

THE WALLACE ALEXANDER  
GERBODE FOUNDATION

DECEMBER 31, 2011

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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, 2011, 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 2010 financial statements and in our report dated May 11, 2011, 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, 2011, 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*

San Francisco, California  
May 10, 2012

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# The Wallace Alexander Gerbode Foundation

## Statement of Financial Position

<i>December 31, 2011 (with comparative totals for 2010)</i>	2011	2010
<b>Assets</b>		
Cash and cash equivalents	\$ 252,146	\$ 977,518
Grant receivable	333,332	
Investments	54,548,291	64,113,169
Program-related investments	614,803	576,628
Prepaid expenses and other assets	68,136	81,942
<b>Total assets</b>	<b>\$ 55,816,708</b>	<b>\$ 65,749,257</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 130,634	\$ 141,506
Grants payable	1,205,500	2,764,000
Deferred compensation	262,354	294,423
Deferred federal excise tax liability		37,000
<b>Total liabilities</b>	<b>1,598,488</b>	<b>3,236,929</b>
<b>Net Assets:</b>		
Unrestricted	53,884,888	62,512,328
Temporarily restricted	333,332	
<b>Total net assets</b>	<b>54,218,220</b>	<b>62,512,328</b>
<b>Total liabilities and net assets</b>	<b>\$ 55,816,708</b>	<b>\$ 65,749,257</b>

The accompanying notes are an integral part of this statement.

# The Wallace Alexander Gerbode Foundation

## Statement of Activities

*Year Ended December 31, 2011 (with comparative totals for 2010)*

	2011			2010 Total
	Unrestricted	Temporarily Restricted	Total	
<b>Support and Revenue:</b>				
Grant		\$ 500,000	\$ 500,000	
Investment (loss) income, net	\$ (6,339,628)		(6,339,628)	\$ 7,121,900
Income from program related investments	96,502		96,502	116,111
Net assets released from restriction	166,668	(166,668)	-	-
<b>Total support and revenue</b>	<b>(6,076,458)</b>	<b>333,332</b>	<b>(5,743,126)</b>	<b>7,238,011</b>
<b>Expenses:</b>				
Program services:				
Grants	1,547,410		1,547,410	4,813,930
Grants management	420,611		420,611	463,137
Direct charitable activities	127,063		127,063	128,060
Program-related investment management	10,050		10,050	9,890
<b>Total program services</b>	<b>2,105,134</b>		<b>2,105,134</b>	<b>5,415,017</b>
Management and general expenses:				
General administration	118,484		118,484	147,497
Investment expenses	348,364		348,364	338,497
Excise taxes (benefit)	(21,000)		(21,000)	64,000
<b>Total management and general expenses</b>	<b>445,848</b>		<b>445,848</b>	<b>549,994</b>
<b>Total expenses</b>	<b>2,550,982</b>		<b>2,550,982</b>	<b>5,965,011</b>
<b>Change in Net Assets</b>	<b>(8,627,440)</b>	<b>333,332</b>	<b>(8,294,108)</b>	<b>1,273,000</b>
<b>Net Assets, beginning of year</b>	<b>62,512,328</b>		<b>62,512,328</b>	<b>61,239,328</b>
<b>Net Assets, end of year</b>	<b>\$ 53,884,888</b>	<b>\$ 333,332</b>	<b>\$ 54,218,220</b>	<b>\$ 62,512,328</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, 2011 (with comparative totals for 2010,</i>	2011	2010
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ (8,294,108)	\$ 1,273,000
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	3,321	4,149
Net realized and unrealized loss (gain) on investments	7,177,659	(6,169,675)
Net realized gain on program related investments	(96,502)	(113,292)
Change in operating assets and liabilities:		
Accrued interest and dividends	6,953	301
Grant receivable	(333,332)	237,875
Prepaid expenses and other assets	4,786	(2,855)
Accounts payable and accrued expenses	(11,007)	(722)
Grants payable	(1,558,365)	516,626
Deferred federal excise tax liability	(37,000)	37,000
<b>Net cash used by operating activities</b>	<b>(3,137,595)</b>	<b>(4,217,593)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of equipment	(1,254)	(2,698)
Proceeds from program-related investments	58,327	51,307
Purchases of investments	(18,051,790)	(14,715,843)
Proceeds from sale of investments	20,406,940	19,753,103
<b>Net cash provided by investing activities</b>	<b>2,412,223</b>	<b>5,085,869</b>
<b>Change in Cash and Cash Equivalents</b>	<b>(725,372)</b>	<b>868,276</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>977,518</b>	<b>109,242</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 252,146</b>	<b>\$ 977,518</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Taxes paid	\$ 7,386	\$ 39,000

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 uses the accrual basis of accounting and 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.

##### *Unrestricted Net Assets*

The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations.

##### *Temporarily Restricted Net Assets*

The portion of net assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation.

##### *Permanently Restricted Net Assets*

The portion of net assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. The Foundation does not have any permanently restricted net assets.

#### c. 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.

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

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### d. 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.

### e. 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.

### f. 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. The office furniture and equipment was \$5,524, net of the accumulated depreciation of \$77,345 as of December 31, 2011, and was \$8,437, net of the accumulated depreciation of \$97,095 as of December 31, 2010.

### g. 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.

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

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### h. 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.

### i. 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.

### j. 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 Financial Accounting Standards Board ("FASB") ASC Topic 740. As of December 31, 2011, 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 2008 and 2007, respectively.

### k. 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, 2010, from which the summarized information was derived.

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

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l. Reclassifications

Certain 2010 amounts have been reclassified to be consistent with the 2011 presentation. There was no effect on net income or net assets as a result of these reclassifications

m. 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.

n. Subsequent Events

The Foundation evaluated subsequent events through May 10, 2012, 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.

o. Recent Accounting Pronouncements

In May 2011, the FASB issued updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between U.S. GAAP and International Financial Reporting Standards. This guidance includes amendments that clarify the application of existing fair value measurement requirements, in addition to other amendments that change principles or requirements for measuring fair value and for disclosing information about fair value measurements. This guidance is effective for annual periods beginning after December 15, 2011. The adoption of this guidance is not expected to have a material effect on the Foundation's financial statements.

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

**Note 2 - Investments:**

Investments are summarized as follows:

<b>December 31, 2011</b>	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash management funds	\$ 425,844	\$ 425,844	
Equity securities	14,062,771	16,584,036	\$ 2,521,265
Equity mutual funds	20,804,951	17,703,595	(3,101,356)
Bond mutual fund	3,555,366	3,864,514	309,148
Other funds:			
Emerging Markets Growth Fund International (non-U.S.)	5,633,193	4,114,668	(1,518,525)
Equity Fund	15,139,989	11,749,616	(3,390,373)
	59,622,114	54,442,273	(5,179,841)
Partnership interest at cost	106,018	106,018	
	\$ 59,728,132	\$ 54,548,291	\$ (5,179,841)
<b>December 31, 2010</b>			
Cash management funds	\$ 469,371	\$ 469,371	
Equity securities	13,089,875	17,837,805	\$ 4,747,930
Equity 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 International (non-U.S.)	5,431,304	5,243,812	(187,492)
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

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

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

	2011	2010
Interest and dividends	\$ 838,031	\$ 952,225
Net realized gain	1,631,103	1,274,665
Net unrealized (loss) gain	(8,808,762)	4,895,010
Total investment (loss) income, net	\$ (6,339,628)	\$ 7,121,900

**Note 3 - Fair Value Measurements:**

The tables below present the assets measured at fair value at December 31, 2011 and 2010 on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<b>December 31, 2011</b>			
Investments:			
Cash management funds	\$ 425,844	\$ 425,844	
Equity securities:			
Materials	302,799	302,799	
Industrials	3,556,564	3,556,564	
Consumer discretionary	2,438,107	2,438,107	
Commercial staples	1,006,672	1,006,672	
Health care	1,612,112	1,612,112	
Financials	1,980,809	1,980,809	
Information technology	4,166,296	4,166,296	
Energy	1,280,637	1,280,637	
Others	240,040	240,040	
Equity mutual funds:			
Small cap domestic Fund	17,441,241	17,441,241	
International stock fund	262,354	262,354	
Domestic bond fund	3,864,514	3,864,514	
Other funds:			
Emerging Markets			
Growth Fund <sup>(a)</sup>	4,114,668		\$ 4,114,668
International (non-U.S.)			
Equity Fund <sup>(b)</sup>	11,749,616		11,749,616
Total assets measured at fair value	\$ 54,442,273	\$ 38,577,989	\$ 15,864,284

# The Wallace Alexander Gerbode Foundation

## Notes to Financial Statements

<b>December 31, 2010</b>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Cash management funds	\$ 469,371	\$ 469,371	
Equity securities			
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	
Equity mutual funds:			
Small cap domestic fund	20,534,415	20,534,415	
International stock fund	294,423	294,423	
Domestic bond fund	5,989,884	5,989,884	
Other funds:			
Emerging Markets			
Growth Fund <sup>(a)</sup>	5,243,812		\$ 5,243,812
International (non-U.S.)			
Equity Fund <sup>(b)</sup>	13,650,273		13,650,273
<b>Total assets measured at fair value</b>	<b>\$ 64,019,983</b>	<b>\$ 45,125,898</b>	<b>\$ 18,894,085</b>

The Foundation uses Net Asset Value (NAV) to determine the fair value of all the underlying investments which do not have readily determinable fair value. The following is a description of investments using NAV as of December 31, 2011 and 2010.

(a) 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.

(b) 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:

	2011	2010
Note receivable	\$ 250,000	\$ 250,000
Limited partnership interests	364,803	321,878
Equity investment in private company		4,750
	<hr/>	<hr/>
	\$ 614,803	\$ 576,628

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:

	2011	2010
Interest on note receivable	\$ 5,000	\$ 5,000
Partnership gains	91,502	111,111
	<hr/>	<hr/>
	\$ 96,502	\$ 116,111

### Note 5 - Grants Payable:

Grants are expected to be paid in the following years:

Year ended		
December 31:		
2012		\$ 1,000,000
2013		205,500
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		\$ 1,205,500

# 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:

	2011	2010
Community affairs	\$ 780,500	\$ 2,006,850
Arts and culture	432,500	1,121,500
Environment	245,000	657,500
Philanthropic process	101,870	1,113,218
	<hr/>	<hr/>
	1,559,870	4,899,068
Less recoveries of prior year grants	(12,460)	(85,138)
	<hr/>	<hr/>
	\$ 1,547,410	\$ 4,813,930

### 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, 2011 and 2010 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:

	2011	2010
Current excise tax	\$ 7,000	\$ 19,000
Unrelated business income tax – current	9,000	8,000
Deferred excise (benefit) tax	(37,000)	37,000
	<hr/>	<hr/>
Total	\$ (21,000)	\$ 64,000

# 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 \$65,226 and \$70,307 in 2011 and 2010, 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 \$262,354 at December 31, 2011.

### 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, 2011 and 2010 was \$91,806 and \$87,937, respectively. Approximate minimum future rental payments under the lease are as follows:

Year ended		
December 31:		
2012	\$	88,000
2013		85,000
		<hr/>
	\$	173,000

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