

EVELYN AND WALTER HAAS, JR. FUND

DECEMBER 31, 2020

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INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# **Evelyn and Walter Haas, Jr. Fund**

## **Independent Auditors' Report and Financial Statements**

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## **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, 2020, 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, 2020, 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.

### **Other Matter**

#### *Report on Summarized Comparative Information*

We have previously audited the Fund's December 31, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 25, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Hood & Strong LLP*

San Francisco, California  
September 28, 2021

# Evelyn and Walter Haas, Jr. Fund

## Statement of Financial Position

<i>December 31, 2020 (with comparative totals for 2019)</i>	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 630,664	\$ 203,420
Investments, at fair value	488,970,723	459,873,603
Deferred compensation plans	2,184,436	1,890,461
Prepaid federal excise tax and other assets	579,094	167,506
Fixed assets, net	140,903	508,915
<b>Total assets</b>	<b>\$ 492,505,820</b>	<b>\$ 462,643,905</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and other accrued expenses	\$ 418,749	\$ 530,325
Grants payable, net	10,209,450	12,744,303
Deferred compensation plans	2,184,436	1,890,461
Deferred federal excise tax	1,695,614	1,087,155
<b>Total liabilities</b>	<b>14,508,249</b>	<b>16,252,244</b>
<b>Net Assets Without Donor Restrictions</b>	<b>477,997,571</b>	<b>446,391,661</b>
<b>Total liabilities and net assets</b>	<b>\$ 492,505,820</b>	<b>\$ 462,643,905</b>

See accompanying notes to financial statements.

# Evelyn and Walter Haas, Jr. Fund

## Statement of Activities and Changes in Net Assets

<i>Year Ended December 31, 2020 (with comparative totals for 2019)</i>	2020	2019
<b>Revenues:</b>		
Investment income, net	\$ 57,765,625	\$ 48,463,718
Total revenues	57,765,625	48,463,718
<b>Expenses:</b>		
Program activities	22,957,624	31,345,764
Management and general	3,202,091	3,627,410
Total expenses	26,159,715	34,973,174
<b>Change in Net Assets</b>	31,605,910	13,490,544
<b>Net Assets Without Donor Restrictions, beginning of year</b>	446,391,661	432,901,117
<b>Net Assets Without Donor Restrictions, end of year</b>	\$ 477,997,571	\$ 446,391,661

See accompanying notes to financial statements.

# Evelyn and Walter Haas, Jr. Fund

## Statement of Functional Expenses

*Year Ended December 31, 2020 (with comparative totals for 2019)*

	2020			2019
	Program Activities	Management and General	Total	Total
Grants to other organizations	\$ 19,454,847		\$ 19,454,847	\$ 27,367,220
Salaries and benefits	2,542,384	\$ 1,929,112	4,471,496	5,117,814
Services and professional fees	56,610	567,179	623,789	774,724
Office and occupancy	482,645	372,706	855,351	807,808
Management information systems	192,700	148,806	341,506	330,949
Travel and convening	20,762	23,917	44,679	161,348
Depreciation	207,676	160,371	368,047	413,311
<b>Total expenses</b>	<b>\$ 22,957,624</b>	<b>\$ 3,202,091</b>	<b>\$ 26,159,715</b>	<b>\$ 34,973,174</b>

See accompanying notes to financial statements.

# Evelyn and Walter Haas, Jr. Fund

## Statement of Cash Flows

<i>Year Ended December 31, 2020 (with comparative totals for 2019)</i>	2020	2019
<b>Cash Flows from Operating Activities:</b>		
Grants paid	\$ (21,989,700)	\$ (24,500,000)
Cash paid for operating costs	(6,327,594)	(7,416,853)
Excise taxes paid	(954,903)	(636,605)
Net cash used in operating activities	(29,272,197)	(32,553,458)
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sales of investments	29,704,361	32,129,268
Purchases of fixed assets	(4,920)	-
Net cash provided by investing activities	29,699,441	32,129,268
<b>Change in Cash and Cash Equivalents</b>	427,244	(424,190)
<b>Cash and Cash Equivalents, beginning of year</b>	203,420	627,610
<b>Cash and Cash Equivalents, end of year</b>	\$ 630,664	\$ 203,420

See accompanying notes to financial statements.



# Evelyn and Walter Haas, Jr. Fund

## Notes to Financial Statements

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### Note 1 - Organization:

The Evelyn and Walter Haas, Jr. Fund (the “Fund”) is a private family foundation that has awarded more than \$650 million in grants since its founding in 1953. Located in San Francisco, the Fund seeks to fulfill its founders’ vision of a society in which every person has opportunities to thrive and to live life with dignity and hope. The Fund’s program areas include: Democracy, College Success, Immigrant Rights, LGBT Equality, Leadership, Crissy Field, and Season of Sharing.

### 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 accordance with U.S. generally accepted accounting principles (U.S. GAAP) and report information regarding its financial position and activities as follows:

Net assets, revenues, 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 and are available for use at the discretion of the Fund. There were no net assets with donor restrictions as of December 31, 2020.

#### 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.

# Evelyn and Walter Haas, Jr. Fund

## Notes to Financial Statements

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### 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.

# Evelyn and Walter Haas, Jr. Fund

## Notes to Financial Statements

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### h. Comparative Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include 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, 2019 from which the summarized information was derived.

### 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 7). 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, 2020, 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

#### *Effective in the Future*

In February 2016, the FASB issued Accounting Standards Update ASU 2016-02, *Leases (Topic 842)*. Among other things, under this guidance, lessees will be required to recognize the following for all leases with a term longer than twelve months at the commencement date: 1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) 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. Nonpublic business entities should apply the guidance for fiscal years beginning after December 15, 2021 (i.e., January 1, 2022 for a calendar year entity), and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. The Fund is currently evaluating the impact of this pronouncement on its financial statements.

# Evelyn and Walter Haas, Jr. Fund

## Notes to Financial Statements

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### 1. Subsequent Events

The Fund evaluated subsequent events with respect to the financial statements for the year ended December 31, 2020 through September 28, 2021, the date the financial statements were available to be issued. It has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements and that no subsequent events have occurred, the nature of which would require disclosure, except as discussed in Note 10.

### **Note 3 - Investments and Net Asset Value Disclosures:**

#### *Investments*

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

	2020	2019
Investments:		
Investments measured using NAV:		
Multi-strategy – liquid markets fund	\$ 42,291,332	\$ 39,574,987
Multi-strategy – HJF Investments Holdings LP	440,779,391	400,681,616
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Investments, at fair value	483,070,723	440,256,603
Net receivable on unsettled investment transactions	5,900,000	19,617,000
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Total investments	\$ 488,970,723	\$ 459,873,603

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

# Evelyn and Walter Haas, Jr. Fund

## Notes to Financial Statements

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

	2020	2019
Investment income, gross:		
Dividends and interest	\$ 6,562,930	\$ 8,745,237
Realized gains on sale of investments	17,778,992	23,498,579
Net change in unrealized gains on investments	41,496,237	22,996,436
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Investment income, gross	65,838,159	55,240,252
Less management and other fees	(7,042,866)	(6,277,867)
Less deferred and excise taxes	(821,448)	(162,457)
Less unrelated business income tax	(208,220)	(336,210)
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Investment income, net	\$ 57,765,625	\$ 48,463,718

### *Fair Value Measurements*

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:

	<u>2020</u>	<u>Valuation</u> <u>2019</u>	<u>Redemption</u> <u>Notice Period</u>	<u>Redemption</u> <u>Restrictions</u>
Multi-strategy –				
liquid markets fund (a)	\$ 42,291,332	\$ 39,574,987	30 days	None
Multi-strategy –				
HJF Investments				
Holdings LP (b)	440,779,391	400,681,616	(b)	(b)
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Total	\$ 483,070,723	\$ 440,256,603		

# Evelyn and Walter Haas, Jr. Fund

## Notes to Financial Statements

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- (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 (76% and 74% of HJFIH as of December 31, 2020 and 2019, respectively), in the Fund's legacy portfolio of investments managed by unaffiliated third parties and with different investment strategies (15% and 19% as of December 31, 2020 and 2019, respectively), and in liquid securities (9% and 7% as of December 31, 2020 and 2019, 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 majority of HJFIH is invested in a pooled investment fund managed by the OCIO (76% and 74% of HJFIH as of December 31, 2020, and 2019, respectively), which has full annual liquidity subject to side-pocketing of illiquid investments. In addition, HJFIH has the right to request a liquid redemption of a maximum of 7% of the assets of the pooled investment fund managed by the OCIO annually, with up to 3.5% available at the end of June and up to 7% available at the end of December less any June redemption, 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 39% of the assets could be liquidated within 90 days, an additional 10% by the end of one year, and an additional 12% by the end of three years. Unfunded long-term commitments were approximately \$9.0 million as of December 31, 2020 and will be funded by the available cash balance held in HJFIH.

# Evelyn and Walter Haas, Jr. Fund

## Notes to Financial Statements

### Note 4 - 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:

	2020	2019
Cash and cash equivalents	\$ 630,664	\$ 203,420
Investments	488,970,723	459,873,603
Deferred compensation plan assets	2,184,436	1,890,461
<b>Total financial assets</b>	<b>491,785,823</b>	<b>461,967,484</b>
Less amounts not available to be used within one year:		
Deferred compensation plan assets	(2,184,436)	(1,890,461)
Investments with liquidity restrictions	(425,352,112)	(386,657,759)
	<b>(427,536,548)</b>	<b>(388,548,220)</b>
<b>Financial assets available to meet general expenditures over the next twelve months</b>	<b>\$ 64,249,275</b>	<b>\$ 73,419,264</b>

Investments with liquidity restrictions represent illiquid investments in an endowment-style investment program as detailed in Note 3.

### Note 5 - Fixed Assets:

Fixed assets as of December 31, 2020 consist of the following:

Office furniture and equipment	\$ 110,887
Leasehold improvements	223,632
Computer equipment	316,344
	650,863
Less accumulated depreciation and amortization	(509,960)
<b>Fixed assets, net</b>	<b>\$ 140,903</b>

Depreciation and amortization expense was \$368,047 for the year ended December 31, 2020.

# Evelyn and Walter Haas, Jr. Fund

## Notes to Financial Statements

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### Note 6 - Grants Payable:

Grants payable as of December 31, 2020, are scheduled to be disbursed as follows:

2021	\$ 5,410,281
2022	2,873,334
2023	2,140,000
2024	349,500
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	10,773,115
Less discounts on multi-year grants	(563,665)
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Grants payable, net	\$ 10,209,450

Conditional grants may 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 - 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 on net investment income, including realized gains. On December 20, 2019, tax legislation was enacted which changed the tax rate for private foundations to a flat rate of 1.39%, effective January 1, 2020. The Fund used the new rate of 1.39% to calculate its deferred tax provision at December 31, 2020.

The provision for current and deferred federal excise taxes for the year ended December 31, 2020 is as follows:

Current excise tax	\$ 212,989
Unrelated business income tax	208,220
Deferred excise tax	608,459
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Total	\$ 1,029,668



# Evelyn and Walter Haas, Jr. Fund

## Notes to Financial Statements

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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, 2020.

### *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.

### **Note 8 - 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
<u>Increase in net assets, before deduction of grants</u>	<u>981,186,402</u>
	1,128,593,063
<u>Less: Grants</u>	<u>(650,595,492)</u>
<u>Net assets without donor restrictions, December 31, 2020</u>	<u>\$ 477,997,571</u>

### **Note 9 - 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' annual eligible compensation. The total pension cost was \$417,079 for the year ended December 31, 2020.

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.

# Evelyn and Walter Haas, Jr. Fund

## Notes to Financial Statements

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### Note 10 - Lease Commitments:

During the year ended December 31, 2020, the Fund had leases for two office facilities in San Francisco. Each office lease included annual escalation factors to reflect inflation. The difference between the rent due under the stated period of each lease compared to that on the straight-line basis was 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, 2020 was \$541,206. In January 2021, the Fund's lease for its headquarters ended and all related leasehold improvement and deferred rent liabilities were exhausted as of December 31, 2020. The Fund did not have an office facility during 2021. On June 20, 2021, the Fund entered into a new office lease for its headquarters with an effective date of January 1, 2022, and an expiration date of October 31, 2031. Future lease commitments on the new office lease are included in the summary below.

Approximate future minimum lease commitments are as follows:

2021	\$	181,000
2022		624,000
2023		701,000
2024		722,000
2025		744,000
Thereafter		4,806,000
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Total	\$	7,778,000

### Note 11 - 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 3). The Fund closely monitors these investments and has not experienced any credit losses.

# **Evelyn and Walter Haas, Jr. Fund**

## **Notes to Financial Statements**

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### **Note 12 - Global Pandemic:**

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

In light of the global pandemic, volatility has significantly increased across financial markets. This volatility has not affected the Fund's operations, and the Fund has been able to disburse grants and continue operations as planned. The Fund is closely monitoring the performance of the Fund's portfolio, to ensure the Fund's ability to meet its operating needs. In the event markets decline, the value of the Fund's investment portfolio and future funding capacity may be affected. At this time, the Fund has not considered any specific reductions in current or future commitments.