

THE WALLACE ALEXANDER  
GERBODE FOUNDATION

DECEMBER 31, 2010

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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, 2010, 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 2009 financial statements and in our report dated April 29, 2010, 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, 2010, 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.

*Hood & Strong LLP*

May 11, 2011

*Consultants and*

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# The Wallace Alexander Gerbode Foundation

## Statement of Financial Position

<i>December 31, 2010 (with comparative totals for 2009)</i>	2010	2009
<b>Assets</b>		
Cash and cash equivalents	\$ 977,518	\$ 109,242
Accrued interest and dividends	20,708	21,009
Grant receivable		237,875
Investments	64,113,169	62,945,500
Program-related investments	576,628	514,643
Office furniture and equipment, net of accumulated depreciation of \$97,095 and \$92,946 for 2010 and 2009, respectively	8,437	9,888
Prepaid expenses and other assets	52,797	49,942
<b>Total assets</b>	<b>\$ 65,749,257</b>	<b>\$ 63,888,099</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 141,506	\$ 142,228
Grants payable	2,764,000	2,247,374
Deferred compensation	294,423	259,169
Deferred federal excise tax liability	37,000	
<b>Total liabilities</b>	<b>3,236,929</b>	<b>2,648,771</b>
<b>Net Assets:</b>		
Unrestricted	62,512,328	61,001,453
Temporarily restricted		237,875
<b>Total net assets</b>	<b>62,512,328</b>	<b>61,239,328</b>
<b>Total liabilities and net assets</b>	<b>\$ 65,749,257</b>	<b>\$ 63,888,099</b>

The accompanying notes are an integral part of this statement.

# The Wallace Alexander Gerbode Foundation

## Statement of Activities

*Year Ended December 31, 2010 (with comparative totals for 2009)*

	2010			2009 Total
	Unrestricted	Temporarily Restricted	Total	
<b>Support and Revenue:</b>				
Investment income, net	\$ 7,121,900		\$ 7,121,900	\$ 17,302,728
Income from program related investments	116,111		116,111	92,263
Net assets released from restriction	237,875	\$ (237,875)	-	-
<b>Total support and revenue</b>	<b>7,475,886</b>	<b>(237,875)</b>	<b>7,238,011</b>	<b>17,394,991</b>
<b>Expenses:</b>				
Program services:				
Grants	4,813,930		4,813,930	4,648,931
Grants management	463,137		463,137	438,680
Direct charitable activities	128,060		128,060	127,805
Program-related investment management	9,890		9,890	11,387
<b>Total program services</b>	<b>5,415,017</b>		<b>5,415,017</b>	<b>5,226,803</b>
Management and general expenses:				
General administration	147,497		147,497	127,889
Investment expenses	338,497		338,497	303,595
Excise taxes	64,000		64,000	8,670
<b>Total management and general expenses</b>	<b>549,994</b>		<b>549,994</b>	<b>440,154</b>
<b>Total expenses</b>	<b>5,965,011</b>		<b>5,965,011</b>	<b>5,666,957</b>
<b>Change in Net Assets</b>	<b>1,510,875</b>	<b>(237,875)</b>	<b>1,273,000</b>	<b>11,728,034</b>
<b>Net Assets, beginning of year</b>	<b>61,001,453</b>	<b>237,875</b>	<b>61,239,328</b>	<b>49,511,294</b>
<b>Net Assets, end of year</b>	<b>\$ 62,512,328</b>	<b>\$ -</b>	<b>\$ 62,512,328</b>	<b>\$ 61,239,328</b>

The accompanying notes are an integral part of this statement.

# The Wallace Alexander Gerbode Foundation

## Statement of Cash Flows

<i>Year Ended December 31, 2010 (with comparative totals for 2009)</i>	2010	2009
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 1,273,000	\$ 11,728,034
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	4,149	6,198
Net realized and unrealized gain on investments	(6,169,675)	(16,164,624)
Net realized gain on program related investments	(113,292)	(87,263)
Decrease (increase) in assets:		
Accrued interest and dividends	301	4,727
Grant receivable	237,875	237,500
Prepaid expenses and other assets	(2,855)	(13,172)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(722)	17,320
Grants payable	516,626	287,124
Deferred federal excise tax liability	37,000	
<b>Net cash used by operating activities</b>	<b>(4,217,593)</b>	<b>(3,984,156)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of equipment	(2,698)	(4,687)
Proceeds from program-related investments	51,307	62,128
Purchases of investments	(14,715,843)	(24,373,029)
Proceeds from sale of investments	19,753,103	28,238,055
<b>Net cash provided by investing activities</b>	<b>5,085,869</b>	<b>3,922,467</b>
<b>Change in Cash and Cash Equivalents</b>	<b>868,276</b>	<b>(61,689)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>109,242</b>	<b>170,931</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 977,518</b>	<b>\$ 109,242</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Taxes paid	\$ 39,000	\$ 18,000

The accompanying notes are an integral part of this statement.

# 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 Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

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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.

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.

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

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### k. 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. In addition, the Foundation may be subject to tax on unrelated business income, if any, generated by its investments.

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 (see Note 7).

The Foundation follows the guidance on accounting for uncertainty in income taxes issued by FASB ASC Topic 740. As of December 31, 2010, Management evaluated the Foundation's tax positions and concluded that the Foundation had maintained its tax exempt status and had taken no uncertain tax positions that required adjustment to the financial statements. With few exceptions, the Foundation is no longer subject to income tax examinations by federal or state authorities for the years before 2007.

### 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, 2009, from which the summarized information was derived.

### m. Subsequent Events

The Foundation evaluated subsequent events through May 11, 2011, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

### n. 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 segregated by classes (subsets of the line items in the financial statements) and additional disclosures made about transfers between levels 1 and 2. These disclosures were effective and have been implemented for 2010. Additional disclosures about level 3 measurements will be required and have been implemented for 2011. The impact of this guidance will be additional disclosures in the 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, 2010:</b>			
Cash management funds	\$ 469,371	\$ 469,371	
Equity securities (U.S.)	13,089,875	17,837,805	\$ 4,747,930
Stock mutual funds	21,214,527	20,828,838	(385,689)
Bond mutual fund	5,718,668	5,989,884	271,216
Other funds:			
Emerging Markets Growth Fund	5,431,304	5,243,812	(187,492)
International (non-U.S.) Equity Fund	14,377,781	13,650,273	(727,508)
	60,301,526	64,019,983	3,718,457
Partnership interest at cost	93,186	93,186	
	\$ 60,394,712	\$ 64,113,169	\$ 3,718,457
<b>December 31, 2009:</b>			
Cash management funds	\$ 679,908	\$ 679,908	
Equity securities (U.S.)	11,882,287	16,587,879	\$ 4,705,592
Stock mutual funds	21,156,390	17,867,408	(3,288,982)
Bond mutual fund	10,717,964	10,961,511	243,547
Other funds:			
Emerging Markets Growth Fund	5,342,549	4,489,978	(852,571)
International (non-U.S.) Equity Fund	14,251,436	12,290,177	(1,961,259)
	64,030,534	62,876,861	(1,153,673)
Partnership interest at cost	68,639	68,639	
	\$ 64,099,173	\$ 62,945,500	\$ (1,153,673)

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

The following schedule details investment income (loss) for the year ended December 31:

	2010	2009
Interest and dividends	\$ 952,225	\$ 1,138,104
Net realized gain (loss)	1,274,665	(5,987,653)
Net unrealized gain	4,895,010	22,152,277
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Total investment income, net	\$ 7,121,900	\$ 17,302,728

**Note 3 - Fair Value Measurements:**

The tables below present the assets measured at fair value at December 31, 2010 and 2009 on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<b>December 31, 2010</b>			
Investments:			
Cash management funds	\$ 469,371	\$ 469,371	
Equity securities (U.S.)			
Materials	1,561,978	1,561,978	
Industrials	3,940,635	3,940,635	
Consumer discretionary	2,599,853	2,599,853	
Health care	1,051,503	1,051,503	
Financials	1,775,033	1,775,033	
Information technology	4,409,575	4,409,575	
Energy	1,650,863	1,650,863	
Others	848,365	848,365	
Stock mutual funds:			
Domestic	20,534,415	20,534,415	
International	294,423	294,423	
Domestic bond fund	5,989,884	5,989,884	
Other funds:			
Emerging Markets			
Growth Fund	5,243,812		\$ 5,243,812
International (non-U.S.)			
Equity Fund	13,650,273		13,650,273
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Total assets measured at fair value	\$ 64,019,983	\$ 45,125,898	\$ 18,894,085

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

<b>December 31, 2009</b>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Cash management funds	\$ 679,908	\$ 679,908	
Equity securities			
Materials	1,073,387	1,073,387	
Industrials	3,627,157	3,627,157	
Consumer discretionary	1,194,089	1,194,089	
Health care	1,913,425	1,913,425	
Financials	1,640,856	1,640,856	
Information technology	5,693,299	5,693,299	
Energy	1,091,960	1,091,960	
Others	353,706	353,706	
Stock mutual funds:			
Domestic	17,608,240	17,608,240	
International	259,168	259,168	
Domestic bond fund	10,961,511	10,961,511	
Other funds:			
Emerging Markets			
Growth Fund	4,489,978		\$ 4,489,978
International (non-U.S.)			
Equity Fund	12,290,177		12,290,177
<b>Total assets measured at fair value</b>	<b>\$ 62,876,861</b>	<b>\$ 46,096,706</b>	<b>\$ 16,780,155</b>

The Emerging Markets Growth Fund is an open-end interval fund and is redeemable at month end with 30 days notice. It seeks long-term growth of capital by investing in companies operating in developing countries around the world.

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 investment objective of this fund is to seek long-term growth of capital and income through investments primarily in equity securities of non-U.S. issuers and securities whose principal markets are outside of the U.S.

# 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:

	2010	2009
Note receivable	\$ 250,000	\$ 250,000
Limited partnership interests	321,878	259,893
Equity investment in private company	4,750	4,750
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	\$ 576,628	\$ 514,643

The note receivable, at cost, consists of an unsecured loan at an interest rate of 2%, with a maturity date in 2015. 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:

	2010	2009
Interest on note receivable	\$ 5,000	\$ 5,000
Partnership gains	111,111	87,263
	<hr/>	<hr/>
	\$ 116,111	\$ 92,263

### Note 5 - Grants Payable:

Grants are expected to be paid in the following years:

Year ended	
December 31:	
2011	\$ 1,675,500
2012	958,000
2013	130,500
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	\$ 2,764,000

# 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:

	2010	2009
Community affairs	\$ 2,006,850	\$ 2,019,000
Arts and culture	1,121,500	920,500
Environment	657,500	551,833
Philanthropic process	1,113,218	1,178,109
	<hr/>	<hr/>
	4,899,068	4,669,442
Less recoveries of prior year grants	(85,138)	(20,511)
	<hr/>	<hr/>
	\$ 4,813,930	\$ 4,648,931

### Note 7 - 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, 2010 and 2009 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.

The provision for federal excise taxes was as follows:

	2010	2009
Current excise tax	\$ 19,000	\$ 8,670
Deferred excise tax	37,000	
Unrelated business income tax - current	8,000	
	<hr/>	<hr/>
Total	\$ 64,000	\$ 8,670

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

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### 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 \$70,307 and \$75,494 in 2010 and 2009, 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 \$294,423 at December 31, 2010.

### 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, 2010 and 2009 was \$87,937 and \$85,400, respectively. Approximate minimum future rental payments under the lease are as follows:

Year ended		
December 31:		
2011	\$	85,000
2012		88,000
2013		85,000
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	\$	258,000
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