

THE WALLACE ALEXANDER  
GERBODE FOUNDATION

DECEMBER 31, 2009

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INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# The Wallace Alexander Gerbode Foundation

## Independent Auditors' Report and Financial Statements

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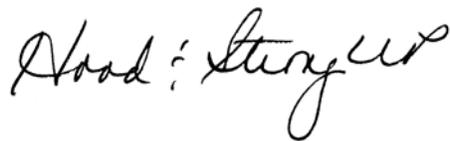
**Independent Auditors' Report**

THE BOARD OF DIRECTORS  
THE WALLACE ALEXANDER GERBODE FOUNDATION  
San Francisco, California

We have audited the accompanying statement of financial position of **THE WALLACE ALEXANDER GERBODE FOUNDATION (the Foundation)** as of December 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2008 financial statements and in our report dated May 7, 2009, we expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Wallace Alexander Gerbode Foundation as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



April 29, 2010

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# The Wallace Alexander Gerbode Foundation

## Statement of Financial Position

<i>December 31,</i>	2009	2008
<b>Assets</b>		
Cash and cash equivalents	\$ 109,242	\$ 170,931
Accrued interest and dividends	21,009	25,736
Grant receivable	237,875	475,375
Investments	62,945,500	50,571,756
Program-related investments	514,643	489,508
Office furniture and equipment, net of accumulated depreciation of \$92,946 and \$91,349 for 2009 and 2008, respectively	9,888	11,399
Prepaid expenses and other assets	49,942	36,770
<b>Total assets</b>	<b>\$ 63,888,099</b>	<b>\$ 51,781,475</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 142,228	\$ 124,908
Grants payable	2,247,374	1,960,250
Deferred compensation	259,169	185,023
<b>Total liabilities</b>	<b>2,648,771</b>	<b>2,270,181</b>
<b>Net Assets:</b>		
Unrestricted	61,001,453	49,035,919
Temporarily restricted	237,875	475,375
<b>Total net assets</b>	<b>61,239,328</b>	<b>49,511,294</b>
<b>Total liabilities and net assets</b>	<b>\$ 63,888,099</b>	<b>\$ 51,781,475</b>

# The Wallace Alexander Gerbode Foundation

## Statement of Activities

*Year Ended December 31, 2009 (with comparative totals for 2008)*

	2009			2008 Total
	Unrestricted	Temporarily Restricted	Total	
<b>Support and Revenue:</b>				
Grant				\$ 712,500
Investment income (loss)	\$ 17,302,728		\$ 17,302,728	(30,595,361)
Income from program related investments	92,263		92,263	93,320
Net assets released from restriction	237,500	\$ (237,500)		
<b>Total support and revenue</b>	<b>17,632,491</b>	<b>(237,500)</b>	<b>17,394,991</b>	<b>(29,789,541)</b>
<b>Expenses:</b>				
Program services:				
Grants	4,648,931		4,648,931	2,948,143
Grants management	438,680		438,680	437,532
Direct charitable activities	127,805		127,805	130,153
Program-related investment management	11,387		11,387	21,831
<b>Total program services</b>	<b>5,226,803</b>		<b>5,226,803</b>	<b>3,537,659</b>
Management and general expenses:				
General administration	127,889		127,889	125,438
Investment expenses	303,595		303,595	395,387
Federal excise tax				
Current	8,670		8,670	21,150
Deferred				(89,687)
<b>Total management and general expenses</b>	<b>440,154</b>		<b>440,154</b>	<b>452,288</b>
<b>Total expenses</b>	<b>5,666,957</b>		<b>5,666,957</b>	<b>3,989,947</b>
<b>Change in Net Assets</b>	<b>11,965,534</b>	<b>(237,500)</b>	<b>11,728,034</b>	<b>(33,779,488)</b>
<b>Net Assets, beginning of year</b>	<b>49,035,919</b>	<b>475,375</b>	<b>49,511,294</b>	<b>83,290,782</b>
<b>Net Assets, end of year</b>	<b>\$ 61,001,453</b>	<b>\$ 237,875</b>	<b>\$ 61,239,328</b>	<b>\$ 49,511,294</b>

# The Wallace Alexander Gerbode Foundation

## Statement of Cash Flows

<i>Years Ended December 31,</i>	2009	2008
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 11,728,034	\$ (33,779,488)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	6,198	8,198
Net realized and unrealized (gain) loss on investments	(16,164,624)	32,290,516
Net realized gain on program related investments	(87,263)	(89,519)
Decrease (increase) in assets:		
Accrued interest and dividends	4,727	(7,566)
Grant receivable	237,500	(475,375)
Prepaid expenses and other assets	(13,172)	(451)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	17,320	(12,614)
Grants payable	287,124	33,000
Federal excise tax payable		(44,680)
Deferred federal excise tax liability		(89,687)
<b>Net cash used by operating activities</b>	<b>(3,984,156)</b>	<b>(2,167,666)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of equipment	(4,687)	(902)
Proceeds from program-related investments	62,128	149,992
Purchases of investments	(24,373,029)	(26,067,641)
Proceeds from sale of investments	28,238,055	27,924,175
<b>Net cash provided by investing activities</b>	<b>3,922,467</b>	<b>2,005,624</b>
<b>Change in Cash and Cash Equivalents</b>	<b>(61,689)</b>	<b>(162,042)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>170,931</b>	<b>332,973</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 109,242</b>	<b>\$ 170,931</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Taxes paid	\$ 18,000	\$ 95,000

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

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### Note 1 - General and Summary of Significant Accounting Policies:

a. Organization

The Wallace Alexander Gerbode Foundation (the Foundation) is interested in programs and projects offering potential for significant impact. The primary focus is on the San Francisco Bay Area (counties of Alameda, Contra Costa, Marin, San Francisco and San Mateo) and Hawaii. The Foundation's interests generally fall under the following categories: arts and culture, environment, population, reproductive rights, citizen participation/building communities/inclusiveness, strength of the philanthropic process and the nonprofit sector, and Foundation-initiated special projects.

b. Basis of Presentation

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

c. Estimates

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

d. Fair Value Measurements

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

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.

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

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

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

e. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents includes all highly liquid investments with an initial maturity of three months or less, except for investment portfolio cash management funds, which are included in investments.

f. Investments

Investments are reported at fair value, with current period recognition of increases or decreases in fair value. Fair value for equity securities and mutual funds is based upon published quotations. Other funds are valued at net asset value per share as reported by the funds. The limited partnership interest is recorded at cost, based upon the amount reported for tax purposes.

Program related investments are recorded at cost or net realizable value.

g. Office Furniture and Equipment

Office furniture and equipment are stated at cost. The Foundation capitalizes all acquisitions of office equipment in excess of \$500. Depreciation of office equipment and furniture is recorded on a straight-line basis over estimated useful lives.

h. Contributions

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

i. Program Grants

Grants are recorded as an expense when approved by the Board and all significant conditions are met. Cancellations or refunds may occur when recipients are unable to meet a condition of a grant award or when the grant program needs are less than the amount approved. These are recorded in the fiscal year of the cancellation, refund or return.

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

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j. Functional Classification of Expenses

Supporting service expenses have been allocated between general administration expenses, investment expenses, program management expenses and direct charitable activities based on specific identification and, secondarily, in proportion to the percentage of time spent by the Foundation's employees on each function.

k. Federal Excise Taxes

The Foundation 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 California Revenue and Taxation Code.

The Foundation is subject to federal excise tax on its investment income. A provision for federal excise tax is accrued. Deferred taxes are recorded on the unrealized gain on investments.

The Foundation adopted accounting for uncertain income tax positions on January 1, 2009. As of the date of adoption, the Foundation had no unrecognized income tax benefits. Should the Foundation incur interest and penalties relating to tax uncertainties, such amounts would be classified as a component of interest expense and operating expense, respectively.

l. 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2008, from which the summarized information was derived.

m. Subsequent Events

In May 2009, the FASB issued guidelines on subsequent event accounting which sets forth: 1) the period after the financial reporting date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; 2) the circumstances under which an entity shall recognize events or transactions occurring after year end reported in its financial statements; and 3) the disclosures that an entity shall make about events or transactions that occurred after the year end reported. The Foundation adopted the guidelines with no impact on the Foundation's financial statements. The Foundation evaluated subsequent events with respect to the financial statements for the year ended December 31, 2009 through April 29, 2010, the date of issuance of its financial statements.

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

### Note 2 - Investments:

Investments are summarized as follows:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
<b>December 31, 2009:</b>			
Cash management funds	\$ 679,908	\$ 679,908	
Equity securities (U.S.)	11,886,452	16,592,045	\$ 4,705,592
Stock mutual funds	21,156,390	17,867,408	(3,288,982)
Bond mutual funds	10,717,964	10,961,511	243,547
Other funds:			
Emerging Growth Fund	5,342,549	4,489,978	(852,570)
International (non-U.S.) Equity Fund	14,251,436	12,290,177	(1,961,260)
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Partnership interest at cost	64,034,700	62,881,027	(1,153,673)
	64,473	64,473	
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<b>Total</b>	<b>\$ 64,099,173</b>	<b>\$ 62,945,500</b>	<b>\$ (1,153,673)</b>
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	Cost	Fair Value	Unrealized Appreciation (Depreciation)
<b>December 31, 2008:</b>			
Cash management funds	\$ 1,497,314	\$ 1,497,314	
Equity securities (U.S.)	14,023,079	13,356,954	\$ (666,125)
Stock mutual funds	21,613,279	10,742,270	(10,871,009)
Bond mutual funds	15,564,851	12,907,415	(2,657,436)
Other Funds:			
Emerging Growth Fund	5,275,696	2,524,983	(2,750,713)
International (Non-U.S.) Equity Fund	15,973,490	9,488,300	(6,485,190)
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Partnership interest at cost	73,947,709	50,517,236	(23,430,473)
	54,520	54,520	
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<b>Total</b>	<b>\$ 74,002,229</b>	<b>\$ 50,571,756</b>	<b>\$(23,430,473)</b>
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# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

The following schedule summarizes investment return (loss) for the year ended December 31:

	2009	2008
Interest and dividends	\$ 1,138,104	\$ 1,695,155
Net realized and unrealized gain (loss)	16,164,624	(32,290,516)
<b>Total investment return (loss)</b>	<b>\$ 17,302,728</b>	<b>\$(30,595,361)</b>

**Note 3 - Fair Value Measurements:**

The tables below present the assets measured at fair value at December 31, 2009 and 2008 on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<b>December 31, 2009</b>			
Investments:			
Cash management funds	\$ 679,908	\$ 679,908	
Equity securities	16,592,045	16,592,045	
Stock funds	17,867,408	17,867,408	
Bond fund	10,961,511	10,961,511	
Emerging Growth Fund	4,489,978		\$ 4,489,978
International Equity Fund	12,290,177		12,290,177
<b>Total assets measured at fair value</b>	<b>\$ 62,881,027</b>	<b>\$ 46,100,872</b>	<b>\$ 16,780,155</b>

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<b>December 31, 2008</b>			
Investments:			
Cash management funds	\$ 1,497,314	\$ 1,497,314	
Equity securities	13,356,954	13,356,954	
Stock funds	10,742,270	10,742,270	
Bond funds	12,907,415	12,907,415	
Emerging Growth Fund	2,524,983		\$ 2,524,983
International Fund	9,488,300		9,488,300
<b>Total assets measured at fair value</b>	<b>\$ 50,517,236</b>	<b>\$ 38,503,953</b>	<b>\$ 12,013,283</b>

The Emerging Growth Fund is an open-end interval fund and is redeemable at month end with 30 days notice.

The International (Non U.S.) Fund is a common trust fund and is redeemable at mid-month and month end with a five business day notice requirement.

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

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### Note 4 - Program-Related Investments:

The Foundation's program-related investments are as follows at December 31:

	2009	2008
Note receivable	\$ 250,000	\$ 250,000
Limited partnership interests	259,893	234,758
Equity investment in private company	4,750	4,750
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	\$ 514,643	\$ 489,508

The note receivable, at cost, consists of an unsecured loan at an interest rate of 2%, with a maturity date in 2010. The note is deemed fully collectible. The Foundation has the option to convert the note receivable into a grant should collectability become uncertain or for other programmatic reasons.

Limited partnership interests are accounted for at cost, based upon amounts reported for income tax purposes.

The Foundation's investment in the private company is reported at the estimated value to be received under the terms of a merger agreement.

Income from program-related investments is as follows:

	2009	2008
Interest on note receivable	\$ 5,000	\$ 5,000
Partnership gains	87,263	88,320
	<hr/>	<hr/>
	\$ 92,263	\$ 93,320

### Note 5 - Grants Payable:

Grants are expected to be paid out as follows:

Year ended December 31:	
2010	\$ 1,544,874
2011	457,500
2012	245,000
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	\$ 2,247,374

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

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### Note 6 - Program Grants:

The Foundation awarded grants in the following program areas during the year ended December 31:

	2009	2008
Community affairs	\$ 2,019,000	\$ 1,540,225
Arts and culture	920,500	699,100
Environment	551,833	677,000
Philanthropic process	1,178,109	187,513
	<hr/>	<hr/>
	4,669,442	3,103,838
Less recoveries of prior year grants	(20,511)	(155,695)
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	\$ 4,648,931	\$ 2,948,143

### Note 7 - Federal Excise Taxes and Distribution Requirements:

In accordance with the applicable provisions of the Internal Revenue Code, the Foundation is a private foundation and qualifies as a tax-exempt organization. Private foundations are liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the Internal Revenue Code are met) on net investment income, excluding unrealized gains, as defined. The Foundation's tax rate for the years ended December 31, 2009 and 2008 was 1%. 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 Foundation.

Regulations also require that certain minimum distributions be made in accordance with a specified formula. The Foundation is in full compliance with the regulations.

### Note 8 - Pension Plans:

The Foundation has a defined contribution employee pension plan that covers employees who meet specific service requirements. Total expenses incurred by the Foundation under this pension plan were \$75,494 and \$67,193 in 2009 and 2008, respectively.

In addition, the Foundation has a 403(b) plan for employees meeting eligibility requirements. There are no Foundation contributions to this plan.

The Foundation has a nonqualified deferred compensation plan for a key employee. The assets are available to creditors and included with investments. Assets held for the plan are \$259,169 at December 31, 2009.

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

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### Note 9 - Concentration of Credit Risk:

The Foundation maintains its cash and investments at various financial institutions. These deposits include amounts in excess of the federally insured limits.

### Note 10 - Lease Commitments:

The Foundation leases office space under a non-cancellable operating lease that expires in 2013. Rent expense includes the base rent and a pro rata share of building and office operating expenses. Rent expense under the lease for the years ended December 31, 2009 and 2008 was \$85,400 and \$82,896, respectively. Approximate minimum future rental payments under the lease are as follows:

Year ended December 31:	
2010	\$ 82,000
2011	85,000
2012	88,000
2013	85,000
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	\$ 340,000

### Note 11- Recent Accounting Pronouncements:

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