EVELYN AND WALTER HAAS, JR. FUND

DECEMBER 31, 2018

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Evelyn and Walter Haas, Jr. Fund

Independent Auditors' Report and
Financial Statements

Independent Auditors' Report

THE BOARD OF DIRECTORS
EVELYN AND WALTER HAAS, JR. FUND
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of the **EVELYN AND WALTER HAAS, JR. FUND (the Fund),** which comprise the statement of financial position as of December 31, 2018, and 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 of 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 Fund'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 Fund'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, 2018, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As described in Note 2(k), the Fund adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Accordingly, the accounting change has been retrospectively applied to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to that matter.

Other Matters

Report on Summarized Comparative Information

The financial statements of the Fund as of December 31, 2017, were audited by other auditors whose report dated September 14, 2018 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
September 11, 2019

Evelyn and Walter Haas, Jr. Fund

Statement of Financial Position

December 31, 2018 (with comparative totals for 2017)	2018	2017
Assets		
Cash and cash equivalents	$ 627,610	$ 2,070,362
Investments, at fair value	443,034,158	470,763,307
Deferred compensation plans	1,556,046	1,636,774
Prepaid federal excise tax and other assets	262,803	369,687
Fixed assets, net	922,226	1,174,613
Total assets	$ 446,402,843	$ 476,014,743
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other accrued expenses	$ 715,798	$ 777,314
Grants payable, net	9,877,083	7,561,777
Deferred compensation plans	1,556,046	1,636,774
Deferred federal excise tax	1,352,799	840,423
Total liabilities	13,501,726	10,816,288
Net Assets Without Donor Restrictions	432,901,117	465,198,455
Total liabilities and net assets	$ 446,402,843	$ 476,014,743

See accompanying notes to financial statements.

Evelyn and Walter Haas, Jr. Fund

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2018 (with comparative totals for 2017)	2018	2017
Revenues:		
Investment income, net	$ 1,218,134	$ 47,801,710
Total revenues	1,218,134	47,801,710
Expenses:		
Program activities	30,107,564	23,055,856
Management and general	3,407,908	3,339,134
Total expenses	33,515,472	26,394,990
Change in Net Assets	(32,297,338)	21,406,720
Net Assets Without Donor Restrictions, beginning of year	465,198,455	443,791,735
Net Assets Without Donor Restrictions, end of year	$ 432,901,117	$ 465,198,455

See accompanying notes to financial statements.

Evelyn and Walter Haas, Jr. Fund

Statement of Functional Expenses

Year Ended December 31, 2018

	Program Activities	Management and General	Total
Grants to other organizations	$ 26,114,930		$ 26,114,930
Salaries and benefits	2,916,914	$ 2,189,258	5,106,172
Services and professional fees	74,750	538,437	613,187
Office and occupancy	483,866	344,435	828,301
Management information systems	166,624	118,610	285,234
Travel and convening	124,369	56,213	180,582
Depreciation	226,111	160,955	387,066
Total expenses	$ 30,107,564	$ 3,407,908	$ 33,515,472

See accompanying notes to financial statements.

Evelyn and Walter Haas, Jr. Fund

Statement of Cash Flows

Year Ended December 31, 2018 (with comparative totals for 2017)	2018	2017
Cash Flows from Operating Activities:		
Grants paid	$ (23,799,624)	$ (24,485,049)
Cash paid for operating costs	(7,122,307)	(7,116,681)
Excise taxes (paid) / refunded	(206,300)	46,647
Net cash used in operating activities	(31,128,231)	(31,555,083)
Cash Flows from Investing Activities:		
Proceeds from sales of investments	29,820,157	33,878,787
Purchases of fixed assets	(134,678)	(441,152)
Net cash provided by investing activities	29,685,479	33,437,635
Change in Cash and Cash Equivalents	(1,442,752)	1,882,552
Cash and Cash Equivalents, beginning of year	2,070,362	187,810
Cash and Cash Equivalents, end of year	$ 627,610	$ 2,070,362

See accompanying notes to financial statements.

Note 1 - Organization:

The Evelyn and Walter Haas, Jr. Fund (the "Fund") is a private family foundation that has awarded more than $600 million in grants since its founding in 1953. Located in San Francisco, the Fund seeks to fulfill its founders' vision of a just and compassionate society where all people have the opportunity to live, work, and raise their families with dignity. The Fund's grant program areas include: Immigrant Rights, Gay and Lesbian Rights, Education Equity, the Haas Leadership Initiatives, and Community Partnerships.

Note 2 - Summary of Significant Accounting Policies:

a. 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. Net assets without donor restrictions are those that are not restricted by donor-imposed stipulations. There are no net assets with donor restrictions as of December 31, 2018.

b. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the Fund considers short-term investments with a maturity of three months or less to be cash equivalents.

c. Investments

Investments are reported at fair value. Changes in fair values as well as realized gains and losses are reflected in the Statement of Activities and Changes in Net Assets. Dividend and interest income are accrued when earned. For cash flow purposes, proceeds from sales of investments represent the withdrawals used for grants and operations.

The Fund reports certain investments using 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 investment manager to the value contained in the audited financial statements to assess the reasonableness of the valuation.

d. Fair Value Measurements

The Fund 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 Fund classifies its financial assets and liabilities according to three levels and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

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

Level 2 Observable inputs other than quoted prices included within Level 1 such as quoted prices for similar securities or quoted prices in inactive markets.

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

e. Fixed Assets

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.

f. Grants

Grants are recorded 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. Grant refunds are recorded as reductions of grant expenses at the time the grants are refunded to the Fund.

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.

g. Functional Allocation of Expenses

Expenses are allocated between program activities and management and general based on estimates made by the Fund’s management of the time spent by employees on various activities. Program activity expenses relate to the grantmaking activities of the Fund, including reviewing proposals and awarding, monitoring, and evaluating grants, and to direct charitable activities carried out by employees of the Fund. Management and general expenses include the costs of accounting, human resources, communications, and management of the Fund. Certain expenses, such as information technology costs, are attributable to more than one function and are allocated based on the overall time spent by employees on those functions.

h. Comparative Information and Reclassifications

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include the sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Fund's financial statements for the year ended December 31, 2017 from which the summarized information was derived.

Certain reclassifications have been made to the 2017 financial statements in order to conform to the 2018 presentation. These reclassifications had no impact on net assets or changes in net assets.

i. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

j. Federal Excise Tax

The Fund is a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code 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 tax on its investment income. A provision for federal excise tax is accrued. 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 (Note 8). In addition, the Fund may be subject to tax on unrelated business income, if any, generated by its investments.

The Fund follows the guidance on accounting for uncertainty in income taxes according to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740. As of December 31, 2018, management evaluated the Fund's tax positions and concluded that the Fund had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the financial statements.

k. Recent Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this update are designed to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows.

The adoption of this ASU changed the terminology used in describing the Fund's net assets, and added a new disclosure that discusses the Fund's availability of financial assets and liquidity (Note 3). As part of the adoption the Fund elected to include a statement of functional expenses and present its cash flow statement using the direct method. The adoption also enhanced the functional expenses allocation disclosures and reclassified the investment management and advisory fees from an expense classification to a component of net investment income. Accordingly, the accounting change has been retrospectively applied to all periods presented with the exception of the omission of liquidity and availability of resource information and functional expense information for 2017 as permitted by the ASU.

Effective in the Future

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It provides a framework for determining whether a contribution or grant is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The new ASU does not apply to transfers of assets from governments to businesses. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2018 for contributions received and December 15, 2019 for grants made. Early application of the amendments in the ASU is permitted and applied prospectively. The Fund is currently evaluating the impact of this pronouncement on its financial statements.

In February 2016, the FASB issued amendments to ASU 2016-02, *Leases*. Among other things, lessees will be required to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The amendments in this ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Fund is currently evaluating the impact the amendments in this ASU will have on its financial statements.

l. Subsequent Events

The Fund evaluated subsequent events with respect to the financial statements for the year ended December 31, 2018 through September 11, 2019, 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.

Note 3 - Availability of Financial Assets and Liquidity:

Financial assets are considered unavailable when illiquid or not convertible to cash within one year. The Fund's goal is to maintain sufficient liquid financial assets to meet all grant and operating needs. As financial obligations become due, investments are liquidated. None of the Fund's financial assets are subject to donor restrictions that make them unavailable for general expenditure within one year of the date of financial statements.

Financial assets as of December 31, 2018:

Cash and cash equivalents	$ 627,610
Investments	443,034,158
Deferred compensation plan assets	1,556,046
Total financial assets	445,217,814
Less amounts not available to be used within one year:	
Deferred compensation plan assets	(1,556,046)
Investments with liquidity restrictions	(378,470,540)
	(380,026,586)
Financial assets available to meet general expenditures over the next twelve months	$ 65,191,228

Investments with liquidity restrictions represent illiquid investments in an endowment-style investment program as detailed in Note 4.

Note 4 - Investments and Net Asset Value Disclosures:

Investments

The Fund's investments measured at fair value consist of the following as of December 31:

	2018	2017
Investments:		
Investments measured using NAV:		
Multi-strategy – liquid markets fund	$ 24,603,707	$ 30,989,260
Multi-strategy – HJF Investments Holdings LP	392,197,451	414,077,398
Investments, at fair value	416,801,158	445,066,658
Net receivable on unsettled investment transactions	26,233,000	25,696,649
Total investments	$ 443,034,158	$ 470,763,307

The net receivable on unsettled investment transactions represents cash received subsequent to year-end for sales of investments consummated prior to year-end.

The Fund's investment income consists of the following for the year ended December 31:

	2018	2017
Investment income, gross:		
Dividends and interest	$ 1,893,252	$ 549,544
Realized and unrealized gains	2,676,899	50,322,206
Investment income, gross	4,570,151	50,871,750
Less management and other fees	(2,492,467)	(2,603,868)
Less excise taxes	(859,550)	(466,172)
Investment income, net	$ 1,218,134	$ 47,801,710

Fair Value Measurements

In accordance with Subtopic 820-10, the investments held by the Fund are valued using the NAV per share (or its equivalent) practical expedient. These investments are not required to be classified in the fair value hierarchy.

Net Asset Value Disclosures

The Fund uses NAV as a practical expedient to determine the fair value of all the underlying investments which do not have 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 by major category as of December 31:

	Valuation 2018	Valuation 2017	Redemption Notice Period	Redemption Restrictions
Multi-strategy – liquid markets fund (a)	$ 24,603,707	$ 30,989,260	30 days	None
Multi-strategy – HJF Investments Holdings LP (b)	392,197,451	414,077,398	(b)	(b)
Total	$ 416,801,158	$ 445,066,658		

(a) The liquid markets fund seeks to achieve its objective by diversifying across multiple asset classes, and may invest in common and preferred stocks, exchange-traded funds, mutual funds, master limited partnerships, real estate investment trusts, high yield bonds, government securities and money market instruments, and derivative and other synthetic instruments. The shares may be redeemed on a monthly basis and the redemption request must be made prior to the 25th day of the month.

(b) HJF Investments Holdings, LP (HJFIH) is a private investment partnership offering an endowment-style investment program. HJFIH invests with a long-term horizon, seeking varied and non-traditional investment opportunities in an effort to provide a diversified, single-portfolio investment strategy for the investor. HJFIH is managed by the Fund’s Outsourced Chief Investment Officer (OCIO). HJFIH is structured as a partnership, with the OCIO as a fiduciary and sole general partner and the Fund as sole limited partner. HJFIH invests in a pooled investment fund managed by the OCIO (71% and 70% of HJFIH as of December 31, 2018 and 2017, respectively), in the Fund’s legacy portfolio of investments managed by unaffiliated third parties and with different investment strategies (22% and 24% as of December 31, 2018 and 2017, respectively), and in liquid securities (7% and 6% as of December 31, 2018 and 2017, respectively).

Distributions from HJFIH are at the sole discretion of the general partner and each of the HJFIH investments, accounts and portfolios has its own liquidity profile, ranging from daily to longer than three years. The Fund has the right to request redemption of a maximum of 7% of the assets of HJFIH annually, with up to 3.5% available at the end of June and December, with 120 days' notice in both cases.

The assets may only be redeemed in full upon dissolution of HJFIH. The Fund may remove the general partner for any reason with 30 days' written notice. Upon dissolution of HJFIH, assets would be liquidated in an orderly manner. The underlying assets of HJFIH have additional redemption restrictions and limits on the timing of liquidation. A liquidity evaluation of the HJFIH portfolio estimates that 36% of the assets could be liquidated within 90 days, an additional 9% by the end of one year, and an additional 5% by the end of three years. Unfunded long-term commitments were approximately $9,900,000 as of December 31, 2018 and will be funded by the available cash balance held in HJFIH.

Note 5 - Fixed Assets:

Fixed assets as of December 31, 2018 consist of the following:

Office furniture and equipment	$ 1,271,069
Leasehold improvements	2,208,028
Computer equipment	440,688
	3,919,785
Less accumulated depreciation and amortization	(2,997,559)
Fixed assets, net	$ 922,226

Depreciation and amortization expense was $387,066 for the year ended December 31, 2018.

Note 6 - Grants Payable:

Grants payable scheduled to be disbursed as of December 31, 2018, are as follows:

December 31,	
2019	$ 6,218,091
2020	2,315,000
2021	1,150,000
2022	333,334
	10,016,425
Less discounts on multi-year grants	(139,342)
Grants payable, net	$ 9,877,083

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 multi-year 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. The Board may also approve internal long-term authorizations for grant strategies that are subject to budget approval on an annual basis. Such Board authorizations do not create a commitment for the Fund.

Note 7 - Line of Credit:

The Fund had a $3,000,000 unsecured line of credit available from a major commercial bank, which expired in October 2018 and was not renewed. The Fund had no outstanding balances during the year ended December 31, 2018. There was no interest expense under the line of credit for the year ended December 31, 2018.

Note 8 - Excise and Income Taxes:

Excise Taxes

In accordance with applicable Treasury regulations, the Fund is classified as a private foundation subject to an excise tax of two percent on net investment income, including realized gains. The Fund is eligible to reduce its tax liability from two percent to one percent of net investment income if a certain level of distributions, calculated as defined in the Treasury regulations, is attained. The tax rate for the current excise tax provision was two percent for 2018. The Fund provides for deferred excise tax at the rate of two percent on its unrealized appreciation on investments.

The provision for current and deferred federal excise taxes for the year ended December 31, 2018 is as follows:

Current	$ 372,790
Deferred	486,760
Total	$ 859,550

The Fund is subject to the distribution requirements of the Internal Revenue Code. The minimum amount of distributions to be made annually is calculated in accordance with a specified formula. The Fund complied with the distribution requirements through December 31, 2018.

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.

For the year ended December 31, 2018, net operating loss carryforwards associated with unrelated business income were sufficient to offset all unrelated business taxable income. The Fund's ability to utilize the balance of net operating loss carryforwards in the future is uncertain; therefore, no associated deferred tax asset has been recognized.

Note 9 - Summary of Fund Operations Since Inception:

A summary of the Fund's operations since inception in 1953 is as follows:

Contributions to the Fund	$ 147,406,661
Increase in net assets, before deduction of grants	889,267,881
	1,036,674,542
Less: Grants	(603,773,425)
Net assets without donor restrictions, December 31, 2018	$ 432,901,117

Note 10 - 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 $506,708 for the year ended December 31, 2018.

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 and are included in the Statement of Financial Position.

Note 11 - Lease Commitments:

The Fund leases two office facilities in San Francisco. Each office 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 year ended December 31, 2018 was $541,248. Approximate future minimum lease commitments under the two leases are as follows:

2019	$ 716,000
2020	743,000
2021	181,000
Total	$ 1,640,000

Note 12 - 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. The Fund's investments have been placed with one major counterparty with a diversified portfolio of investments (See Note 4). The Fund closely monitors these investments and has not experienced any credit losses.