

THE WALLACE ALEXANDER
GERBODE FOUNDATION

DECEMBER 31, 2014

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, 2014, 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 Foundation'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 Foundation'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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Wallace Alexander Gerbode Foundation as of December 31, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 7, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
July 10, 2015

The Wallace Alexander Gerbode Foundation

Statement of Financial Position

<i>December 31, 2014 (with comparative totals for 2013)</i>	2014	2013
Assets		
Cash and cash equivalents	\$ 599,767	\$ 131,041
Grant receivable	350,000	525,000
Investments	63,955,670	64,648,991
Program-related investments	613,174	663,836
Prepaid expenses and other assets	158,254	106,404
Total assets	\$ 65,676,865	\$ 66,075,272
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 102,543	\$ 182,361
Grants payable	575,000	500,000
Deferred compensation		423,533
Deferred federal excise tax liability	148,000	223,000
Total liabilities	825,543	1,328,894
Net Assets:		
Unrestricted	64,501,322	64,221,378
Temporarily restricted	350,000	525,000
Total net assets	64,851,322	64,746,378
Total liabilities and net assets	\$ 65,676,865	\$ 66,075,272

See accompanying notes to financial statements.

The Wallace Alexander Gerbode Foundation

Statement of Activities

Year Ended December 31, 2014 (with comparative totals for 2013)

	2014			2013 Total
	Unrestricted	Temporarily Restricted	Total	
Support and Revenue:				
Grant				\$ 525,000
In-kind contribution	\$ 53,894		\$ 53,894	
Investment income, net	3,641,370		3,641,370	9,411,842
Income from program related investments	22,918		22,918	99,953
Net assets released from restriction	175,000	\$ (175,000)		
Total support and revenue	3,893,182	(175,000)	3,718,182	10,036,795
Expenses:				
Program services:				
Program grants	2,681,786		2,681,786	2,309,136
Grants management	335,033		335,033	490,286
Direct charitable activities	41,270		41,270	149,020
Program-related investment management	5,081		5,081	12,152
Total program services	3,063,170		3,063,170	2,960,594
Management and general expenses:				
General administration	189,003		189,003	154,745
Investment expenses	290,090		290,090	302,011
Excise taxes	70,975		70,975	200,000
Total management and general expenses	550,068		550,068	656,756
Total expenses	3,613,238		3,613,238	3,617,350
Change in Net Assets	279,944	(175,000)	104,944	6,419,445
Net Assets, beginning of year	64,221,378	525,000	64,746,378	58,326,933
Net Assets, end of year	\$ 64,501,322	\$ 350,000	\$ 64,851,322	\$ 64,746,378

See accompanying notes to financial statements.

The Wallace Alexander Gerbode Foundation

Statement of Cash Flows

<i>Year Ended December 31, 2014 (with comparative totals for 2013)</i>	2014	2013
Cash Flows from Operating Activities:		
Change in net assets	\$ 104,944	\$ 6,419,445
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	3,715	3,407
Net realized and unrealized gain on investments	(2,370,680)	(8,167,546)
Net realized and unrealized gain on program related investments	(17,918)	(99,953)
Change in operating assets and liabilities:		
Accrued interest and dividends	(16,853)	(15,424)
Grant receivable	175,000	(358,334)
Prepaid expenses and other assets	(34,400)	7,849
Accounts payable and accrued expenses	(79,818)	34,568
Grants payable	75,000	(130,500)
Deferred federal excise tax liability	(75,000)	135,000
Net cash used in operating activities	(2,236,010)	(2,171,488)
Cash Flows from Investing Activities:		
Purchases of equipment	(4,313)	(9,425)
Proceeds from program-related investments	68,580	73,580
Purchases of investments	(43,195,281)	(20,086,242)
Proceeds from sale of investments	45,835,750	21,988,974
Net cash provided by investing activities	2,704,736	1,966,887
Change in Cash and Cash Equivalents	468,726	(204,601)
Cash and Cash Equivalents, beginning of year	131,041	335,642
Cash and Cash Equivalents, end of year	\$ 599,767	\$ 131,041
Supplemental Disclosures of Cash Flow Information:		
Taxes paid	\$ 185,475	\$ 56,300

See accompanying notes to financial statements.

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.

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

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.

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 \$1,500. Depreciation of office equipment and furniture is recorded on a straight-line basis over estimated useful lives of three to five years. The office furniture and equipment was \$11,826, net of the accumulated depreciation of \$45,639 as of December 31, 2014, and was \$11,228, net of the accumulated depreciation of \$50,782 as of December 31, 2013. Furniture and equipment is included in prepaid expenses and other assets in the Statement of Financial Position.

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

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.

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") Accounting Standards Codification Topic 740. As of December 31, 2014, 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 2011 and 2010, respectively.

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

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, 2013, from which the summarized information was derived.

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's Board of Director's authorized a change to the percentages of active and passive investment management in December 2014 which resulted in a substantial sale of investment funds and securities held at December 31, 2014 and in realized gains of approximately \$4.6 million in January 2015. The Foundation evaluated subsequent events after December 31, 2014 through July 10, 2015, the date these financial statements were available to be issued and has determined there were no material subsequent events that required recognition or additional disclosure, beyond that noted above, in these financial statements.

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

Note 2 - Investments:

Investments are summarized as follows:

December 31, 2014	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash management funds	\$ 3,554,111	\$ 3,554,111	
Equity securities	28,562,344	35,781,377	\$ 7,219,033
Fixed income securities	6,409,639	6,375,117	(34,522)
Mutual funds	18,063,827	18,116,292	52,465
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Partnership interest, at cost	56,589,921 128,773	63,826,897 128,773	7,236,976
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Total	\$ 56,718,694	\$ 63,955,670	\$ 7,236,976

December 31, 2013	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash management funds	\$ 1,454,552	\$ 1,454,552	
Equity securities	18,562,403	27,166,672	\$ 8,604,269
Fixed income securities	7,148,655	6,973,642	(175,013)
Mutual funds	26,431,660	28,928,693	2,497,033
	<hr/>		
Partnership interest, at cost	53,597,270 125,432	64,523,559 125,432	10,926,289
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Total	\$ 53,722,702	\$ 64,648,991	\$ 10,926,289

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

	2014	2013
Interest and dividends	\$ 1,243,530	\$ 1,244,296
Net realized gain	5,950,934	1,463,377
Net unrealized (loss) gain	(3,553,094)	6,704,169
	<hr/>	
Total investment income, net	\$ 3,641,370	\$ 9,411,842

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

Note 3 - Fair Value Measurements:

The tables below present the assets measured at fair value at December 31, 2014 and 2013 on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
December 31, 2014			
Investments:			
Cash management funds	\$ 3,554,111	\$ 3,554,111	
Equity securities:			
Materials	1,031,406	1,031,406	
Industrials	4,482,314	4,482,314	
Consumer discretionary	4,862,612	4,862,612	
Commercial staples	1,431,207	1,431,207	
Health care	3,361,933	3,361,933	
Financials	3,717,073	3,717,073	
Information technology	3,719,491	3,719,491	
Energy	1,041,212	1,041,212	
Telecommunication services	704,811	704,811	
International equities	11,429,318	11,429,318	
Fixed income securities:			
Municipal bonds	1,965,689		\$ 1,965,689
Corporate obligations	3,561,853		3,561,853
Government obligation	847,575		847,575
Mutual funds:			
Equity funds	4,237,705	4,237,705	
Fixed income funds	6,516,334	6,516,334	
Real asset funds	7,362,253	7,362,253	
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Total assets measured at fair value	\$ 63,826,897	\$ 57,451,780	\$ 6,375,117

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

December 31, 2013	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Cash management funds	\$ 1,454,552	\$ 1,454,552	
Equity securities:			
Materials	903,702	903,702	
Industrials	4,079,311	4,079,311	
Consumer discretionary	4,973,342	4,973,342	
Commercial staples	1,887,590	1,887,590	
Health care	3,647,296	3,647,296	
Financials	2,957,907	2,957,907	
Information technology	4,179,190	4,179,190	
Energy	1,274,580	1,274,580	
Telecommunication services	462,759	462,759	
International equities	2,800,995	2,800,995	
Fixed income securities:			
Municipal bonds	1,664,541		\$ 1,664,541
Corporate obligations	5,309,101		5,309,101
Mutual funds:			
Equity funds	14,951,522	14,951,522	
Fixed income funds	5,800,263	5,800,263	
Real asset funds	8,176,908	8,176,908	
Total assets measured at fair value	\$ 64,523,559	\$ 57,549,917	\$ 6,973,642

Note 4 - Program-Related Investments:

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

	2014	2013
Note receivable	\$ 250,000	\$ 250,000
Limited partnership interests	363,174	413,836
	\$ 613,174	\$ 663,836

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.

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

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

Income from program-related investments is as follows:

	2014	2013
Interest on note receivable	\$ 5,000	\$ 5,000
Partnership gains	17,918	94,953
	<hr/>	<hr/>
	\$ 22,918	\$ 99,953

Note 5 - Grants Payable:

Grants are expected to be paid in the following years:

Year ended December 31:	
2015	\$ 475,000
2016	100,000
	<hr/>
	\$ 575,000

Note 6 - Program Grants:

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

	2014	2013
Community affairs	\$ 1,360,000	\$ 1,091,417
Arts and culture	367,500	467,250
Environment	810,000	571,000
Philanthropic process	144,286	179,568
	<hr/>	<hr/>
	2,681,786	2,309,235
Less recoveries of prior year grants		(99)
	<hr/>	<hr/>
	\$ 2,681,786	\$ 2,309,136

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

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, 2014 and 2013 was 2%. Deferred excise taxes arise primarily from unrealized 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:

	2014	2013
Current excise tax expense	\$ 134,975	\$ 56,000
Current unrelated business income tax expense	11,000	9,000
Deferred excise tax (benefit) expense	(75,000)	135,000
Total	\$ 70,975	\$ 200,000

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 required by the pension plan is 20% of eligible compensation. Total expenses incurred by the Foundation under the pension plan were \$50,385 and \$84,843 in 2014 and 2013, 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 were available to creditors and included with investments. During 2014, the assets for the plan were liquidated and distributed to the employee.

The Wallace Alexander Gerbode Foundation

Notes to Financial Statements

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:

In 2013, the Foundation entered into a five year lease agreement with a third party which commenced on December 1, 2013. Over the term of the lease, monthly payments range between \$4,988 and \$5,676. Rent expense includes the base rent and a pro rata share of building and office operating expenses. The following is a schedule of future minimum lease payments required under non-cancelable operating leases at December 31, 2014:

Year ended December 31	
2015	\$ 62,000
2016	64,000
2017	66,000
2018	62,000
	<hr/>
	\$ 254,000

Total rent expense under the lease for the years ended December 31, 2014 and 2013 was \$60,089 and \$105,711, respectively.