment net assets:	
Interest and dividends	2,635
Investment management fees	(3,690)
Net gain (unrealized and realized)	21,840
Change in value of split interest agreements	(74)
Contributions	983
Appropriation for expenditure	(39,346)
<u>Change in endowment net assets</u>	<u>(17,652)</u>
<u>Endowment net assets, end of year</u>	<u>\$ 827,938</u>

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, 2020, approximately one-half are funds that have been entrusted by donors to the Foundation to determine the best use of the funds to benefit the community. The balance is allocated according to the intent of the donors across the Foundation's equity focused grantmaking pathways of people, place, and power.

### Note 13 - Net Asset Composition and Releases:

The following table summarizes all Foundation net assets as of June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor endowment funds		\$ 827,938	\$ 827,938
Split interest agreements		9,791	9,791
Donor advised funds	\$ 528,155		528,155
Undesignated operating funds	13,885		13,885
Board designated funds:			
Program related investments	20,539		20,539
Operating reserve	3,298		3,298
Project and special purpose funds	289	43,305	43,594
<u>Total</u>	<u>\$ 566,166</u>	<u>\$ 881,034</u>	<u>\$ 1,447,200</u>

As of June 30, 2020, the Trustees have designated \$23,837 of net assets without donor restrictions to be used for program related investments and an operating reserve.

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

The following table summarizes the net assets released from restriction during the year ended June 30, 2020:

Donor endowment funds	\$ 39,346
Project and special purpose funds:	
Equity Agenda	9,382
Partnership for the Bay Area	3,355
Other	3,614
Operations	6,129
Special project funds transferred to agency funds	18,783
<b>Total</b>	<b>\$ 80,609</b>

### Note 14 - Availability of Financial Assets and Liquidity:

The Foundation's financial assets available within one year for general expenditures as of June 30, 2020 are as follows:

Financial assets:	
Cash and cash equivalents	\$ 3,693
Investments	1,462,622
Contributions and other accounts receivable, net	11,250
Program related investments – notes receivable	22,104
Other program related investments	2,940
Charitable trust assets	23,000
<b>Total financial assets</b>	<b>1,525,609</b>
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 \$40,758.	(787,180)
Investments not convertible to cash within one year	(98,360)
Net assets restricted for projects and special purposes	(43,305)
Contributions receivable collectible beyond one year	(713)
Program related investments – notes receivable collectible beyond one year	(21,593)
Agency funds	(51,516)
Charitable trust assets	(23,000)
Net assets designated by the Trustees:	
Program related investments not yet utilized	(7,220)
Operating reserve	(3,298)
	<b>(1,036,185)</b>
<b>Financial assets available to meet general expenditures within one year</b>	<b>\$ 489,424</b>

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

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The Foundation's goal is to generally maintain ample liquidity in its investment portfolios by managing to 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 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, 2020:

Year Ending June 30,	
2021	\$ 1,155
2022	1,140
2023	1,163
2024	351
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Total future minimum lease payments	\$ 3,809

Rental expense was approximately \$1,299 for the year ended June 30, 2020.

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

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### 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 2020, the Foundation contributed 12% of salary to the 401(k) Plan for all eligible employees, as defined.

The cost of the Foundation's contribution to the 401(k) Plan was \$850 for the year ended June 30, 2020.

### 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 50% of the contributions and bequest revenue is comprised of funds from ten contributors for the year ended June 30, 2020.

# The San Francisco Foundation

## Notes to Financial Statements (dollars in thousands)

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### **Note 19 - Pandemic and Market Volatility:**

On March 11, 2020, the World Health Organization publicly characterized COVID-19 as a pandemic. States of emergency have been declared in many federal, state and local jurisdictions and shelter in place orders have been instituted in many cities and states, including California, which impacts general business operations in most industries and sectors. In addition, financial market volatility has significantly increased, and the subsequent recovery from the March 2020 bear market in major equity indices may not be sustained. A decline in market valuations may negatively impact the value of investment portfolios held by the Foundation. Those declines could result in reduced future funding to organizations, though as of this date, the Foundation does not project any material impacts to the Foundation's operations or ability to disburse grants.