

THE SAN FRANCISCO FOUNDATION

JUNE 30, 2021

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

The San Francisco Foundation

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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, 2021, 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.

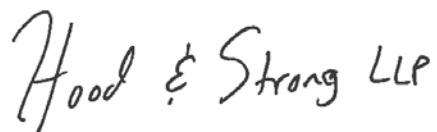
Opinion

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, 2021, 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, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our audit report dated December 8, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Handwritten signature in cursive script that reads "Hood & Strong LLP".

San Francisco, California
December 14, 2021

The San Francisco Foundation

Statement of Financial Position (in thousands)

<i>June 30, 2021 (with comparative totals for 2020)</i>	2021	2020
Assets		
Cash and cash equivalents	\$ 5,453	\$ 3,693
Investments	1,824,228	1,462,622
Contributions and other accounts receivable, net	22,698	11,250
Charitable trust assets	27,418	23,000
Program related investments	28,474	25,044
Other assets	4,180	3,993
Total assets	\$ 1,912,451	\$ 1,529,602
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	\$ 4,094	\$ 2,737
Grants payable, net	12,319	16,193
Liability to beneficiaries	13,792	11,956
Agency funds	66,248	51,516
Total liabilities	96,453	82,402
Net Assets:		
Without donor restrictions	713,607	566,166
With donor restrictions	1,102,391	881,034
Total net assets	1,815,998	1,447,200
Total liabilities and net assets	\$ 1,912,451	\$ 1,529,602

See accompanying notes to financial statements.

The San Francisco Foundation

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

Year Ended June 30, 2021 (with comparative totals for 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue and Support:				
Contributions and bequests	\$ 152,837	\$ 25,324	\$ 178,161	\$ 218,362
Investment income, net	104,724	271,109	375,833	38,468
Change in value of split interest agreements		2,582	2,582	107
Unrealized gain on interest in perpetual trust		624	624	1
Other income	491		491	2,015
Net assets released from restrictions	78,282	(78,282)	-	-
Total revenue and support	336,334	221,357	557,691	258,953
Expenses:				
Program services	180,383		180,383	240,686
Management and general	6,540		6,540	6,337
Fundraising	1,970		1,970	1,743
Total expenses	188,893	-	188,893	248,766
Change in Net Assets Before Other Changes	147,441	221,357	368,798	10,187
Other Changes in Net Assets:				
Transfer of Special Purpose Fund to Agency Fund			-	(18,783)
Change in Net Assets	147,441	221,357	368,798	(8,596)
Net Assets - beginning of year	566,166	881,034	1,447,200	1,455,796
Net Assets - end of year	\$ 713,607	\$ 1,102,391	\$ 1,815,998	\$ 1,447,200

See accompanying notes to financial statements.

The San Francisco Foundation

Statement of Functional Expenses (in thousands)

Year Ended June 30, 2021 (with comparative totals for 2020)

	Program Services	Management and General	Fundraising	2021 Total	2020 Total
Grant expenses	\$ 166,183			\$ 166,183	\$ 227,070
Salaries and benefits	9,197	\$ 4,405	\$ 1,439	15,041	13,173
Advertising	68	23	48	139	51
Convening and special events	145	34	40	219	445
Depreciation and amortization	207	80	22	309	257
Dues and memberships	109	83	9	201	166
Equipment rental and maintenance	942	485	141	1,568	1,325
Insurance	29	139	3	171	149
Occupancy	791	299	88	1,178	1,328
Office expenses	70	74	12	156	195
Professional fees and consultants	2,473	848	158	3,479	4,005
Taxes, fees, and licenses	26	36		62	134
Training and professional development	54	23	9	86	131
Travel	5	11	1	17	127
Loan guarantee loss reserve	73			73	208
Miscellaneous expenses	11			11	2
Total other expenses	14,200	6,540	1,970	22,710	21,696
Total	\$ 180,383	\$ 6,540	\$ 1,970	\$ 188,893	\$ 248,766

See accompanying notes to financial statements.

The San Francisco Foundation

Statement of Cash Flows (in thousands)

<i>Year Ended June 30, 2021 (with comparative totals for 2020)</i>	2021	2020
Cash Flows from Operating Activities:		
Change in net assets	\$ 368,798	\$ (8,596)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	309	257
Net realized and unrealized gain on investments	(373,546)	(32,838)
Notes receivable loan loss reserve	73	208
Change in operating assets and liabilities:		
Contributions and other accounts receivable	(11,448)	(3,430)
Charitable trust assets	(4,418)	695
Other assets	(493)	950
Accounts payable and other liabilities	1,357	(489)
Grants payable	(3,874)	(4,208)
Liability to beneficiaries	1,836	(583)
Agency funds	14,732	26,053
Net cash used by operating activities	(6,674)	(21,981)
Cash Flows from Investing Activities:		
Purchases of investments	(169,061)	(220,208)
Proceeds from sale of investments	181,001	258,563
Purchases of fixed assets	(3)	(338)
Other program related investments	(15)	(88)
Investments in notes receivable - program related investments	(3,999)	(14,446)
Collection on notes receivable - program related investments	511	836
Net cash provided by investing activities	8,434	24,319
Change in Cash and Cash Equivalents	1,760	2,338
Cash and Cash Equivalents - beginning of year	3,693	1,355
Cash and Cash Equivalents - end of year	\$ 5,453	\$ 3,693

See accompanying notes to financial statements.

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

Note 1 - Organization:

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

The Foundation mobilizes resources and acts as a catalyst for change to build strong communities, foster civic leadership, and promote philanthropy. Through the generosity of donors, past and present, the Foundation funds approximately 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.

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 include 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 reserves (Note 12).

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

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.

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.

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

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 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 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.

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

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, 2021.

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. Recognizing the imperative to combat racial inequities that came into sharp relief during the pandemic, the Trustees approved a plan to increase the spending policy above the long-term average for a period of five years in order to distribute approximately an additional \$10 million over that timeframe. For the year ended June 30, 2021, the spending policy for endowments with restrictions that permitted their use for these purposes was set at 5.75%, while other endowments remained at 5%, resulting in a weighted average spending policy of 5.37% of a 16-quarter rolling average. In addition, restrictions for one endowed fund were modified at the donor's request to enable the distribution of an additional \$10,882 above the annual spending policy. 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.

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.

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

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%).

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 allowance 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%.

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.

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

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.

o. Comparative Information and Reclassifications

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, 2020, from which the summarized information is derived.

Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 presentation. The reclassifications had no impact on net assets or the change in net assets.

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

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, 2021, management evaluated the Foundation's tax positions and concluded that the Foundation had maintained its tax-exempt status and had taken no material uncertain tax positions that require adjustment to the financial statements.

q. Recent Accounting Pronouncements

Pronouncement Adopted

In August 2018, the FASB issued Accounting Standards Update (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 ASU was adopted as of July 1, 2020. 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)

r. Subsequent Events

The Foundation evaluated subsequent events with respect to the financial statements for the year ended June 30, 2021 through December 14, 2021, 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 7.

Note 3 - Contributions and Other Accounts Receivable, Net:

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

	2021	2020
Contributions receivable (net of discount of \$10 and \$37 for the years ended June 30, 2021 and 2020, respectively)	\$ 12,070	\$ 1,933
Bequests receivable	9,082	7,729
Accrued interest on investments	1,112	1,396
Other accounts receivable	434	192
Total	\$ 22,698	\$ 11,250

Contributions and other receivables as of June 30, 2021 are expected to be received as follows: \$22,428 within one year and \$270 within two to five years.

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

Note 4 - Investments:

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

	2021	2020
Cash and cash equivalents	\$ 78,834	\$ 75,732
Fixed income	430,927	392,320
Domestic equities	485,043	336,787
International equities	191,606	144,059
Global equities	183,856	170,021
Alternative investments	457,289	335,439
Subtotal	1,827,555	1,454,358
Receivables for unsettled transactions	82	10,496
Payables for unsettled transactions	(3,409)	(2,232)
Total	\$ 1,824,228	\$ 1,462,622

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

	2021	2020
Realized and unrealized gain	\$ 373,546	\$ 32,838
Fees (management and performance)	(7,444)	(5,229)
Dividends and interest	9,937	11,005
Unrelated business income tax expense	(206)	(146)
Investment income, net	\$ 375,833	\$ 38,468

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

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 32% 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 \$67,500 with new investment managers and \$6,000 to existing investment managers.

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, 2021 on a recurring basis:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>(a)</u> <u>NAV</u>
Cash and Cash Equivalents	\$ 78,834	\$ 78,834		
Fixed Income:				
U.S. government and agency	118,792	118,792		
U.S. corporate	131,841		\$ 131,841	
Non-agency and asset backed	86,141		86,141	
Global	8,872		8,872	
U.S. fixed income funds	43,046	43,046		
Pooled funds	42,235			\$ 42,235
Domestic Equities:				
Publicly traded:				
Consumer/staples	19,210	19,210		
Energy/materials	2,938	2,938		
Financials	15,442	15,442		
Health care	17,663	17,663		
Industrials	11,256	11,256		
IT/telecom/utilities	25,630	25,630		
Other	1,688	1,688		
Mutual funds and ETFs	63,453	63,453		
Pooled funds	327,763			327,763
International Equities:				
Developed markets	3,669	3,669		
Mutual funds	2,654	2,654		
Pooled funds	185,283			185,283
Global Equities:				
Pooled funds	183,856			183,856
Alternative Investments:				
Pooled funds	457,289			457,289
Subtotal	1,827,555	404,275	226,854	1,196,426
Charitable trust assets	27,418		27,418	
Beneficial interest in perpetual trust	3,066		3,066	
Programmatic investments –				
Mutual fund	1,844	1,844		
Total assets measured at fair value	\$ 1,859,883	\$ 406,119	\$ 257,338	\$ 1,196,426

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, 2021:

<u>Strategies</u>	<u># of Funds</u>	<u>Valuation</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Pooled Funds:					
Fixed income (a):					
Redeemable	2	\$ 42,235		Semi-monthly to Monthly	5-15 days
Domestic equities (b):					
Redeemable	1	14,194		Monthly	5 days
Redeemable with restrictions	8	313,569		Quarterly to Annually	45-180 days
International equities (c):					
Redeemable	3	78,697		Monthly	10-30 days
Redeemable with restrictions	2	106,586		Quarterly to 3 Years	90-180 days
Global Equities (d):					
Redeemable	3	127,902		Daily to Quarterly	1-30 days
Redeemable with restrictions	1	55,954		Quarterly to Semi-annually	30-60 days
Alternative Investments:					
Hedged equity (e):					
Redeemable	1	24,014		Quarterly	90 days
Redeemable with restrictions	7	208,365		Quarterly to 3 Years	60-180 days
Multi-strategy (f):					
Redeemable with restrictions	3	39,902		Quarterly to Annually	45-60 days
Long/short credit (g):					
Redeemable with restrictions	1	34,901		Quarterly	65 days
Private equity (h):					
Non-redeemable	52	150,107	\$ 73,929	None	
Total	84	\$ 1,196,426	\$ 73,929		

The San Francisco Foundation

Notes to Financial Statements

(dollars in thousands)

- a) The fixed income strategies are actively managed, diversified portfolios of United States (U.S.) investment grade and below investment grade fixed income and non-U.S. fixed income investments.
- b) The domestic equity funds invest in actively managed funds benchmarked to U.S. equity indices. Restrictions on redemptions of the assets in this category include three funds that can be redeemed quarterly subject to redemption gates between 20% and 33%, one of which has 9% in illiquid assets. Two other funds permit annual redemptions, with one having a three year staggered lockup, and another fund allows semi-annual redemptions of 50% of the balance. Two funds are 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 six 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 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: one fund with three tranches that allow a 20% redemption and two of the tranches having a rolling three-year lock up, one fund with annual redemptions subject to a redemption gate of 33%, two funds with semi-annual redemptions subject to redemption gates between 16.7% and 33%, one fund with two tranches having quarterly and semi-annual redemptions, and one fund with monthly redemptions and a rolling two-year lockup. The remaining fund is in liquidation.
- f) The multi-strategy funds consist of directly held funds with 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 (7% of which is illiquid); a second includes quarterly redemptions with a 25% gate restriction; the third investment is in the process of liquidation.
- g) Long/short credit strategies invest in both long and short positions in high yield fixed income. There is one fund in this asset class, which is redeemable quarterly with a 25% gate.

The San Francisco Foundation

Notes to 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 13 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 consisted of the following as of June 30:

	2021	2020
Assets held in charitable trusts in which the Foundation is both trustee and secondary beneficiary	\$ 22,437	\$ 18,871
Contributions receivable from non-trusteed charitable trusts	4,981	4,129
Total	\$ 27,418	\$ 23,000

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

Note 7 - Program Related Investments:

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

	2021	2020
Notes receivable	\$ 25,592	\$ 22,104
Notes receivable loan loss allowance	(714)	(641)
Mission deposits and other programmatic investments	3,596	3,581
Total	\$ 28,474	\$ 25,044

Notes receivable as of June 30, 2021 are expected to be received as follows: \$366 within one year, \$15,576 within two to five years, and \$9,650 beyond five years.

As of June 30, 2021, the Foundation has one revolving loan of \$875 of which \$630 has been disbursed and is included in notes receivable. The drawdown period expires in December 2021 and the loan matures in 2025.

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

As of June 30, 2021, the Foundation has a contingent loan of \$25,000 of which \$7,825 has been disbursed and is included in notes receivable. Additional disbursements of up to \$17,175 are contingent upon raising funds from donors for this purpose. Additional disbursements must be made by October 2022 and the loan matures in 2026.

As of June 30, 2021, the Foundation has three non-revolving loans with an extended drawdown period and total authorized disbursements of \$14,500, of which \$4,500 has been disbursed. Additional disbursements of \$10,000 can be requested by the borrowers during the loan drawdown periods which extend through August 2025.

Subsequent to year-end, the Foundation made loans of \$6,012. No additional loan commitments have been made.

Note 8 - Other Assets:

Other assets consisted of the following as of June 30:

	2021	2020
Beneficial interest in perpetual trust	\$ 3,066	\$ 2,439
Fixed assets (\$5,268 net of accumulated depreciation of \$4,711)	557	863
Artwork	341	347
Security deposit and prepaid rent	101	101
Other	115	243
Total	\$ 4,180	\$ 3,993

Depreciation and amortization expense was \$309 for the year ended June 30, 2021.

Note 9 - Grants Payable, Net:

Grants payable at June 30, 2021 were scheduled to be disbursed as follows:

Year Ending June 30,		
2022	\$	9,979
2023		1,685
2024		675
2025		67
		12,406
Less discount on multi-year grants payable		(87)
Grants payable, net	\$	12,319

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

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 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, 2020	\$ 51,516
Contributions	7,020
Reclassification of scholarship fund to agency fund	163
Interest and dividends	183
Net gain (realized and unrealized)	11,440
Grants out of agency funds	(3,586)
Other expenses	(488)
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Balance at June 30, 2021	\$ 66,248

The transfer of \$163 represents a new agreement to reclassify a non-endowed agency fund that had been originally established as a scholarship fund at the Foundation and was previously held as a component of Net Assets without Donor Restrictions.

Note 11 - Endowments:

Changes in donor restricted endowment funds for the year ended June 30, 2021:

Endowment net assets, beginning of year	\$ 827,938
Change in endowment net assets:	
Interest and dividends	3,820
Investment management fees	(3,791)
Net gain (unrealized and realized)	271,586
Change in value of split interest agreements	341
Contributions	1,335
Net reclassification of endowment funds to non-endowment	(322)
Appropriation for expenditure	(54,319)
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Change in endowment net assets	218,650
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Endowment net assets, end of year	\$ 1,046,588

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

The endowed assets are comprised of approximately 250 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, 2021, 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 12 - Net Asset Composition and Releases:

The following table summarizes all Foundation net assets as of June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor endowment funds		\$ 1,046,588	\$ 1,046,588
Split interest agreements		12,033	12,033
Donor advised funds	\$ 662,507		662,507
Undesignated operating funds	21,775		21,775
Board designated funds:			
Program related investments	22,727		22,727
Operating reserve	6,291		6,291
Project and special purpose funds	307	43,770	44,077
Total	\$ 713,607	\$ 1,102,391	\$ 1,815,998

As of June 30, 2021, the Trustees have designated \$29,018 of net assets without donor restrictions to be used for program related investments and an operating reserve.

The following table summarizes the net assets released from restriction during the year ended June 30, 2021:

Donor endowment funds appropriation	\$ 54,319
Project and special purpose funds:	
Equity Agenda	11,117
Partnership for the Bay Area	2,687
Other	3,718
Operations	6,441
Total	\$ 78,282

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

Donor endowment funds released from restriction included one endowed fund for which restrictions were modified at the donor's request to enable the distribution of an additional \$10,882 above the annual spending policy.

Note 13 - Availability of Financial Assets and Liquidity:

The Foundation's financial assets available within one year for general expenditures as of June 30, 2021 are as follows:

Financial assets:	
Cash and cash equivalents	\$ 5,453
Investments	1,824,228
Contributions and other accounts receivable, net	22,698
Program related investments – notes receivable	24,878
Other program related investments	3,596
Charitable trust assets	27,418
	<hr/>
Total financial assets	1,908,271
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 \$45,124	(1,001,464)
Investments not convertible to cash within one year	(1,177)
Net assets restricted for projects and special purposes	(43,770)
Contributions receivable collectible beyond one year	(270)
Program related investments – notes receivable collectible beyond one year	(25,226)
Agency funds	(66,248)
Charitable trust assets	(27,418)
Net assets designated by the Trustees:	
Program related investments not yet utilized	(6,712)
Operating reserve	(6,291)
	<hr/>
	(1,178,576)
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Financial assets available to meet general expenditures within one year	\$ 729,695

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

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 14 - 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, 2021:

Year Ending June 30,	
2022	\$ 1,140
2023	1,163
2024	351
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Total future minimum lease payments	\$ 2,654

Rental expense was approximately \$1,137 for the year ended June 30, 2021.

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

Note 15 - 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 16 - 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 2021, 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 \$995 for the year ended June 30, 2021.

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 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 14% of the contributions and bequest revenue was comprised of funds from one contributor for the year ended June 30, 2021.

The San Francisco Foundation

Notes to Financial Statements (dollars in thousands)

Note 18 - Pandemic:

On March 11, 2020, the World Health Organization publicly characterized COVID-19 as a pandemic. States of emergency were declared in many federal, state and local jurisdictions and shelter in place orders were instituted in many cities and states, including California, which impacted general business operations in most industries and sectors.

In response to the far-reaching impacts caused by this crisis and the resulting need in the Bay Area, the Foundation's contributions and grantmaking rose to record levels in the year ended June 30, 2020. Contributions and grantmaking have since returned to levels more closely aligned with the Foundation's long-term growth trend. At the same time, financial markets fully recovered from the March 2020 bear market in equities and advanced to new highs in the year ended June 30, 2021.

A substantial portion of the Foundation's increase in investment income is reflected in unrealized gains. Consequently, a future market downturn could have a negative impact on these positions, and therefore the Foundation's financial statements. At this time, the Foundation has not considered any specific reductions in current or future commitments.