EVELYN AND WALTER HAAS, JR. FUND

FINANCIAL STATEMENTS

December 31, 2017 and 2016

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BPM

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Evelyn and Walter Haas, Jr. Fund
San Francisco, California

We have audited the accompanying financial statements of the Evelyn and Walter Haas, Jr. Fund, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, and cash flows for the years 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 audits. We conducted our audits 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 auditors' 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 auditors consider internal control relevant to the entity'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 entity'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 Evelyn and Walter Haas, Jr. Fund as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BPM LLP

San Francisco, California
September 14, 2018

EVELYN AND WALTER HAAS, JR. FUND

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 2,070,362	$ 187,810
Investments, at fair value	470,763,307	456,357,223
Deferred compensation plans	1,636,774	1,314,488
Prepaid federal excise tax and other assets	369,687	362,387
Property and equipment, net	1,174,613	1,083,662
Total assets	$ 476,014,743	$ 459,305,570
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and other accrued expenses	$ 541,645	$ 550,853
Grants payable, net	7,561,777	12,978,290
Deferred compensation plans	1,636,774	1,314,488
Deferred federal excise tax	840,423	358,102
Deferred lease incentive	235,669	312,102
Total liabilities	10,816,288	15,513,835
Net assets - unrestricted	465,198,455	443,791,735
Total liabilities and net assets	$ 476,014,743	$ 459,305,570

The accompanying notes are an integral part of these financial statements.

EVELYN AND WALTER HAAS, JR. FUND

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended December 31, 2017 and 2016

	2017	2016
Net investment income:		
Net dividends, interest, and other income	$ 5,565,831	$ 8,192,181
Net realized and unrealized gains on investments	42,702,051	18,670,920
Net investment income before federal excise tax	48,267,882	26,863,101
Federal excise tax expense	(466,172)	(151,732)
Net investment income	47,801,710	26,711,369
Expenditures:		
Grants	19,068,536	30,185,864
Direct charitable activities	815,103	864,432
Grant management	6,511,351	6,623,145
Total expenditures	26,394,990	37,673,441
Change in net assets	21,406,720	(10,962,072)
Net assets - unrestricted:		
Beginning of year	443,791,735	454,753,807
End of year	$ 465,198,455	$ 443,791,735

The accompanying notes are an integral
part of these financial statements.

EVELYN AND WALTER HAAS, JR. FUND

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets - unrestricted	$ 21,406,720	$ (10,962,072)
Adjustments to reconcile change in net assets - unrestricted to net cash used in operating activities:		
Depreciation and amortization	348,526	294,484
Deferred lease incentive amortization	(76,433)	(76,433)
Loss on disposal of property and equipment	1,675	-
Net realized and unrealized gains on investments	(42,702,051)	(18,670,920)
Deferred federal excise tax (benefit)	482,321	(390,282)
Changes in operating assets and liabilities:		
Interest receivable	-	40
Prepaid excise tax and other assets	(7,300)	(122,923)
Accounts payable and other accrued expenses	(9,208)	(59,961)
Grants payable, net	(5,416,513)	6,814,364
Net cash used in operating activities	(25,972,263)	(23,173,703)
Cash flows from investing activities:		
Proceeds from sales of investments	62,992,616	40,875,557
Purchases of investments	(38,263,159)	(11,309,287)
Change in net receivable on unsettled investment transactions	3,566,510	(7,321,565)
Purchases of property and equipment	(441,152)	(172,337)
Net cash provided by investing activities	27,854,815	22,072,368
Increase (decrease) in cash and cash equivalents	1,882,552	(1,101,335)
Cash and cash equivalents, beginning of year	187,810	1,289,145
Cash and cash equivalents, end of year	$ 2,070,362	$ 187,810
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 455	$ 8,373
Cash (refunded) paid for taxes	$ (46,647)	$ 622,343

The accompanying notes are an integral part of these financial statements.

1. Organization

The Evelyn and Walter Haas, Jr. Fund (the "Fund") is a private family foundation that has awarded more than $575 million in grants since its founding in 1953. Located in San Francisco, California, the Fund works at the local, state, and national levels to fulfill its founders' vision of a just and caring society that provides fundamental rights and opportunities for all people. The Fund's current grantmaking is aimed at ensuring that all people—including immigrants, gays and lesbians, people of color, children and youth—are able to achieve their full potential in our communities, our economy, and our society.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements of the Fund have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") applicable to not-for-profit organizations.

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are those that are neither temporarily restricted nor permanently restricted by donor-imposed stipulations. There are no temporarily or permanently restricted net assets as of December 31, 2017 and 2016.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with maturities of three months or less at the date of purchase.

Investments

Investments are stated at fair value. Gains or losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses that result from sales or maturities of investments are calculated on an adjusted cost basis. Dividend and interest income are accrued when earned, net of applicable fees.

Investment transactions are recorded on a trade-date basis. Receivables or payables from unsettled investment transactions represents cash received subsequent to year-end for sales or purchases of investments consummated prior to year-end.

Prior to 2016, the Fund held investments in various limited partnerships, such as private equity, hedge funds, multi-strategy funds, and real estate partnerships, which included securities of companies that are neither immediately liquid nor marketable.

On January 1, 2016, the Fund created HJF Investments Holdings, LP, ("HJF") to contain all of its investments, giving an investment management company the power to act as an Outsourced Chief Investment Officer ("OCIO"). HJF is structured as a partnership, with the OCIO as a fiduciary and sole general partner and the Fund as the sole limited partner. All investments, excluding those held in a liquid markets fund, were transferred at January 1, 2016.

Continued

2. Summary of Significant Accounting Policies, continued

Investments, continued

The Fund continues to hold investments in a liquid markets fund with the OCIO that invests in liquid securities and in financial instruments with a long-term horizon, and that is reported at net asset value ("NAV").

Since there is no readily available market for investments in limited partnerships, such investments are valued at amounts reported to the Fund by the general partner based upon guidelines established by the general partner. Further, management reviews the annual forms K-1 and audited financial statements for the partnerships, reviews the OCIO's valuation policy, meets periodically with the OCIO management team, and reviews performance with its investment consultants. Management believes this method provides a reasonable estimate of fair value. These values may differ significantly from the values that would have been used had a ready market for the investments in limited partnerships existed, and the differences could be material.

Property and Equipment

Office furniture and equipment and computer equipment are stated at cost and depreciated using the straight-line method over estimated useful lives of 3 to 10 years. Leasehold improvements are amortized over the lesser of the asset's useful life or the lease term.

Grants

Grants are expensed when the unconditional promise to give is approved by the Board of Directors or management in certain cases. Conditional grants are recognized as grant expense in the period in which the recipient meets the terms of the condition. Additionally, many conditional grants are expensed when, in management's opinion, the likelihood of grant recipients failing to meet the condition is considered remote.

Conditional grants include grants with matching requirements or other requirements, such as for a newly formed organization to establish its 501(c)(3) status, before the grant becomes unconditional. All multiyear grants are subject to staff review and approval of current year programmatic and financial reports before payments are released, but do not necessarily create a conditional grant. As of December 31, 2017 and 2016, conditional grants payable were $149,000 and $1,291,000, respectively.

Grant expenses are recorded net of any grant refunds that are received in the year they were paid. If the refunds are received in a subsequent year, they are considered grant recoveries and are recorded as other income. Grants due in future years are discounted using rates effective at the time the grants were awarded, ranging from 1.76% to 2.2% for 2017 and 0.85% to 2.09% for 2016.

Deferred Lease Incentive

Reimbursements from the landlord for leasehold improvement expenditures incurred by the Fund are recorded as a deferred lease incentive liability and amortized over the lease term on a straight-line basis.

2. Summary of Significant Accounting Policies, continued

Functional Expense Allocations

Expenses, such as program staff compensation and activities, are allocated among direct charitable activities and grant management classifications on the basis of activity-based estimates made by the Fund's management. Direct charitable activities are efforts by Fund staff above and beyond normal grant oversight, such as providing technical assistance to nonprofit organizations, consulting with nonprofit leaders on major initiatives, advising wealthy individuals on expanding their philanthropy, serving on nonprofit boards, and convening meetings between nonprofit leaders and grantmakers. Grant management includes the expenses other than grants and investment expenses that relate to the Fund's operations.

Concentration of Credit Risk

Financial instruments, which potentially subject the Fund to credit risk, consist primarily of cash, cash equivalents, and investments. The Fund maintains cash and cash equivalents with one major financial institution. At times, such amounts may exceed Federal Deposit Insurance Corporation limits. As of the fiscal years 2017 and 2016, the Fund's investments have been placed with one major counterparty with a diversified portfolio of investments. The Fund closely monitors these investments and has not experienced any credit losses.

Tax Exempt Status

The Fund is a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and from California franchise and/or income taxes under Section 23701(d) of the Revenue and Taxation Code. The Fund is subject to federal excise taxes as well as federal and state unrelated business income tax.

Private foundations are liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the IRC are met) on net investment income, excluding unrealized gains. The Fund paid excise tax of 2% in 2017 and 2016. Deferred excise taxes arise primarily from unrealized tax basis gains on investments and are calculated at the effective rate expected to be paid by the Fund, which is generally 1% in most years.

The Fund recognizes and measures its unrecognized tax benefits in accordance with ASC 740-10, which requires the Fund to determine whether tax positions of the Fund are "more likely than not" to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of December 31, 2017 and 2016, the Fund has analyzed its positions taken with respect to all applicable income tax issues for all open tax years and has concluded that no reserve for uncertain tax positions is required.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Continued

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about liquidity, financial performance, and cash flows. The main difference between previous GAAP and Topic 958 is that net assets will now be presented in two classes rather than three. Not-for-profit entities will report amounts for net assets with donor restrictions and net assets without donor restrictions. For nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Fund is currently evaluating the impact of adoption on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU is aimed at increasing transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. For nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2019 with early adoption permitted. The Fund is currently evaluating the impact of adoption on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The accounting for contributions has been modified to clarify distinguishing whether grants or contracts should be accounted for as non-reciprocal contributions, or as exchange transactions that follow revenue recognition accounting. For exchange transactions, the standard clarifies when each party directly receives commensurate value in the transaction, and how to deal with third party payers to a transaction. Additionally, the criteria for determining whether a contribution is conditional have been changed from a probability-based approach to one focused on barriers in an arrangement. For nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2018 for contributions received, and after December 15, 2019 for contributions made with early adoption permitted. The Fund is currently evaluating the impact of adoption on its financial statements.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements in order to conform to the current fiscal year presentation.

3. Investments and Fair Value Measurements

The Fund follows the fair value measurement standards, which define fair value, establish a framework used to measure fair value, and require certain disclosures about fair value measurements. The standards prioritize, within the measurement of fair value, the use of market-based information over entity-specific information and established a three-level hierarchy for fair value measurements based on the transparency of information, such as pricing source, used in the valuation of an asset or liability as of the measurement date.

Continued

3. Investments and Fair Value Measurements, continued

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date, without adjustment. This category includes active exchange traded money market funds, actively managed fixed income, and equity securities whose values are based on quoted market prices.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment.

The Fund follows the guidance for investments in certain entities that calculate NAV per share that permits, as a practical expedient, a reporting entity to measure the fair value of an investment, within its scope, on the basis of the NAV per share of the investment if the NAV of the investment is calculated in a manner consistent with the measurement principles of accounting for investment companies as of the reporting entity's measurement date.

The following table summarizes the valuation of the Fund's investments measured at fair value on a recurring basis as of December 31, 2017 and 2016:

Fair Value Measurements at December 31, 2017	
Assets:	
Investments:	
Investments measured using NAV:	
Multi-strategy - liquid markets	$ 30,989,260
Multi-strategy - endowment style	414,077,398
Investments, at fair value	445,066,658
Net receivable on unsettled investment transactions	25,696,649
Total investments	$ 470,763,307

Fair Value Measurements at December 31, 2016	
Assets:	
Investments:	
Investments measured using NAV:	
Multi-strategy - liquid markets	$ 21,377,063
Multi-strategy - endowment style	405,717,001
Investments, at fair value	427,094,064
Net receivable on unsettled investment transactions	29,263,159
Total investments	$ 456,357,223

3. Investments and Fair Value Measurements, continued

The Fund uses the NAV to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) 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 in other investment companies (in partnership format) by major category as of December 31, 2017 and 2016:

	Strategy	NAV in Funds		Redemption Notice Period	Redemption Restrictions
		2017	2016		
Assets:					
Multi-strategy - liquid markets	Public and private investments across all asset classes	$ 30,989,260	$ 21,377,063	30 days	None
Multi-strategy - endowment style	Public and private investments across all asset classes	414,077,398	405,717,001	(a)	(a)
Total investments valued at NAV		$ 445,066,658	$ 427,094,064		

(a) These assets are held within HJF in an endowment-style investment program specifically tailored for the Fund. HJF invests in a pooled investment fund managed by the OCIO (71% and 70% of HJF as of December 31, 2017 and 2016, respectively), in the Fund's own legacy portfolio of investments managed by unaffiliated third parties and with different investment strategies (23% and 27% as of December 31, 2017 and 2016, respectively), and in liquid securities (6% and 3% as of December 31, 2017 and 2016, respectively). Distributions from HJF are at the sole discretion of the General Partner. The Fund has the right to request redemption of 7% of assets of the OCIO pooled fund annually with 120 days' notice prior to year-end. The liquid securities can be redeemed with 30 days' notice. There is no redemption option on the underlying legacy funds; distributions will occur as funds are available.

The assets may only be redeemed in full upon dissolution of HJF. The Fund may remove the general partner for any reason with 30 days' prior written notice. Upon dissolution of HJF, assets would be liquidated in an orderly manner.

The underlying assets of HJF have additional redemption restrictions and limits on the timing of liquidation. A liquidity evaluation of the HJF portfolio estimates that thirty-five percent (35%) of the assets could be liquidated within 90 days, an additional nine percent (9%) by the end of one year, and an additional six percent (6%) by the end of three years. Approximately 50% of the portfolio would not be liquid for greater than three years.

Continued

4. Property and Equipment

Property and equipment as of December 31, 2017 and 2016, consisted of the following:

	2017	2016
Office furniture and equipment	$ 1,273,517	$ 1,277,400
Leasehold improvements	2,202,038	1,914,078
Computer equipment	333,490	259,081
Total	3,809,045	3,450,559
Accumulated depreciation and amortization	(2,634,432)	(2,366,897)
Property and equipment, net	$ 1,174,613	$ 1,083,662

Depreciation and amortization expense was $348,526 and $294,484 for the years ended December 31, 2017 and 2016, respectively.

5. Grants Payable

Grants payable scheduled to be disbursed as of December 31, 2017, were as follows:

2018	$ 2,935,547
2019	2,210,000
2020	1,200,000
2021	1,150,000
2022	333,334
Total	7,828,881
Less discounts on multi-year grants	(267,104)
Grants payable, net	$ 7,561,777

As of December 31, 2017, the Fund has a conditional grant in the amount of $149,000 that is scheduled to be disbursed during the next fiscal year. This grant is not recognized in the accompanying financial statements until the condition has been met, in accordance with the grant policy.

6. Summary of Fund Operations since Inception

Contributions to the Fund	$ 147,406,661
Increase in net assets, before deduction of grants	895,450,288
Total	1,042,856,949
Less grant expenditures, including grants payable	(577,658,494)
Net assets - unrestricted, December 31, 2017	$ 465,198,455

Continued

7. Excise and Income Taxes

Excise Taxes

The provision for current and deferred federal excise taxes for the years ended December 31, 2017 and 2016, was as follows:

	2017	2016
Current	$ (16,149)	$ 542,014
Deferred	482,321	(390,282)
Total	$ 466,172	$ 151,732

The IRC requires that certain minimum distributions be made in accordance with a specified formula. As of December 31, 2017 and 2016, the Fund had made the required minimum distribution.

If taxes are due, current federal excise taxes payable are included in accounts payable and other accrued expenses on the statement of financial position. If a refund is due, these amounts are included in prepaid federal excise tax and other assets on the statement of financial position. Additionally, the 2017 current tax expense includes approximately $400,000 of tax true ups from the provision for taxes in 2016. As of December 31, 2017 and 2016, the Fund had prepaid taxes of $234,294 and $264,792, respectively.

Unrelated Business Income Taxes

Unrelated business income taxes arise primarily from income generated from certain types of investments. If taxes are due, federal unrelated business income taxes payable are included in accounts payable and other accrued expenses on the statement of financial position. If a refund is due, these amounts are included in prepaid federal excise tax and other assets on the statement of financial position.

The Fund's investment activities generated an estimated unrelated business loss of approximately $675,000 and income of approximately $540,000 for the years ended December 31, 2017 and 2016, respectively. No income tax was recognized as of December 31, 2016, as the Fund utilized operating loss carryforwards to fully offset income.

As of December 31, 2017 and 2016, the Fund had net operating loss carryforwards associated with unrelated business income of approximately $2,275,000 and $1,600,000, respectively. There is no limitation on the use of these net operating losses and, if not utilized, the net operating loss carryforwards begin expiring in 2034. The Fund's ability to utilize the net operating losses or realize any benefit is uncertain; therefore, a full valuation allowance has been applied against the associated deferred tax asset.

8. Retirement Plan

The Fund has a contributory money purchase pension plan covering all eligible employees. There are no past service costs under the plan. The Fund contributes 15% of the participants' compensation. The total pension cost was $476,841 and $482,280 for the years ended December 31, 2017 and 2016, respectively. The Fund also has SERP and 457(b) plans that are limited to executives within the Fund. The Fund contributes annually to these plans based on their respective plan agreements. The assets for both plans are held in trust by the Fund.

Continued

9. Line of Credit

The Fund has a $3 million unsecured line of credit ("Line") available from a major commercial bank. The Line bears interest on the outstanding portion at rates selected by the Fund based on Prime, London Interbank Offered Rate, or Bank Offered, all as defined. The Fund had no outstanding balances as of the years ended December 31, 2017 and 2016. Interest expense under the Line was $455 and $8,373 for the years ended December 31, 2017 and 2016, respectively.

10. Lease Commitments and Deferred Lease Incentives

The Fund leases its office facilities located at 114 Sansome Street under a noncancelable operating lease for a ten-year period with the option to extend for two additional five-year periods. Additionally, the Fund received $764,331 in tenant improvement allowances once construction was completed and certain contingencies were removed.

On December 15, 2016, the Fund entered into a second office lease at 86 Graham Street in the Presidio with a start date of January 15, 2017. The lease term is for a five-year period, with an option to renew for an additional five-year period.

Each lease includes annual escalation factors to reflect inflation. The difference between the rent due under the stated period of each lease compared to that of its straight-line basis is recorded as deferred rent within accounts payable and other accrued expenses in the statement of financial position.

Rent expense for the years ended December 31, 2017 and 2016 was $495,005 and $408,352, respectively.

Future minimum lease commitments under the two office leases are as follows:

	Total
Year ending December 31:	
2018	$ 690,088
2019	716,340
2020	742,645
2021	180,927
	$ 2,330,000

11. Subsequent Events

The Fund evaluated subsequent events for recognition and disclosure through September 14, 2018, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2017 that required recognition or disclosure in such financial statements.