

THE WALLACE ALEXANDER
GERBODE FOUNDATION

DECEMBER 31, 2012

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

The Wallace Alexander Gerbode Foundation

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of **THE WALLACE ALEXANDER GERBODE FOUNDATION (the Foundation)** which comprise the statement of financial position as of December 31, 2012, and the related statement of activities and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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.

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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, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report of Summarized Comparative Information

We have previously audited the Foundation's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 10, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
May 9, 2013

The Wallace Alexander Gerbode Foundation

Statement of Financial Position

<i>December 31, 2012 (with comparative totals for 2011)</i>	2012	2011
Assets		
Cash and cash equivalents	\$ 335,642	\$ 252,146
Grant receivable	166,666	333,332
Investments	58,279,360	54,548,291
Program-related investments	637,463	614,803
Prepaid expenses and other assets	92,810	68,136
Total assets	\$ 59,511,941	\$ 55,816,708
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 147,793	\$ 130,634
Grants payable	630,500	1,205,500
Deferred compensation	318,715	262,354
Deferred federal excise tax liability	88,000	
Total liabilities	1,185,008	1,598,488
Net Assets:		
Unrestricted	58,160,267	53,884,888
Temporarily restricted	166,666	333,332
Total net assets	58,326,933	54,218,220
Total liabilities and net assets	\$ 59,511,941	\$ 55,816,708

The accompanying notes are an integral part of this statement.

The Wallace Alexander Gerbode Foundation

Statement of Activities

Year Ended December 31, 2012 (with comparative totals for 2011)

	2012			2011 Total
	Unrestricted	Temporarily Restricted	Total	
Support and Revenue:				
Grant				\$ 500,000
Investment income (loss), net	\$ 7,233,982		\$ 7,233,982	(6,339,628)
Income from program related investments	87,668		87,668	96,502
Net assets released from restriction	166,666	\$ (166,666)		
Total support and revenue	7,488,316	(166,666)	7,321,650	(5,743,126)
Expenses:				
Program services:				
Program grants	2,002,966		2,002,966	1,547,410
Grants management	470,201		470,201	420,611
Direct charitable activities	141,976		141,976	127,063
Program-related investment management	11,251		11,251	10,050
Total program services	2,626,394		2,626,394	2,105,134
Management and general expenses:				
General administration	132,932		132,932	118,484
Investment expenses	308,611		308,611	348,364
Excise taxes (benefit)	145,000		145,000	(21,000)
Total management and general expenses	586,543		586,543	445,848
Total expenses	3,212,937		3,212,937	2,550,982
Change in Net Assets	4,275,379	(166,666)	4,108,713	(8,294,108)
Net Assets, beginning of year	53,884,888	333,332	54,218,220	62,512,328
Net Assets, end of year	\$ 58,160,267	\$ 166,666	\$ 58,326,933	\$ 54,218,220

The accompanying notes are an integral part of this statement.

The Wallace Alexander Gerbode Foundation

Statement of Cash Flows

<i>Year Ended December 31, 2012 (with comparative totals for 2011)</i>	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	\$ 4,108,713	\$ (8,294,108)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	1,885	3,321
Net realized and unrealized (gain) loss on investments	(6,169,947)	7,177,659
Net realized gain on program related investments	(87,668)	(96,502)
Change in operating assets and liabilities:		
Accrued interest and dividends	(41,408)	6,953
Grant receivable	166,666	(333,332)
Prepaid expenses and other assets	16,420	4,786
Accounts payable and accrued expenses	17,294	(11,007)
Grants payable	(575,135)	(1,558,365)
Deferred federal excise tax liability	88,000	(37,000)
Net cash used by operating activities	(2,475,180)	(3,137,595)
Cash Flows from Investing Activities:		
Purchases of equipment	(1,571)	(1,254)
Proceeds from program-related investments	65,008	58,327
Purchases of investments	(1,026,162)	(18,051,790)
Proceeds from sale of investments	3,521,401	20,406,940
Net cash provided by investing activities	2,558,676	2,412,223
Change in Cash and Cash Equivalents	83,496	(725,372)
Cash and Cash Equivalents, beginning of year	252,146	977,518
Cash and Cash Equivalents, end of year	\$ 335,642	\$ 252,146
Supplemental Disclosures of Cash Flow Information:		
Taxes paid	\$ 43,205	\$ 7,386

The accompanying notes are an integral part of this statement.

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

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. The Foundation's temporarily restricted net assets are related to a three year purpose restricted grant. The grant was released from restriction as the program restriction was met in the year the receivable was due. The grant receivable was collected as due.

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

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. 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 \$5,210, net of the accumulated depreciation of \$79,230 as of December 31, 2012, and was \$5,524, net of the accumulated depreciation of \$77,345 as of December 31, 2011. Furniture and equipment is included in prepaid expenses and other assets in the Statement of Financial Position.

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

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, 2012, 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 2009 and 2008, 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, 2011, from which the summarized information was derived.

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

l. 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.

m. Subsequent Events

The Foundation evaluated subsequent events through May 9, 2013 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.

Note 2 - Investments:

Investments are summarized as follows:

December 31, 2012	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash management funds	\$ 1,420,278	\$ 1,420,278	
Equity securities	17,145,977	20,122,746	\$ 2,976,769
Fixed income securities	8,037,089	8,073,786	36,697
Mutual funds	27,131,744	28,547,562	1,415,818
	53,735,088	58,164,372	4,429,284
Partnership interest at cost	114,988	114,988	
Total	\$ 53,850,076	\$ 58,279,360	\$ 4,429,284

December 31, 2011

Cash management funds	\$ 425,844	\$ 425,844	
Equity securities	14,062,771	16,584,036	\$ 2,521,265
Mutual funds	24,360,317	21,568,109	(2,792,208)
Other funds	20,773,182	15,864,284	(4,908,898)
	59,622,114	54,442,273	(5,179,841)
Partnership interest at cost	106,018	106,018	
Total	\$ 59,728,132	\$ 54,548,291	\$ (5,179,841)

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

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

	2012	2011
Interest and dividends	\$ 1,064,035	\$ 838,031
Net realized (loss) gain	(2,985,924)	1,631,103
Net unrealized gain (loss)	9,155,871	(8,808,762)
Total investment income (loss), net	\$ 7,233,982	\$ (6,339,628)

Note 3 - Fair Value Measurements:

The tables below present the assets measured at fair value at December 31, 2012 and 2011 on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
December 31, 2012			
Investments:			
Cash management funds	\$ 1,420,278	\$ 1,420,278	
Equity securities:			
Materials	673,140	673,140	
Industrials	3,081,956	3,081,956	
Consumer discretionary	3,487,418	3,487,418	
Commercial staples	1,452,889	1,452,889	
Health care	2,122,012	2,122,012	
Financials	2,282,890	2,282,890	
Information technology	3,469,925	3,469,925	
Energy	1,040,665	1,040,665	
Telecommunication services	386,670	386,670	
International Equities	2,125,181	2,125,181	
Fixed income:			
Municipal bonds	2,225,881		\$ 2,225,881
Corporate obligations	5,847,905		5,847,905
Mutual funds:			
Equity funds	14,363,426	14,363,426	
Fixed income funds	6,536,670	6,536,670	
Real asset funds	7,647,466	7,647,466	
Total assets measured at fair value	\$ 58,164,372	\$ 50,090,586	\$ 8,073,786

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

December 31, 2011	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
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 ^(a)	4,114,668		\$ 4,114,668
International (non-U.S.)			
Equity Fund ^(b)	11,749,616		11,749,616
Total assets measured at fair value	\$ 54,442,273	\$ 38,577,989	\$ 15,864,284

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, 2012 and 2011.

(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. The fund was liquidated and closed during 2012.

(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 fund was liquidated and closed during 2012.

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

Note 4 - Program-Related Investments:

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

	2012	2011
Note receivable	\$ 250,000	\$ 250,000
Limited partnership interests	387,463	364,803
	<hr/>	<hr/>
	\$ 637,463	\$ 614,803

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.

Income from program-related investments is as follows:

	2012	2011
Interest on note receivable	\$ 5,000	\$ 5,000
Partnership gains	82,668	91,502
	<hr/>	<hr/>
	\$ 87,668	\$ 96,502

Note 5 - Grants Payable:

Grants are expected to be paid in the following years:

Year ended		
December 31:		
2013		\$ 530,500
2014		100,000
	<hr/>	<hr/>
		\$ 630,500

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

Note 6 - Program Grants:

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

	2012	2011
Community affairs	\$ 1,067,500	\$ 780,500
Arts and culture	472,500	432,500
Environment	410,000	245,000
Philanthropic process	102,966	101,870
	<hr/>	<hr/>
	2,052,966	1,559,870
Less recoveries of prior year grants	(50,000)	(12,460)
	<hr/>	<hr/>
	\$ 2,002,966	\$ 1,547,410

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, 2012 and 2011 was 2% and 1%, respectively. 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:

	2012	2011
Current excise tax	\$ 49,000	\$ 7,000
Unrelated business income tax – current	8,000	9,000
Deferred excise (benefit) tax	88,000	(37,000)
	<hr/>	<hr/>
Total	\$ 145,000	\$ (21,000)

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

Note 8 - Pension Plans:

The Foundation has a defined contribution employee pension plan that covers employees who meet specific service requirements. The Foundation's contribution to the pension plan is 20% of eligible compensation. Total expenses incurred by the Foundation under the pension plan were \$76,114 and \$65,226 in 2012 and 2011, 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 \$318,715 at December 31, 2012.

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, 2012 and 2011 was \$96,466 and \$91,806, respectively. Approximate minimum future rental payments under the lease are \$85,000 and are due in 2013.