

THE SAN FRANCISCO FOUNDATION

JUNE 30, 2010

INDEPENDENT AUDITORS' REPORT,

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

The San Francisco Foundation

Independent Auditors' Report, Consolidated Financial Statements and Supplementary Information

Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities and Changes in Net Assets	3
Consolidated Statement of Cash Flows	4
Notes to Consolidated Financial Statements	5 - 21
Supplementary Information	
Schedule of Consolidated Functional Expenses	22



Independent Auditors' Report

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

We have audited the accompanying consolidated statement of financial position of **THE SAN FRANCISCO FOUNDATION (the Foundation)** as of June 30, 2010, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2009 consolidated financial statements and in our report, dated November 17, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The San Francisco Foundation as of June 30, 2010, and the changes in its consolidated net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplemental schedule of consolidated functional expenses for the year ended June 30, 2010 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. This supplemental schedule is the responsibility of the Foundation's management. Such schedule has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Hood & Strong LLP

December 15, 2010

Consultants and

Business Advisors

100 First Street

14th Floor

San Francisco

CA 94105

415.781.0793

fax 415.421.2976

San Francisco

San Jose

Redwood Shores



The San Francisco Foundation

Consolidated Statement of Financial Position (in thousands)

<i>June 30, 2010 (with comparative totals for 2009)</i>	2010	2009
Assets		
Cash and cash equivalents	\$ 2,662	\$ 2,425
Investments, at fair value	937,467	868,941
Contributions and other accounts receivable	5,679	6,263
Charitable trust assets	19,217	15,520
Property and equipment, net	1,142	1,463
Other assets	13,897	9,882
Total assets	\$ 980,064	\$ 904,494
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	\$ 1,338	\$ 1,734
Grants payable	6,717	7,321
Liability to beneficiaries	9,533	8,194
Agency funds	5,716	4,440
Total liabilities	23,304	21,689
Net Assets:		
Unrestricted	384,638	368,878
Temporarily restricted	464,894	424,853
Permanently restricted	107,228	89,074
Total net assets	956,760	882,805
Total liabilities and net assets	\$ 980,064	\$ 904,494

The San Francisco Foundation

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

Year Ended June 30, 2010 (with comparative totals for 2009)

	2010			Total	2009 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and Support:					
Contributions and bequests	\$ 35,360	\$ 10,206		\$ 45,566	\$ 113,510
Change in value of split interest agreements		662	\$ 178	840	(2,056)
Net realized and unrealized gain (loss) on investments	35,438	74,822		110,260	(131,694)
Unrealized gain (loss) on interest in perpetual trust			129	129	(395)
Investment income	2,828	2,367		5,195	10,785
Other income (loss)	398	8		406	(276)
Net assets released from restrictions	30,177	(30,177)			
Total revenue and support	104,201	57,888	307	162,396	(10,126)
Expenses:					
Program services:					
Grant expenses	75,639			75,639	80,088
Other program expenses	8,680			8,680	9,727
Total program services	84,319			84,319	89,815
Management and general	3,067			3,067	2,287
Development and donor services	1,055			1,055	1,559
Total expenses	88,441			88,441	93,661
Change in Net Assets Before Reclassification of Net Assets	15,760	57,888	307	73,955	(103,787)
Reclassification of Net Assets		(17,847)	17,847		
Change in Net Assets	15,760	40,041	18,154	73,955	(103,787)
Net Assets - beginning of year	368,878	424,853	89,074	882,805	986,592
Net Assets - end of year	\$ 384,638	\$ 464,894	\$ 107,228	\$ 956,760	\$ 882,805

The San Francisco Foundation

Consolidated Statement of Cash Flows (in thousands)

<i>Year Ended June 30, 2010 (with comparative totals for 2009)</i>	2010	2009
Cash Flows from Operating Activities:		
Change in net assets	\$ 73,955	\$ (103,787)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	375	390
Donated property		(1,480)
Donated partnership interest		(49,250)
Impairment on assets	110	2,015
Loan loss reserve	250	
Net realized and unrealized (gain) loss on investments	(110,260)	131,694
Change in operating assets and liabilities:		
Contributions and other accounts receivable	584	(48)
Charitable trust assets	(3,697)	22,570
Other assets	(4,375)	846
Accounts payable and other liabilities	(375)	466
Grants payable	(604)	(5,890)
Liability to beneficiaries	1,339	(2,677)
Agency funds	1,276	(628)
Net cash used by operating activities	(41,422)	(5,779)
Cash Flows from Investing Activities:		
Purchases of investments	(51,345)	(74,997)
Proceeds from sale of investments	93,079	80,537
Purchases of property and equipment	(54)	(248)
Net cash provided by investing activities	41,680	5,292
Cash Flows from Financing Activities:		
Repayment of notes payable	(21)	(14)
Net cash used by financing activities	(21)	(14)
Net Increase (Decrease) in Cash and Cash Equivalents	237	(501)
Cash and Cash Equivalents - beginning of year	2,425	2,926
Cash and Cash Equivalents - end of year	\$ 2,662	\$ 2,425
Supplemental data for noncash investing activities:		
Donated stocks	\$ 19,179	\$ 17,779

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Note 1 - Organization:

The San Francisco Foundation (the Foundation) is a public benefit community foundation created in 1948. The Foundation operated as a Trust until July 1, 2003 when it became a non-profit public benefit corporation under the laws of California. The San Francisco Foundation mobilizes resources and acts as a catalyst for change to build strong communities, foster civic leadership, and promote philanthropy.

The bylaws of the Foundation include a variance provision giving the Board of Trustees (the Trustees) the power to modify any restriction or condition placed on gifts to the Foundation if, in its sole judgment, the Trustees determine that the restriction becomes, in effect, incapable of fulfillment or inconsistent with the charitable needs of the community or area served.

A supporting organization is a Section 501(c)(3) charity that is classified as a public charity rather than a private foundation because it supports a publicly supported charity, such as a community foundation. Supporting organizations of the Foundation are consolidated herein. The supporting organizations are Courtney's Foundation, Latino Community Foundation, the Rose T.Y. Chen Foundation, East Bay Foundation on Aging, the Joanne and Peter Haas Jr. Supporting Fund, TSFF Foundation on Community Development, TSFF Foundation on Health, and TSFF Foundation on Social Justice, all of which are effectively controlled by The San Francisco Foundation. All of the supporting organizations are Type 1 as defined by the Internal Revenue Service.

Note 2 - Significant Accounting Policies:

a. Basis of Presentation

The Foundation reports information regarding its financial position and activities according to the class of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets – The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets – The portion of net assets consisting of irrevocable remainder charitable trusts, contributions unconditionally promised which are scheduled to be received in the future, purpose-restricted grants, and the portion of donor-restricted endowment funds that are not classified as permanently restricted net assets. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Permanently Restricted Net Assets – The portion of net assets consisting of the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds where the donor indicated that a portion of the fund be retained permanently. Also included in permanently restricted net assets is the Foundation's interest in a perpetual trust.

b. Principles of Consolidation

The accompanying consolidated financial statements include all amounts and operations of the San Francisco Foundation and its supporting organizations (collectively, the Foundation). Intercompany transactions and accounts have been eliminated in consolidation.

c. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include the Foundation's operating and checking accounts.

d. Investments

All debt and equity securities with readily determinable market values are carried at estimated fair value based on closing market prices. Pooled funds and alternative investments are valued at the net asset value per unit or percentage of ownership as reported by the funds. Investments received through gifts are recorded at estimated fair value at the date of donation. Due to the inherent uncertainty of valuation of non-marketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

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

For cash flow purposes, purchases of investments represent the total additions to the portfolio from revenues received during the year. Proceeds from sale of investments represent the withdrawals used for grants and operations.

e. Fair Value Measurements

The Foundation carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investments.

In 2009 the FASB published an update relating to the fair value of investments in certain entities that calculate net asset value per share (or its equivalent). The Foundation implemented the update and it did not have a material impact on its financial statements.

f. Fair Value of Financial Instruments

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

g. Endowment Funds

The Foundation follows ASC Topic 958-205-45-28 Classifications of Donor-Restricted Endowment Funds Subject to Uniform Prudent Management of Institutional Funds Act (UPMIFA) which was effective for fiscal years ending after December 15, 2008. The Foundation has reviewed all of its endowment funds and has reclassified approximately \$17,847 from temporarily restricted net assets to permanently restricted net assets at June 30, 2010.

Interpretation of Relevant Law

The state of California adopted a version of UPMIFA as its State Prudent Management of Investment Funds Act (SPMIFA) which is applicable to funds established on or after January 1, 2009 and funds established prior to January 1, 2009 only with respect to actions taken after January 1, 2009. The Board of Trustees, on the advice of legal counsel, has determined that the Foundation holds net assets that meet the definition of endowment funds under SPMIFA.

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

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

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

From time to time, the fair value of the assets associated with individual donor restricted endowment funds may fall below the level classified as permanently restricted net assets. At June 30, 2010, the Foundation had 4 funds with deficiencies of this nature totaling \$200.

Investment and Spending Policies

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

h. Charitable Trust Assets

Charitable trust assets include the estimated fair value of various irrevocable charitable trusts. Trusts in which the Foundation is both trustee and secondary beneficiary are recorded at the fair value of the assets in the trust. The assets of the trusts generally include marketable equity and debt securities.

The San Francisco Foundation

Notes to Consolidated 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 (3.2%).

i. Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over the useful lives of the related assets. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful life of the asset or the term of the applicable lease.

j. Beneficial Interest in Perpetual Trust

The Foundation is the beneficiary of an irrevocable trust, whereby the Foundation receives the income from the trust in perpetuity. The assets are held by a third party trustee. The value of the beneficial interest is based upon the fair value of the assets in the trust.

k. Program Related Investments

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

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

l. Liability to Beneficiaries

Liability to beneficiaries represents the present value of the liability due to primary beneficiaries of the irrevocable charitable trusts for which the Foundation is both trustee and secondary beneficiary. The liability is calculated using life expectancies from the 80CNSMT mortality table, and a discount rate of 8%.

m. Revenue Recognition

Contributions are recognized as revenue when received or unconditionally promised. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

As discussed in Note 2a above, the Foundation receives contributions subject to time or purpose restrictions. When the restriction is met in the same period as the contribution is received, temporarily restricted contributions are reported as temporarily restricted support and net assets released from restrictions.

n. Grant Expenses

Grant expenses are recognized when an unconditional promise to give is approved by the Board of Trustees. Grant refunds are recorded as a reduction of grant expense at the time the grant is refunded to the Foundation. Grants payable represent the present value of grants to be paid in the future.

o. Functional Expense Allocations

For most departments, expenses are allocated based upon the primary purpose of the department. Certain departments are split among program, management and general, and development and donor services based upon estimates made by the Foundation's management. Overhead expenses, such as rent, and supporting departments, such as MIS, are allocated based the overall percentages of the Foundation.

p. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

q. Comparative Information

The consolidated financial statements include certain comparative information for which the prior year information is summarized in total but not by net asset class. Accordingly, such information should be read in conjunction with The Foundation's consolidated financial statements for the year ended June 30, 2009, from which the summarized information is derived. Certain reclassifications have been made to the prior year financial statements in order for them to conform to current year presentation. These reclassifications had no effect on net assets or change in net assets.

r. Tax Exempt Status

The Foundation is exempt from federal income tax on related income under Section 501(c)(3) of the Internal Revenue Code (the "Code") and has been classified as an organization which is not a private foundation as defined in Sections 509(a)(1) and 170(b)(i)(A)(vi) of the Code. In addition, the Foundation could be subject to tax on unrelated business income, if any, generated by its investments.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

The FASB issued new guidance on accounting for uncertainty in income taxes. The Foundation adopted this new guidance for the year ended June 30, 2010. 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. Therefore, no provision or liability for income taxes has been included in the financial statements.

s. New Accounting Pronouncement

In January 2010, FASB issued additional disclosure requirements for fair value measurements. Under this guidance, the fair value hierarchy disclosures are to be further disaggregated by classes (subsets of the line items in the financial statements) and additional disclosures made about transfers between levels 1 and 2. These disclosures are effective for 2010. Additional disclosures about level 3 measurements will be required for 2011. The impact of this guidance will be additional disclosures in the financial statements.

Note 3 - Investments:

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

	2010	2009
Money market, cash and cash equivalents	\$ 29,978	\$ 165,892
Fixed income	242,602	90,424
Domestic equities	204,477	189,483
International equities	158,405	155,617
<u>Alternative investments</u>	<u>294,109</u>	<u>260,189</u>
Subtotal	929,571	861,605
Receivables for unsettled transactions	9,238	20,248
<u>Payables for unsettled transactions</u>	<u>(1,342)</u>	<u>(12,912)</u>
Total	\$ 937,467	\$ 868,941

Subsequent to year end, the Foundation requested a \$28 million redemption from one of its investments. The redemption did not have an impact on the fair value of the investment at year end.

Donor advised funds are allocated among the long term, short term, and the socially responsible pools as determined appropriate by Donor Advisors. The short term pool provides liquidity for current giving requirements. Approximately half of the donor advised funds allocate 75% or more of their funds to the short term pool. The long term pool has an investment objective of earning 5% above the inflation rate and is appropriate for the portion of a donor advised fund with a very long term outlook. The socially responsible pool also has a long term horizon, and has additional screens for social criteria. Donor advised funds invested outside the pools also have an allocation to cash and short term investments based on the donors' plans for current giving.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Note 4 - Fair Value Measurements:

The table below presents the balances of assets measured at fair value on a recurring basis at June 30, 2010:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Money market, cash and cash equivalents	\$ 29,978	\$ 29,978		
Fixed income				
U.S. Government and agency	44,514	44,514		
U.S. corporate	54,925		\$ 54,925	
Non-agency and asset backed	24,945		24,945	
Global	18,469		18,469	
Mutual funds	19,994	19,994		
Pooled funds	79,755		79,755	
Domestic equities				
Publicly traded	52,669	52,669		
Privately held	7,217			\$ 7,217
Mutual funds	31,192	31,192		
Pooled funds	113,399		113,399	
International equities				
Developed markets	1,101	1,101		
Mutual funds	26,292	26,292		
Pooled funds	131,012		131,012	
Alternative investments				
Hedged equity	50,918		39,426	11,492
Multi-strategy	134,665			134,665
Long/short credit	46,245			46,245
Private equity	49,850			49,850
Real assets	12,431			12,431
Subtotal	929,571	205,740	461,931	261,900
Charitable trusts assets	19,217		19,217	
Beneficial interest in perpetual trust	1,874		1,874	
Total	\$ 950,662	\$ 205,740	\$ 483,022	\$ 261,900

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

The changes in investments classified as Level 3 are as follows for the year ended June 30, 2010:

Balance, June 30, 2009	\$ 253,326
Transfers to level 2	(31,592)
Distributions	(10,663)
Purchases	18,133
Total net realized and unrealized gains included in change in net assets	32,696
<hr/>	
Balance, at June 30, 2010	\$ 261,900

The Foundation uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which do not have readily determinable fair value. The following table lists investments by major category and investment strategy as of June 30, 2010:

Strategies	# of Funds	Valuation	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled Funds:					
Fixed Income (a)	4	\$ 79,755		Daily to Monthly	1-30 Days
Domestic Equities (b)	3	113,399		Daily to Quarterly	1-60 Days
International Equities (c)	4	131,012		Monthly	1-30 Days
Alternative Investments:					
Hedged equity (d)	4	50,918		Quarterly	30-75 Days
Multi-strategy (e)	6	134,665		Quarterly to Annually	45-100 Days
Long/short credit (f)	3	46,245		Quarterly to Annually	65-90 Days
Private equity (g)	12	49,850	\$ 22,581	None	
Real assets (h)	4	12,431	6,832	None	
<hr/>					
Total	40	\$ 618,275	\$ 29,413		

- a) The fixed income strategies are actively managed diversified portfolios of U.S. investment grade and below investment grade fixed income and international fixed income instruments. 34% of the assets are in funds which can be redeemed daily. The balance can be redeemed monthly with a notice requirement of 10 to 30 days.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

- b) The domestic equity funds invest in passive U.S. index funds, actively managed funds with U.S. equity indexes as benchmarks, and a fund utilizing S&P futures and short term fixed income investments attempting to meet or exceed the S&P 500 index. Of the assets in this category, 36% can be redeemed daily, 53% can be redeemed quarterly on 60 days notice, and 11% can be redeemed monthly with two days notice if over \$5 million (redemption requests under \$5 million require partnership approval). All lockup period requirements have been met.
- c) The international equity strategies are actively managed and invest in both emerging and developed market equities. Investments are only redeemable monthly, with 71% requiring a notice of 1 to 5 days and 29% requiring a notice of 15 to 30 days.
- d) The hedged equity funds are fund of funds and directly held funds which in aggregate represent a number of underlying funds with a wide range of investment strategies. These funds are primarily long public equity securities but also short public equity securities and hold small amounts of fixed income and derivative securities. Investments are only redeemable quarterly, with 77% requiring a notice of 60 to 75 days and all lockup requirements having been met, and 23% requiring a notice of 30 to 60 days and subject to a lockup expiring in December of 2010. One fund (34% of the assets in this category) allows quarterly redemptions with no redemption fee in only two of the four quarter ends.
- e) The multi-strategy funds consists of fund of funds and directly held funds which in aggregate represent a number of underlying funds covering a wide array of investment strategies. Approaches include public and private equity, long/short equity and debt strategies, credit arbitrage and active fixed income investing. Of this category, 94% is redeemable annually with a notice of 45 to 100 days, and 6% is redeemable quarterly or semiannually with a notice of 60 or 65 days. Additionally, 9% is generally not available for withdrawal or distribution until after the underlying investments are liquidated or distributed. 58% is subject to lockups that expire between September 2011 and December 2012.
- f) Long/short credit strategies invest in both long and short positions in high yield fixed income. Of this category, 45% is redeemable annually with 90 days notice, 54% is redeemable quarterly with 65 days notice and both an investor-level and fund-level gate limit of 25%, and 1% has no redemption rights.
- g) Private equity strategies invest in various companies and some debt securities, both domestic and international. The partnerships have a remaining legal life span of 2 to 10 years with no redemption rights for the Limited Partners. Liquidity is expected in the form of distributions from the funds when the underlying assets are sold. It is estimated that the underlying assets will be redeemed over this time period and that the Foundation will make new investments in other Private equity strategies. The majority of the capital calls are expected within two to four years and return of capital is anticipated in five to ten years.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

- h) Real assets are investments in a fund of fund partnerships and private real asset funds which invest in office, commercial, and industrial real estate along with a number of hard asset strategies. In addition, the Foundation also includes one distressed strategy fund in this category as many of its holdings are backed by real estate. The funds have a remaining legal life span of 4 to 10 years with no redemption rights for Limited Partners. Return of capital is expected to begin in 2012 with full liquidation in seven to ten years.

Note 5 - Contributions and Other Accounts Receivable:

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

	2010	2009
Contributions receivable (net of discount of \$11 and \$18 for the years ended June 30, 2010 and 2009, respectively)	\$ 4,786	\$ 5,549
Accrued interest on investments	693	695
Other accounts receivable	200	19
Total	\$ 5,679	\$ 6,263

Contributions receivable as of June 30, 2010 are expected to be received as follows: \$4,447 within one year and \$339 within two to five years.

Note 6 - Charitable Trust Assets:

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

	2010	2009
Assets held in charitable trusts in which the Foundation is both trustee and secondary beneficiary	\$ 15,344	\$ 12,322
Contributions receivable from charitable trusts	3,873	3,198
Total	\$ 19,217	\$ 15,520

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Note 7 - Property and Equipment:

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

	2010	2009
Leasehold improvements	\$ 1,035	\$ 1,035
Furniture and fixtures	793	780
Computer equipment and software	2,327	2,288
<u>Office equipment</u>	<u>170</u>	<u>168</u>
	4,325	4,271
<u>Less accumulated depreciation and amortization</u>	<u>(3,183)</u>	<u>(2,808)</u>
<u>Property and equipment, net</u>	<u>\$ 1,142</u>	<u>\$ 1,463</u>

Note 8 - Other Assets:

Other assets consist of the following as of June 30:

	2010	2009
Beneficial interest in perpetual trust	\$ 1,874	\$ 1,744
Real estate	5,687	6,273
Program related investments:		
Notes receivable (net of loan reserve of \$250 for the year ended June 30, 2010)	2,917	1,126
Certificate of deposits	2,740	
Artwork	468	475
<u>Other</u>	<u>211</u>	<u>264</u>
<u>Total</u>	<u>\$ 13,897</u>	<u>\$ 9,882</u>

Real estate includes the Foundation's ownership in a single member LLC. The LLC owns five condominium units in San Francisco. During 2009, the foundation reduced the value of these assets by \$2,015.

Program related investments are valued at their original cost unless impaired. Included in this amount are program related notes receivable of supporting organizations. The Foundation reduced the value of these notes by \$110 in 2010.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Note 9 - Grants Payable:

Grants payable at June 30, 2010 are scheduled to be disbursed as follows:

Year Ending June 30,		
2011	\$	5,726
2012		639
2013		340
2014		12
2015		5
Thereafter		45
		6,767
Less discount on multi-year grants payable		(50)
		6,717
Grants payable, net	\$	6,717

Note 10 - Agency Funds:

Agency funds represent funds transferred to the Foundation by other not-for-profit organizations that have specified themselves as the beneficiary. These funds are accounted for as assets and liabilities on the financial statements. However, the Foundation maintains legal ownership of the assets and has variance power.

Note 11 - Endowments:

Donor Restricted Endowment funds by Net Asset class for the year ended June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, beginning of year	\$	410,031	\$ 89,074	\$ 499,105
Reclassifications		(15,936)	17,847	1,911
		394,095	106,921	501,016
Endowment Net Assets after reclassification				

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Interest and dividends		2,349		2,349
Net gain (realized and unrealized)		74,831	129	74,960
Change in value of split interest agreements			178	178
Contributions		5,165		5,165
Appropriated for expenditure		(23,494)		(23,494)
Change in endowment net assets		58,851	307	59,158
Endowment Net Assets, end of year		\$ 452,946	\$ 107,228	\$ 560,174

Note 12 - Total Net Asset Composition:

In addition to endowment net assets, the Foundation also manages other non-endowed funds. The following table summarizes all Foundation net assets as of June 30, 2010.

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor Endowment Funds		\$ 452,946	\$ 105,139	\$ 558,085
Split Interest Agreements		7,594	2,089	9,683
Donor Advised	\$ 364,222	444		364,666
Operating Funds	9,975			9,975
Project and Special Purpose Funds	578	3,361		3,939
Non-Endowed Supporting Organizations Funds	9,863	549		10,412
Total	\$ 384,638	\$ 464,894	\$ 107,228	\$ 956,760

Net assets of \$24,044 and \$6,133 were released from restrictions due to the expiration of the time and purpose restrictions, respectively, during the year ended June 30, 2010.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

The endowed assets are comprised of over 200 individual funds. The Foundation honors the intent expressed by the donor at the time of the gift. Of the grantmaking made from endowed funds in the year ended June 30, 2010, approximately one-half are funds that have been entrusted by donors to the Foundation to determine the best use of the funds to benefit the community. The balance is allocated according to the wishes of the donors across programmatic areas, including Arts and Culture, Community Health, Education, Environment, Community Development, and Social Justice.

Note 13 - Commitments and Contingencies:

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

The following is a schedule of future minimum lease payments required under non-cancelable operating leases at June 30, 2010:

Year Ending June 30,		
2011	\$	786
2012		786
2013		603
2014		44
<hr/>		
Total future minimum lease payments	\$	2,219

Rental expense was approximately \$1,052 for the year ended June 30, 2010.

Note 14 - Related Parties:

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

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Note 15 - Guarantees:

The Foundation acts as a loan guarantor for loans to various not-for-profit organizations. At June 30, 2010 there was one loan outstanding of \$500 which was guaranteed by the San Francisco Foundation. The loan is due in June 2012. Additionally, the Foundation guarantees the rent payments of another not-for-profit organization up to \$250. The Foundation considers the guarantees to be part of its program activities. The Foundation believes there to be adequate collateral for these guarantees and does not consider a reserve necessary at June 30, 2010.

Note 16 - Retirement Plan:

Retirement Savings 401(k) Plan

The Foundation provides a defined contribution plan under Section 401(k) of the Internal Revenue Code (the 401(k) Plan). Employees are considered eligible for contributions after they have completed one year of service and 1,000 hours of employment. For 2010 and 2009, the Foundation contributed 12% of salary each year to the 401(k) Plan for all Eligible Employees, as defined.

Pension expense related to the plan was approximately \$438 and \$455 for the years ended June 30, 2010 and 2009, respectively.

457(b) Deferred Compensation Plan

Effective October 15, 2005, the Foundation established a 457(b) deferred compensation plan for key employees. Pension expense related to the Foundation's contribution was approximately \$17 and \$16 for the years ended June 30, 2010 and 2009, respectively. Related assets and liabilities total \$194 at June 30, 2010.

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 advisor is also utilized. This entire process is actively overseen by an Investment Committee that includes members and non-members of the Board of Trustees.

In addition to investments, concentrations of market and credit risk exist for cash and cash equivalents and charitable trust assets. At June 30, 2010 the Foundation had \$5,267 of cash deposits in excess of federally insured limits.

The San Francisco Foundation

Notes to Consolidated Financial Statements (dollars in thousands)

Other

The majority of contributions and bequests consist of donations from estates and individuals. Approximately 11% and 43% of the contributions and bequest revenue is comprised of contributions from one donor for the years ended June 30, 2010 and 2009, respectively.

Note 18 - Subsequent Events:

The management of the Foundation has reviewed the change in net assets for the period of time from its fiscal year ended June 30, 2010 through December 15, 2010, 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 and no subsequent events have occurred, the nature of which would require disclosure, except as discussed in Note 3.

The San Francisco Foundation

Schedule of Consolidated Functional Expenses (in thousands)

See Independent Auditors' Report

Year Ended June 30, 2010

	2010			Total
	Program Services	Management and General	Development & Donor Services	
Grant expenses	\$ 75,639			\$ 75,639
Salaries and benefits	2,620	\$ 1,274	\$ 370	4,264
Payroll taxes	197	91	28	316
Pension plan contributions	262	138	38	438
Other employee benefits	335	172	50	557
Miscellaneous expenses	2	1	0	3
Investment management fees	2,733	142	57	2,932
Professional fees/consultants	764	123	66	953
Printing and publications	57	25	26	108
Advertising	13	19	30	62
Occupancy	666	288	98	1,052
Convening and special events	73	43	31	147
Travel	76	12	3	91
Tickets to fundraisers	18	6	6	30
Training/professional development	27	18	2	47
Depreciation and amortization	226	112	37	375
Supplies	9	50	2	61
Accounting fees	0	99	0	99
Equipment rental and maintenance	174	87	29	290
Legal fees	19	3	10	32
Telephone	17	10	5	32
Outside temporary staff	16	3	2	21
Postage and shipping	6	14	5	25
Recruiting	0	4	0	4
Insurance	0	157	0	157
Books/subscriptions	3	4	3	10
Taxes/fees/licenses	42	2	1	45
Payroll processing	0	11	0	11
Storage/moving	5	1	0	6
Dues/memberships	21	91	5	117
Interest	1	0	0	1
Office maintenance	12	2	1	15
Latino Community Foundation	286	65	150	501
Total other expenses	8,680	3,067	1,055	12,802
Total	\$ 84,319	\$ 3,067	\$ 1,055	\$ 88,441