



SIERRA CLUB FOUNDATION

Financial Statements

December 31, 2020

(With Independent Auditors' Report Thereon)

SIERRA CLUB FOUNDATION

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KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

The Board of Directors
Sierra Club Foundation:

We have audited the accompanying financial statements of Sierra Club Foundation (the Foundation), which comprise the balance sheet as of December 31, 2020, and the related statements of activities, 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditor considers internal control relevant to the organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Report on Summarized Comparative Information

We have previously audited the Foundation's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 15, 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.

KPMG LLP

San Francisco, California
May 21, 2021

SIERRA CLUB FOUNDATION

Balance Sheet

December 31, 2020

(With comparative totals as of December 31, 2019)

Assets	2020	2019
Cash and cash equivalents	\$ 54,090,282	46,173,320
Contributions receivable, pledges, and bequests, net	14,753,289	23,236,843
Contributions receivable, charitable trusts, net	8,383,308	7,623,311
Contributions receivable, other	3,590,104	15,142,931
Investments	139,940,444	109,978,996
Assets held under split-interest agreements	17,789,617	16,699,604
Other assets	6,210,539	3,992,984
Total assets	\$ 244,757,583	222,847,989
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,707,941	2,723,101
Grants payable	11,880,772	12,775,382
Liabilities under split-interest agreements	16,602,354	15,873,220
Total liabilities	30,191,067	31,371,703
Net assets:		
Without donor restrictions:		
Undesignated	36,137,694	17,985,730
Designated	61,601,939	60,331,311
Total without donor restrictions	97,739,633	78,317,041
With donor restrictions	116,826,883	113,159,245
Total net assets	214,566,516	191,476,286
Total liabilities and net assets	\$ 244,757,583	222,847,989

See accompanying notes to financial statements.

SIERRA CLUB FOUNDATION

Statement of Activities

Year ended December 31, 2020

(With summarized totals for the year ended December 31, 2019)

	Year ended December 31, 2020			Year ended December 31, 2019
	Without donor restrictions	With donor restrictions	Total	Total
Revenues, gains, and other support:				
Contributions	\$ 22,688,377	52,144,104	74,832,481	106,890,934
Contributions related to split-interest agreements	542,523	184,869	727,392	528,208
Bequests	<u>16,825,302</u>	<u>—</u>	<u>16,825,302</u>	<u>8,392,976</u>
Total contributions	40,056,202	52,328,973	92,385,175	115,812,118
Net gains from investments	14,489,722	6,268,710	20,758,432	16,400,143
Interest and dividends	1,236,287	414,632	1,650,919	1,739,560
Net change in value of split-interest agreements	(420,790)	1,581,914	1,161,124	2,512,966
Other income	1,433,156	28	1,433,184	1,469,358
Net assets released from restrictions	<u>56,926,619</u>	<u>(56,926,619)</u>	<u>—</u>	<u>—</u>
Total revenues, gains, and other support	<u>113,721,196</u>	<u>3,667,638</u>	<u>117,388,834</u>	<u>137,934,145</u>
Expenses:				
Program services	80,625,761	—	80,625,761	80,102,181
Support services:				
Administrative	1,872,055	—	1,872,055	1,812,040
Fundraising	<u>11,800,788</u>	<u>—</u>	<u>11,800,788</u>	<u>11,993,184</u>
Total expenses	<u>94,298,604</u>	<u>—</u>	<u>94,298,604</u>	<u>93,907,405</u>
Change in net assets	19,422,592	3,667,638	23,090,230	44,026,740
Net assets, beginning of year	<u>78,317,041</u>	<u>113,159,245</u>	<u>191,476,286</u>	<u>147,449,546</u>
Net assets, end of year	<u><u>\$ 97,739,633</u></u>	<u><u>116,826,883</u></u>	<u><u>214,566,516</u></u>	<u><u>191,476,286</u></u>

See accompanying notes to financial statements.

SIERRA CLUB FOUNDATION

Statement of Functional Expenses

Year ended December 31, 2020

(With summarized totals for the year ended December 31, 2019)

	Year ended December 31, 2020				Total	Year ended
	Program services	Support services		Subtotal		December 31, 2019
		Administrative	Fundraising			Total
Grants	\$ 80,223,680	—	—	—	80,223,680	79,693,272
Reimbursement for fundraising services	—	—	9,499,996	9,499,996	9,499,996	10,023,000
Fundraising – other	—	—	932,829	932,829	932,829	752,689
Salaries	247,057	967,504	1,669	969,173	1,216,230	1,044,338
Employee benefits and taxes	69,661	299,266	507	299,773	369,434	344,016
Professional services	27,183	377,407	—	377,407	404,590	476,556
Rent	20,394	73,330	69	73,399	93,793	93,803
Board of directors meetings	—	13,289	—	13,289	13,289	50,462
Office equipment and supplies	7,451	16,710	18	16,728	24,179	19,578
Software and hosting services	—	—	1,365,625	1,365,625	1,365,625	1,206,386
Depreciation	2,567	9,230	9	9,239	11,806	17,256
Travel	6,355	18,025	18	18,043	24,398	41,389
Insurance	4,993	17,953	17	17,970	22,963	25,245
Bank charges	—	13,077	—	13,077	13,077	3,855
Printing and copying	3,447	12,395	12	12,407	15,854	13,127
Regulatory compliance fees	—	9,626	—	9,626	9,626	14,877
Postage and shipping	1,202	4,322	4	4,326	5,528	2,060
Publications	—	30,273	—	30,273	30,273	14,561
Miscellaneous	11,771	9,648	15	9,663	21,434	70,935
	<u>\$ 80,625,761</u>	<u>1,872,055</u>	<u>11,800,788</u>	<u>13,672,843</u>	<u>94,298,604</u>	<u>93,907,405</u>

See accompanying notes to financial statements.

SIERRA CLUB FOUNDATION

Statement of Cash Flows

Year ended December 31, 2020

(With comparative totals for the year ended December 31, 2019)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 23,090,230	44,026,740
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	11,806	17,256
Contributions of investment securities and noncash gifts	(3,088,004)	(2,681,241)
Contributions restricted for long-term investment	(86,308)	(21,460)
Net gain on investments	(20,758,432)	(16,400,143)
Changes in operating assets and liabilities:		
Contributions receivable, net	19,276,384	(6,272,664)
Other assets	(2,229,361)	(665,237)
Accounts payable	(1,015,160)	1,959,940
Grants payable	(894,610)	1,921,600
Liabilities under split-interest agreements	1,310,507	1,903,713
Net cash provided by operating activities	15,617,052	23,788,504
Cash flows from investing activities:		
Proceeds from sale of investments	24,595,921	26,865,335
Purchase of investments	(31,292,306)	(27,349,544)
Purchase of property and equipment	—	(2,018)
Change in assets held under split-interest agreements	(1,090,013)	(2,971,210)
Net cash used in investing activities	(7,786,398)	(3,457,437)
Cash flows from financing activity:		
Contributions restricted for long-term investment	86,308	21,460
Net cash provided by financing activity	86,308	21,460
Net change in cash and cash equivalents	7,916,962	20,352,527
Cash and cash equivalents, beginning of year	46,173,320	25,820,793
Cash and cash equivalents, end of year	\$ 54,090,282	46,173,320

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2020

(1) Nature of Operations

The mission of Sierra Club Foundation (the Foundation) is to promote efforts to educate and empower people to protect and improve the natural and human environment. The Foundation primarily fulfills its mission through fiscal sponsorship of Sierra Club's charitable programs, including those of its state and local affiliates.

The Foundation retains variance power, as defined by accounting principles generally accepted in the United States of America (U.S. GAAP), over all charitable funds it receives and, as such, directs grants to Sierra Club and other organizations that will best fulfill the Foundation's charitable mission. For grants to Sierra Club, as fiscal sponsor, the Foundation exercises control and discretion over reimbursement of project expenditures as defined in Internal Revenue Service (IRS) regulations.

Grants are provided to organizations to support charitable, educational, scientific, and legal endeavors. The Foundation provides limited support for lobbying activities as permitted by Section 501(h) of the Internal Revenue Code. No support is provided for political activities.

(2) Basis of Presentation and Summary of Significant Accounting Policies

These financial statements, which are presented on the accrual basis of accounting in accordance with U.S. GAAP, have been prepared to focus on the Foundation as a whole and to present balances and transactions according to the existence or absence of donor imposed restrictions.

Net assets and changes therein are classified as follows:

Net assets without donor restrictions – Net assets not subject to donor imposed restrictions. It is the policy of the Foundation to designate donor gifts without restriction at the discretion of the board of directors. The board of directors has designated certain net assets without donor restrictions primarily for the following uses:

Designated for geographic and other program expenditures – Funds available for regional, local, and other programs throughout the United States

Designated for gift annuity payments – Funds available for beneficiary payments to meet the obligation under gift annuity contracts

Designated for endowment – Gifts without donor restrictions designated by the board of directors to provide long-term support for specific programs

Designated for donor-advised granting – Funds designated for donor-advised grants are available for distribution upon recommendation by the donor

Net assets with donor restrictions – Net assets subject to donor imposed stipulations that will be met by actions of the Foundation and/or the passage of time. When a donor-stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Net assets with donor restrictions also include endowments and other funds subject to donor-imposed stipulations requiring that they be maintained permanently by the Foundation. The income from these assets is available for either general operations or specific programs as specified by the donor.

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December 31, 2020

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any, on the contributions.

Contributions of gifts in-kind, including investment securities, are recorded as revenue at their estimated fair value in the period received. Contributions are recorded as support without donor restrictions unless the donor has stipulated the period the asset is to be used, in which case, the contribution is recorded as support with donor restrictions.

Program services expenses are primarily grants to Sierra Club as the Foundation fulfills its fiscal sponsorship of Sierra Club's charitable environmental programs. Grants are the means through which the Foundation achieves its mission to "protect and improve natural and human environment."

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of funds in checking accounts and money market demand accounts with an original maturity of three months or less. These accounts are at financial institutions that are Federal Deposit Insurance Corporation insured up to \$250,000. The balances in excess of insurance limits at December 31, 2020 and 2019 are \$53,101,638 and \$45,541,583, respectively. The Foundation may draw on these deposits and funds at any time.

(b) Investments

Investments in marketable equity securities and all debt securities are reported at fair value. Investments in alternative investments, such as hedge funds, limited liability companies, and limited partnerships, are also reported at net asset value (NAV) as estimated by management based upon information provided by the general partner. The Foundation may temporarily hold cash and cash equivalents for investing purposes and treats these amounts as investments based on the Foundation's policy.

(c) Split-Interest Agreements

The Foundation enters into split-interest agreements in the form of gift annuities, trusts, and pooled income funds. The donated assets are held by the Foundation and invested. Payments are made to the donor or the donor's designee for a specified period of time or until the beneficiary's death, after which time the Foundation may use the remaining funds for operations or a restricted use specified by the donor. The donated trust asset investments are recorded at current fair value or at an estimated fair value based on the latest available information. The Foundation utilizes an IRS-approved annuity table

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December 31, 2020

to actuarially calculate the liability associated with the estimated donor payments under these arrangements. The present value of the actuarially determined liability resulting from these gifts is recorded at the date of gift and adjusted annually thereafter. The resulting liability is reported in the balance sheet as “liabilities under split-interest agreements,” and the net change is reported in the statement of activities as “net change in value of split-interest agreements.”

(d) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, contributions receivable, and accounts payable approximate fair value because of the short-term maturity of these financial instruments. Contributions receivable are recorded with payments due in excess of one year discounted using risk-adjusted rates to approximate fair value. Charitable trusts receivable are held at fair value using the income approach employing present value techniques that maximize the use of observable inputs for interest rates, yield curves, and life expectancy tables and are adjusted annually. The carrying amounts of the annuity and life income payable are based on life expectancies and quoted market prices, discounted at risk-adjusted rates. The values recorded for contributions and charitable trusts receivable and for pooled income funds, annuities, and charitable remainder trusts based on the above valuation methodologies approximate fair values at December 31, 2020 and 2019.

(e) Grants

Grants are made by the Foundation for programs preapproved by the board of directors and are not recorded as expense until prescribed conditions are substantially met.

(f) Functional Expense Allocation

The allocation between program and support expenses is based on the assignment of payroll, related personnel costs, occupancy, and other office expenses using estimates of time spent on program versus fundraising or administrative activities, as well as direct assignment of certain expenses to relevant activities.

(g) Use of Estimates

Management of the Foundation has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with U.S. GAAP. Actual results could differ from those estimates.

(h) Tax-Exempt Status

The Foundation has been recognized by the IRS as an organization that is tax-exempt under Section 501(c)(3) of the Internal Revenue Code and has been recognized by the California Franchise Tax Board as an organization that is tax-exempt under Section 23701(d) of the Revenue and Taxation Code of the State of California and is not generally subject to state or federal taxes on income. In addition, the IRS has determined that the Foundation is a public charitable organization as defined in Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code, and thus, the Foundation is exempt from the excise tax on investment income.

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Notes to Financial Statements

December 31, 2020

(i) Uncertainty in Income Taxes

The Foundation is subject to income taxes in the United States and California on unrelated business income. The Foundation has identified and evaluated its significant tax positions for which the statute of limitations remains open and determined there is no material unrecognized benefit or liability to be recorded. The Foundation's federal returns are currently open under the statute of limitations for the year ended December 31, 2017 and subsequent years, and California returns are open for the year ended December 31, 2016 and subsequent years. The Foundation does not anticipate that there will be any material changes in the unrecognized tax positions over the next 12 months. There have been no related tax penalties or interest classified as a tax expense in the statement of activities.

(j) Summarized Financial Information

The financial statements include certain 2019 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 Foundation's financial statements for the year ended December 31, 2019, from which the summarized information is derived.

(k) Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this update remove or modify certain disclosure requirements. The Foundation adopted this standard on January 1, 2020 and, as a result, has removed certain disclosures on transfers between levels of the fair value hierarchy that are no longer required.

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update clarify and improve current guidance about whether a transfer of assets is a contribution or an exchange transaction. Additional guidance about when a contribution should be recognized is also included in the amendments. These amendments apply to both resources received by a recipient and given by a resource provider. The Foundation adopted this standard on a modified prospective basis in 2019 as a resource recipient and in 2020 as a resource provider. As a result of this standard, the Foundation has considered barriers that must be overcome before contributions are recognized.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Assets*, to address stakeholders' concerns regarding the lack of transparency about how certain gifts-in-kind are valued and used in a not-for-profit's programs and other activities. The standard introduces enhanced presentation and disclosure requirements. The standard is effective for the Foundation on January 1, 2022. Early adoption is permitted. Management is in the process of determining the effect of the standard on its ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The standard introduces new requirements to increase transparency and comparability among organizations for leasing transactions for both lessees and lessors. ASU No. 2016-02 requires a lessee to record right-of-use

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asset and a lease liability for all leases with terms longer than 12 months. The leases will be either financing or operating, with classification affecting the pattern of expense recognition. As the result of ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, and 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, the new standard is effective for the Foundation on January 1, 2022. Management is in the process of determining the effect of the standard on its ongoing financial reporting.

(I) Reclassifications

Certain reclassifications have been made in these financial statements to conform 2019 information to the 2020 presentation.

(3) Contributions Receivable, Pledges, and Bequests

Contributions receivable, pledges, and bequests, net consist of the following as of December 31:

	2020	2019
Receivable due in less than one year	\$ 6,654,802	12,058,731
Receivable due in one to five years	9,200,000	12,245,000
Total contributions receivable	15,854,802	24,303,731
Less:		
Amount representing discount (3.25% in 2020 and 4.75% in 2019)	(1,101,513)	(1,066,888)
Contributions receivable, pledges, and bequests, net	\$ 14,753,289	23,236,843

(4) Contributions Receivable, Charitable Trusts

Contributions receivable, charitable trusts, net consist of the following as of December 31:

	2020	2019
Receivable due in less than one year	\$ 5,620	5,620
Receivable due in one to five years	5,056	43,589
Receivable due in greater than five years	8,372,632	7,574,102
Contributions receivable, charitable trusts, net	\$ 8,383,308	7,623,311

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Notes to Financial Statements

December 31, 2020

For the years ended December 31, 2020 and 2019, the changes in beneficial interest in trusts held by third parties classified as Level 3 fair value measurements are as follows:

	2020		
	Charitable remainder trusts	Charitable lead trusts	Total
Beginning balance	\$ 7,549,113	74,198	7,623,311
Change in value of beneficial interest	823,519	1,042	824,561
Distributions	—	(64,564)	(64,564)
Ending balance	<u>\$ 8,372,632</u>	<u>10,676</u>	<u>8,383,308</u>
Change in value of beneficial interest for the period included in changes in net assets for assets still held at the end of the reporting period	\$ 823,519	1,042	824,561

	2019		
	Charitable remainder trusts	Charitable lead trusts	Total
Beginning balance	\$ 6,149,104	86,672	6,235,776
Change in value of beneficial interest	1,400,009	6,002	1,406,011
Distributions	—	(18,476)	(18,476)
Ending balance	<u>\$ 7,549,113</u>	<u>74,198</u>	<u>7,623,311</u>
Change in value of beneficial interest for the period included in changes in net assets for assets still held at the end of the reporting period	\$ 1,400,009	6,002	1,406,011

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Notes to Financial Statements

December 31, 2020

The Foundation values trusts using a discounted cash flows technique. The following table summarizes the significant unobservable inputs the Foundation used to value trusts categorized as Level 3 assets as of December 31, 2020:

<u>Trust name</u>	<u>Fair value of beneficial interest</u>	<u>Unobservable inputs</u>	<u>Quantitative data</u>
Remainder Trust A	\$ 7,388,214	Discount rate	7 %
		Life expectancy	21.1 years
		Payout rate	5 %
All other trusts	995,094	Discount rate	7 %
		Life expectancy	6.2–54.3 years
		Payout rate	4.5%–9%
	<u>\$ 8,383,308</u>		

The following table summarizes the significant unobservable inputs the Foundation used to value trusts categorized as Level 3 assets as of December 31, 2019:

<u>Trust name</u>	<u>Fair value of beneficial interest</u>	<u>Unobservable inputs</u>	<u>Quantitative data</u>
Remainder Trust A	\$ 6,539,712	Discount rate	7 %
		Life expectancy	22.1 years
		Payout rate	5 %
All other trusts	1,083,599	Discount rate	7 %
		Life expectancy	2.5–55.3 years
		Payout rate	4.5%–9%
	<u>\$ 7,623,311</u>		

(5) Contributions Receivable, Other

Contributions receivable, other consist of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Receivable due in less than one year	\$ 3,590,104	15,142,931
Contributions receivable, other	<u>\$ 3,590,104</u>	<u>15,142,931</u>

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(6) Investments

Accounting Standards Codification Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs are quoted prices in active markets for identical investments that the Foundation has the ability to access at the measurement date.
- Level 2 – Inputs are inputs other than quoted prices within Level 1 that are observable for the investment, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates, and similar data.
- Level 3 – Unobservable inputs for the investment, including estimates by partnership managers based on the best information available.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

For the valuation of mutual funds, U.S. government/agency securities, domestic fixed-income investments, and publicly traded equity investments, the Foundation used quoted prices in principal active markets for identical assets as of the valuation date.

For the valuation of municipal bonds, international equity, and certain limited partnership and limited liability company investments, the Foundation used significant other observable inputs, particularly dealer or quoted market prices for comparable investments as of the valuation date. For the valuation of hedge funds, certain limited partnerships, certain limited liability companies, and real estate investments, the Foundation used NAV as a practical expedient to estimate the fair value.

Investments in partnerships and limited liability companies that do not have readily available market values are stated at estimated fair value. These investments include a diverse range of vehicles, including private equity, long-short equity funds, absolute return funds, and real estate. The valuation of these investments is based on the most recent NAV provided by the general partner, usually as of December 31, which corresponds to the Foundation's year-end. To evaluate the overall reasonableness of the valuation carrying value, management obtains and considers the audited financial statements of such investments. Management believes this method provides a reasonable estimate of fair value. However, the recorded value may differ from the market value had a readily available market existed for such investments, and those differences could be material.

Investment transactions are recorded on trade date, which may result in both investment receivables and payables on unsettled investment trades; however, there were no such transactions as of December 31, 2020 or 2019. Gains and losses on investments resulting from market fluctuations are recorded in the statement of activities in the period that such fluctuations occur. Realized and unrealized gains or losses on sales of investments are calculated on an adjusted cost basis.

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Notes to Financial Statements

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The following tables present investments that are measured at fair value on a recurring basis:

Description	Fair value measurements at December 31, 2020		
	December 31, 2020	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Money market funds, cash and cash equivalents	\$ 1,851,178	1,851,178	—
Mutual funds:			
Domestic equity	25,919,084	25,919,084	—
International equity	10,678,364	10,678,364	—
Bonds	10,045,377	9,468,948	576,429
U.S. government and government agency securities	5,332,627	5,332,627	—
Municipal bonds	2,305,784	—	2,305,784
Domestic fixed income	12,475,277	12,475,277	—
Domestic equity	30,509,925	30,509,925	—
International equity	22,958,089	—	22,958,089
Subtotal investments at fair value	122,075,705	\$ <u>96,235,403</u>	<u>25,840,302</u>
Alternative investments valued at NAV	17,864,739		
Total	\$ <u>139,940,444</u>		

SIERRA CLUB FOUNDATION

Notes to Financial Statements

December 31, 2020

Description	Fair value measurements at December 31, 2019		
	December 31, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Money market funds, cash and cash equivalents	\$ 3,066,694	3,066,694	—
Mutual funds:			
Domestic equity	18,362,633	18,362,633	—
International equity	6,081,632	6,081,632	—
Bonds	8,713,243	8,227,474	485,769
U.S. government and government agency securities	7,427,888	7,427,888	—
Municipal bonds	1,704,326	—	1,704,326
Domestic fixed income	9,616,096	9,616,096	—
Domestic equity	21,798,955	21,798,955	—
International equity	19,441,969	—	19,441,969
Subtotal investments at fair value	96,213,436	\$ <u>74,581,372</u>	<u>21,632,064</u>
Alternative investments valued at NAV	13,765,560		
Total	\$ <u>109,978,996</u>		

The following tables present the Foundation's investments measured at net asset value as of December 31, 2020 and 2019:

Description	Balance as of December 31, 2020	Unfunded commitments	Redemption frequency	Redemption notice period
Limited partnership (i)	\$ 12,265,875	—	Quarterly	30 days
Limited partnership (ii)	395,745	664,860	Nonredeemable	—
Limited partnership (iii)	3,221,416	—	Quarterly	90 days
Limited partnership (iv)	241,590	—	Quarterly	90 days
Limited partnership (v)	1,740,113	1,805,905	Nonredeemable	—
Total	\$ <u>17,864,739</u>	<u>2,470,765</u>		

SIERRA CLUB FOUNDATION

Notes to Financial Statements

December 31, 2020

Description	Balance as of December 31, 2019	Unfunded commitments	Redemption frequency	Redemption notice period
Limited partnership (i)	\$ 10,196,925	—	Quarterly	30 days
Limited partnership (ii)	554,185	704,721	Nonredeemable	—
Limited partnership (iii)	2,772,679	—	Nonredeemable	—
Limited partnership (iv)	241,771	—	Quarterly	90 days
	<u>\$ 13,765,560</u>	<u>704,721</u>		

- (i) Limited partnership includes a long-only investment management strategy to generate excess returns with integration of sustainability research within a rigorous fundamental equity analysis framework. All of the investments in this portfolio are traded on active markets.
- (ii) Limited partnerships in this category are long-term, multimanager investment partnerships employing globally diversified private investment strategies, including buyout, growth capital, and secondary market interests. Some partnerships will terminate after all holdings are liquidated, but no later than 15 years after the start of the partnerships (2022–2023).
- (iii) Limited partnership energy company that acquires and manages income-generating energy efficiency projects, and other energy-related businesses, as well as finances the construction and/or operation of these and sustainable businesses.
- (iv) Limited partnership that invests in start-up companies with the potential to reduce GHG emissions by 1 gigaton (CO2 equivalents) per year.
- (v) This hedge fund invests in long/short equity with a focus on renewable energy solutions.

Investment management fees and performance allocations of \$595,729 and \$333,081 for the years ended December 31, 2020 and 2019, respectively, have been included as a reduction of interest and dividend revenue in the statements of activities or, in the case of a hedge fund performance allocation, as a reduction in net gains from investments.

SIERRA CLUB FOUNDATION

Notes to Financial Statements

December 31, 2020

(7) Assets Held under Split-interest Agreements

The fair values of assets held under split-interest agreements consist of the following as of December 31, 2020:

Description	Total	In active markets identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Cash and cash equivalents	\$ 622,429	622,429	—	—
Mutual funds:				
Domestic equity	5,572,176	5,572,176	—	—
International equity	3,609,158	3,609,158	—	—
Real estate	2,473,025	2,473,025	—	—
Domestic bonds	2,111,581	2,111,581	—	—
International bonds	751,104	751,104	—	—
U.S. government and government agency securities	1,663,221	1,663,221	—	—
Interest in perpetual trusts	949,745	—	—	949,745
Cash surrender value of life insurance policies	37,178	—	37,178	—
Total	\$ 17,789,617	16,802,694	37,178	949,745

SIERRA CLUB FOUNDATION

Notes to Financial Statements

December 31, 2020

The fair values of assets held under split-interest agreements consist of the following as of December 31, 2019:

<u>Description</u>	<u>Total</u>	<u>In active markets identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant other unobservable inputs (Level 3)</u>
Cash and cash equivalents	\$ 561,074	561,074	—	—
Mutual funds:				
Domestic equity	5,340,821	5,340,821	—	—
International equity	3,359,732	3,359,732	—	—
Real estate	2,271,541	2,271,541	—	—
Domestic bonds	1,889,126	1,889,126	—	—
International bonds	654,173	654,173	—	—
U.S. government and government agency securities	1,542,642	1,542,642	—	—
Promissory note	95,118	—	—	95,118
Interest in perpetual trusts	949,518	—	—	949,518
Cash surrender value of life insurance policies	35,859	—	35,859	—
Total	\$ <u>16,699,604</u>	<u>15,619,109</u>	<u>35,859</u>	<u>1,044,636</u>

For the valuation of mutual funds, the Foundation used quoted prices in principal active markets for identical assets as of the valuation date.

For the valuation of cash surrender value of life insurance policies, the Foundation used significant other observable inputs, including dealer market prices for comparable investments and life insurance company surrender value estimates as of the valuation date.

For the valuation of interests in perpetual trusts, the Foundation used significant other unobservable inputs, primarily trustee valuations.

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Notes to Financial Statements

December 31, 2020

The following tables present the Foundation's activities for assets held under split-interest agreements measured at fair value on a recurring basis, all of which are valued using significant unobservable inputs (Level 3) for the years ended December 31, 2020 and 2019:

	2020		
	Interest in perpetual trusts	Interest in promissory note	Total
Beginning balance	\$ 949,518	95,118	1,044,636
Total gains (losses) included in changes in net assets	227	(2,162)	(1,935)
Payment of principal	—	(92,956)	(92,956)
	\$ 949,745	—	949,745

	2019		
	Interest in perpetual trusts	Interest in promissory note	Total
Beginning balance	\$ 837,271	107,652	944,923
Total gains (losses) included in changes in net assets	112,247	(12,534)	99,713
	\$ 949,518	95,118	1,044,636

(8) Liabilities under Split-interest Agreements

The Foundation has liabilities associated with a variety of gift agreements including pooled income funds, annuities, and charitable remainder trusts. The Foundation has recorded its estimated remainder interest in the value of the split-interest agreements, discounted at various rates, as contribution revenue in the year of the gift. The difference between the fair value of trust assets and the contribution revenue is recorded as a liability under split-interest agreements and is updated annually based on life expectancies and quoted market prices, discounted at risk-adjusted rates. For charitable gift annuities payable, a liability, which is a general obligation of the Foundation, is recorded for the present value of estimated annuity payments, discounted at various rates ranging from 2% to 7%, and is updated annually.

As of December 31, 2020, \$437,700 is recorded within liabilities under split-interest agreements related to charitable gift annuities held in the state of Washington.

SIERRA CLUB FOUNDATION

Notes to Financial Statements

December 31, 2020

(9) Net Assets without Donor Restrictions

Net assets without donor restrictions are designated by the board of directors for the following purposes as of December 31:

	2020	2019
Geographic and other program expenditures	\$ 50,344,820	51,287,681
Gift annuity payments	8,585,639	6,839,341
Endowment	2,049,879	1,808,838
Donor-advised granting	621,601	395,451
Total designated net assets without donor restrictions	\$ 61,601,939	60,331,311

(10) Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of December 31:

	2020	2019
Time restrictions:		
Trusts	\$ 14,923,687	13,257,098
Life insurance policies	37,178	35,859
Pledges contribution receivable	13,620,161	22,868,692
Other contribution receivable	934,645	6,196,301
Total time restrictions	29,515,671	42,357,950
Program restrictions:		
National climate, clean energy, and lands protection	27,983,024	20,453,515
Outings and outdoor environment education	1,280,445	1,526,685
Environmental law	4,213,996	4,323,287
Global population	—	108,204
Geographic and other	11,242,072	6,341,324
Total program restrictions	44,719,537	32,753,015
Endowments:		
Endowments to be held in perpetuity	27,439,184	27,352,876
Endowments income and appreciation	12,819,963	8,309,517
Term and other	810,074	864,019
Total endowments	41,069,221	36,526,412
Charitable trusts and gift annuities to be held in perpetuity	1,522,454	1,521,868
Total net assets with donor restrictions	\$ 116,826,883	113,159,245

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December 31, 2020

Net assets with donor restrictions were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donor.

	2020	2019
Purpose restrictions fulfilled	\$ 54,276,271	62,150,745
Time restrictions expired:		
In-kind donation	683,747	268,857
Endowment spending allocation	1,966,601	1,729,968
Terminated trusts	—	80,566
	<u>2,650,348</u>	<u>2,079,391</u>
	<u>\$ 56,926,619</u>	<u>64,230,136</u>

(11) Liquidity and Availability of Financial Assets

The Foundation's financial assets available for general expenditure within one year of the balance sheet date are as follows:

	2020	2019
Cash and cash equivalents	\$ 54,090,282	46,173,320
Contributions receivable	26,726,701	46,003,085
Investments	<u>139,940,444</u>	<u>109,978,996</u>
Total financial assets	220,757,427	202,155,401
Less:		
Restricted by donors for programs	(44,719,537)	(38,949,316)
Donor-restricted endowments	(41,069,221)	(36,526,412)
Donor-restricted charitable gift annuities and perpetual trusts	(1,027,969)	(1,035,210)
Designated net assets	(61,601,939)	(60,331,311)
Illiquid portion of investments	(3,617,161)	(3,326,864)
Restricted contributions receivable and unrestricted contributions due in greater than one year	<u>(21,335,495)</u>	<u>(35,479,196)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 47,386,105</u>	<u>26,507,092</u>

The Foundation's liquidity management includes a policy of structuring its financial assets to be available to meet its grant-making and general expenditures, liabilities, and other obligations as they come due. Cash and cash equivalents and money market securities, as reported on the balance sheet at December 31, 2020 and 2019, are the primary liquid resources used by the Foundation to meet these obligations. Financial assets invested in long-term investments can be liquidated within one year with the exception of

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December 31, 2020

\$3,617,161, or 3.0%, and \$3,326,864, or 3.2%, held in illiquid investments, as of December 31, 2020 and 2019, respectively (note 5). The Foundation's board-designated net assets include donor-advised funds and funds designated for specific programs or geographic regions that, while the board of directors does not intend to spend for purposes other than those identified, could be spent for operations, if necessary.

(12) Endowments

The board of directors of the Foundation has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The Foundation has a policy of appropriating for distribution each year 5% of its endowment funds' average fair value over the prior three years (excluding those funds with deficiencies due to unfavorable market fluctuations). In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at a rate exceeding expected inflation. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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 endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds.

Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to provide investment growth in excess of annual payments. Actual returns in any given year may vary from this goal. 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 constraints.

The Foundation's endowment consists of approximately 58 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and endowment funds without donor restrictions, and funds designated by its board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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Notes to Financial Statements

December 31, 2020

Endowment net asset composition by type of fund as of December 31, 2020 is as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	41,069,221	41,069,221
Board-designated endowment funds	<u>2,049,879</u>	<u>—</u>	<u>2,049,879</u>
Total endowment funds	\$ <u>2,049,879</u>	<u>41,069,221</u>	<u>43,119,100</u>

Endowment net asset composition by type of fund as of December 31, 2019 is as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	36,526,412	36,526,412
Board-designated endowment funds	<u>1,808,838</u>	<u>—</u>	<u>1,808,838</u>
Total endowment funds	\$ <u>1,808,838</u>	<u>36,526,412</u>	<u>38,335,250</u>

Changes in endowment net assets for the year ended December 31, 2020 is as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,808,838	36,526,412	38,335,250
Investment return:			
Investment income	17,579	355,707	373,286
Net appreciation	<u>319,545</u>	<u>6,267,976</u>	<u>6,587,521</u>
Total investment return	337,124	6,623,683	6,960,807
Contributions	—	86,308	86,308
Appropriation of endowment assets for expenditure	<u>(96,083)</u>	<u>(2,167,182)</u>	<u>(2,263,265)</u>
Endowment net assets, end of year	\$ <u>2,049,879</u>	<u>41,069,221</u>	<u>43,119,100</u>

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Notes to Financial Statements

December 31, 2020

Changes in endowment net assets for the year ended December 31, 2019 is as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,547,923	31,248,424	32,796,347
Investment return:			
Investment income	21,925	406,406	428,331
Net appreciation	<u>324,792</u>	<u>6,545,003</u>	<u>6,869,795</u>
Total investment return	346,717	6,951,409	7,298,126
Contributions	—	21,460	21,460
Appropriation of endowment assets for expenditure	<u>(85,802)</u>	<u>(1,694,881)</u>	<u>(1,780,683)</u>
Endowment net assets, end of year	\$ <u><u>1,808,838</u></u>	<u><u>36,526,412</u></u>	<u><u>38,335,250</u></u>

Description of amounts classified as net assets with donor restrictions (endowment only) as of December 31 is as follows:

	<u>2020</u>	<u>2019</u>
The portion of endowment funds that is required to be retained in perpetuity either by explicit donor restriction or by UPMIFA	\$ 27,439,184	27,352,876
The portion of endowment funds that is subject to purpose or time restrictions	<u>13,630,037</u>	<u>9,173,536</u>
Total endowment funds with donor restrictions	\$ <u><u>41,069,221</u></u>	<u><u>36,526,412</u></u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration.

(13) Lease Obligations

The Foundation has a sublease with Sierra Club in Oakland, California, effective May 1, 2016. Rental expense under the sublease for the years ended December 31, 2020 and 2019 was \$93,792 and \$93,803, respectively.

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Notes to Financial Statements

December 31, 2020

Future minimum lease payments under operating leases having remaining terms in excess of one year are as follows as of December 31, 2020:

Fiscal year:	
2021	\$ 87,428
2022	90,027
2023	92,850
2024	95,598
2025	98,421
2026	58,755
	<hr/>
	\$ 523,079

(14) Transactions with related parties

The Foundation considers members of the board of directors, corporate officers, key employees, and their immediate family members to be related parties. For the years ended December 31, 2020 and 2019, contributions from related parties included in revenue totaled \$1,814,513 and \$1,364,801, respectively. There were no contributions receivable from related parties as of December 31, 2020 or 2019.

(15) Transactions with the Sierra Club and its Chapters

The Foundation had the following transactions with the Sierra Club and its chapters:

- In accordance with a contract between the Foundation and the Sierra Club, the Foundation incurred \$9,499,996 and \$10,023,000 to reimburse Sierra Club for fundraising expenses for the years ended December 31, 2020 and 2019, respectively.
- In accordance with the terms of the fiscal sponsorship relationship and an agreement between the Foundation and Sierra Club regarding the use of software hosting services, the two organizations share the use of the software hosting services, and Sierra Club reimburses the Foundation for the portion of the use that is not for qualified charitable expenditures. During the years ended December 31, 2020 and 2019, respectively, Sierra Club paid \$1,384,270 and \$1,320,313 for the software services.
- The Foundation receives certain gifts and makes grants on an advisory basis to the Sierra Club and its chapters and groups. The Foundation made grants to the Sierra Club National Programs of \$69,091,079 and \$71,202,421 for the years ended December 31, 2020 and 2019, respectively, and to the Sierra Club chapters of \$9,624,483 and \$8,258,624 for the years ended December 31, 2020 and 2019, respectively.
- Accounts receivable from the Sierra Club are \$1,812,803 and \$1,191,684 as of December 31, 2020 and 2019, respectively, related to certain contributions the Sierra Club has processed on the Foundation's behalf included in other assets in the balance sheets.

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- Grants payable to the Sierra Club were \$11,820,493 and \$12,760,382 as of December 31, 2020 and 2019, respectively, which are all due within one year from the respective year-end.
- Foundation employees who started prior to April 1, 2013 participate in Sierra Club's Employee Benefit Plan, a contributory defined-benefit plan that covers substantially all of its employees. The benefits are based on years of service and the employee's compensation history. Employees are eligible to participate and become vested after two years of service. Employee benefit plan expense was \$37,152 and \$56,394 for the years ended December 31, 2020 and 2019, respectively.
- Substantially all the Foundation's employees are eligible to participate in Sierra Club's health, dental, and vision benefits plans. The Foundation paid \$168,869 and \$173,884 for the years ended December 31, 2020 and 2019, respectively, for these benefits on behalf of its employees.

(16) Gift Annuities

The Foundation maintains a separate account as a reserve fund adequate to meet the future payments under all outstanding gift annuity agreements. The funds, recorded in investments on the balance sheet, are held by a broker custodian and are managed by professional investment managers. Investments are made in securities with readily determinable fair values and debt securities (all Level 1), all of which are measured at fair value.

(17) 403(b) Defined-Contribution Plan

The Foundation has a 403(b) defined-contribution plan, which covers substantially all employees who meet certain minimum requirements. The Foundation matches 100% of employee contributions up to 5% of eligible compensation and provides a non-elective contribution for employees hired after April 1, 2013. Foundation contributions to the plan for matching a non-elective contributions totaled \$28,123 and \$39,427, respectively, for the years ended December 31, 2020 and 2019.

(18) Subsequent Events

The Foundation has evaluated subsequent events from the balance sheet date through May 21, 2021, the date at which the financial statements were available to be issued.