

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Wallace Alexander Gerbode Foundation

I have audited the accompanying statements of financial position of The Wallace Alexander Gerbode Foundation (the Foundation) as of December 31, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Nini Charles Mc Core |

June 7, 2005

THE WALLACE ALEXANDER GERBODE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

THE WALLACE ALEXANDER GERBODE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
ASSETS		
Cash and cash equivalents	\$ 1,122,888	\$ 558,249
Accrued interest and dividends	25,581	41,867
Grant receivable	450,000	
Federal excise tax refund receivable		7,999
Investments	71,242,825	67,118,941
Program-related investments, net	588,800	879,746
Equipment and improvements, net	<u>30,530</u>	<u>18,662</u>
TOTAL ASSETS	<u>\$ 73,460,624</u>	<u>\$ 68,625,464</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 73,636	\$ 48,747
Deferred compensation	99,354	99,354
Unconditional promises to give	395,000	1,219,166
Federal excise tax payable	251	
Deferred federal excise tax liability	<u>188,876</u>	<u>56,438</u>
TOTAL LIABILITIES	757,117	1,423,705
NET ASSETS		
Unrestricted	72,253,507	67,201,759
Temporarily restricted	<u>450,000</u>	
	<u>72,703,507</u>	<u>67,201,759</u>

See notes to financial statements

THE WALLACE ALEXANDER GERBODE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

THE WALLACE ALEXANDER GERBODE FOUNDATION
STATEMENTS OF ACTIVITIES

	<u>Year ended December 31,</u>			
		<u>2004</u>		<u>2003</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>
SUPPORT AND REVENUE				
Grant and contributions	\$ 2,081	\$ 450,000	\$ 452,081	\$ 190,661
Return on investments	8,010,297		8,010,297	13,220,219
Return on program-related investments	8,996		8,996	241,110
Interest income	<u>2,964</u>		<u>2,964</u>	<u>1,700</u>
TOTAL SUPPORT AND REVENUE	8,024,338	450,000	8,474,338	13,653,690
EXPENSES				
Program services:				
Program grants awarded	1,681,810		1,681,810	1,771,438
Program grants management	360,311		360,311	346,961
Direct charitable activities	127,246		127,246	130,440
Program-related investment management	<u>11,954</u>		<u>11,954</u>	<u>12,416</u>
Total program services	2,181,321		2,181,321	2,261,255
Management and general expenses:				
General administration	91,670		91,670	115,682
Investment expenses	491,911		491,911	407,085
Federal excise tax	<u>207,688</u>		<u>207,688</u>	<u>125,548</u>
Total management and general expenses	<u>791,269</u>		<u>791,269</u>	<u>648,315</u>
TOTAL EXPENSES	<u>2,972,590</u>		<u>2,972,590</u>	<u>2,909,570</u>
CHANGE IN NET ASSETS	5,051,748	450,000	5,501,748	10,744,120
NET ASSETS				
Beginning of year	<u>67,201,759</u>		<u>67,201,759</u>	<u>56,457,639</u>
End of year	<u>\$ 72,253,507</u>	<u>\$ 450,000</u>	<u>\$ 72,703,507</u>	<u>\$ 67,201,759</u>

See notes to financial statements

THE WALLACE ALEXANDER GERBODE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

THE WALLACE ALEXANDER GERBODE FOUNDATION

STATEMENTS OF CASH FLOWS

	<u>Year ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,501,748	\$ 10,744,120
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,449	10,367
Loss on disposition of equipment		748
Net realized and unrealized (gains) losses on investments	(6,791,062)	(11,946,956)
Unrealized gain on program-related equity investment	(2,373)	(242,441)
Losses on program-related partnership investments	1,541	9,331
Contribution of stock options		(190,661)
Decrease (increase) in assets:		
Accrued interest and dividends	16,286	1,648
Grant receivable	(450,000)	150,000
Federal excise tax refund receivable	7,999	3,805
Deferred federal excise tax asset		41,305
Increase (decrease) in liabilities:		
Accounts payable	24,889	(4,389)
Unconditional promises to give	(824,166)	(1,349,815)
Federal excise tax payable	251	
Deferred federal excise tax liability	<u>132,438</u>	<u>56,438</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(2,371,000)</u>	<u>(2,716,500)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment and improvements	(23,317)	(4,814)
Disposition of program-related investments	291,778	10,355
Purchases of investments	(3,079,829)	(30,203,092)
Proceeds from sale of investments	<u>5,747,007</u>	<u>33,113,996</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>2,935,639</u>	<u>2,916,445</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	564,639	199,945
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>558,249</u>	<u>358,304</u>
End of year	<u>\$ 1,122,888</u>	<u>\$ 558,249</u>

See notes to financial statements

THE WALLACE ALEXANDER GERBODE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

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.

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.

Equipment and Improvements

Equipment and improvements are stated at historical cost. The Foundation capitalizes all acquisitions of office equipment in excess of \$500. Depreciation of office equipment is recorded on a straight-line basis over estimated useful lives. Amortization of leasehold improvements is provided over the life of the lease.

Program Grants

Unconditional grants to be paid by the Foundation are accrued and recognized as expense at the time the grants are approved by the Board of Trustees. Conditional grants are recognized when the conditions on which they depend are substantially met.

NOTE B - GRANT RECEIVABLE

The grant receivable is deemed to be fully collectible and is receivable as follows:

Receivable within 1 year	\$ 150,000
Receivable in 1-5 years	<u>300,000</u>
	\$ <u>450,000</u>

THE WALLACE ALEXANDER GERBODE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE C - INVESTMENTS

Investments are stated at fair value and are summarized as follows:

	December 31, 2004		
	<u>Cost</u>	<u>Market</u>	Unrealized Appreciation (Depreciation)
Cash management funds	\$ 833,459	\$ 833,459	\$ -
Equity securities	47,300,117	56,164,428	8,864,311
Debt securities	<u>13,665,439</u>	<u>14,244,938</u>	<u>579,499</u>
	<u>\$ 61,799,015</u>	<u>\$ 71,242,825</u>	<u>\$ 9,443,810</u>
	December 31, 2003		
	<u>Cost</u>	<u>Market</u>	Unrealized Appreciation (Depreciation)
Cash management funds	\$ 1,792,335	\$ 1,792,335	\$ -
Equity securities	45,290,666	50,320,261	5,029,595
Debt securities	<u>14,392,165</u>	<u>15,006,345</u>	<u>614,180</u>
	<u>\$ 61,475,166</u>	<u>\$ 67,118,941</u>	<u>\$ 5,643,775</u>

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

	<u>2004</u>	<u>2003</u>
Interest and dividends	\$ 1,219,235	\$ 1,273,263
Net realized and unrealized gains (losses)	<u>6,791,062</u>	<u>11,946,956</u>
Total investment return	<u>\$ 8,010,297</u>	<u>\$ 13,220,219</u>

NOTE D - PROGRAM-RELATED INVESTMENTS

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

	<u>2004</u>	<u>2003</u>
Notes receivable	\$ 250,000	\$ 400,000
Partnership interests	204,700	237,305
Equity investment	<u>134,100</u>	<u>250,000</u>
	588,800	887,305
Less allowance for unrealized loss	<u>(7,559)</u>	<u>(7,559)</u>
	<u>\$ 588,800</u>	<u>\$ 879,746</u>

Notes receivable consists of unsecured loans at an interest rate of 2%, with maturity dates in 2005 and are deemed fully collectible. One note was fully repaid during 2004. The Foundation has the option to convert a note receivable into a grant should collectibility become uncertain or for other programmatic reasons. Limited partnership interests are accounted for by the equity method. The return on program-related investments is as follows:

	<u>2004</u>	<u>2003</u>
Interest on notes receivable	\$ 8,164	\$ 8,000
Partnership gains (losses)	(1,541)	(9,331)
Gain on re-valuation of equity investment	<u>2,373</u>	<u>242,441</u>
	<u>\$ 8,996</u>	<u>\$ 241,110</u>

THE WALLACE ALEXANDER GERBODE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE E - EQUIPMENT AND IMPROVEMENTS

Equipment and improvements are as follows at December 31:

	<u>2004</u>	<u>2003</u>
Office equipment	\$ 97,710	\$ 74,392
Less accumulated depreciation	<u>(67,180)</u>	<u>(55,730)</u>
	<u>\$ 30,530</u>	<u>\$ 18,662</u>

NOTE F - PROMISES TO GIVE

Unconditional promises to give are payable in less than one year:

2004	\$ 395,000
2003	\$ 1,219,166

Conditional promises to give at December 31 consist of grants that are conditional upon the Foundation's approval of progress reports:

2004	\$ 537,500
2003	\$ 690,000

NOTE G - PROGRAM GRANTS

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

	<u>2004</u>	<u>2003</u>
Community affairs	\$ 973,022	\$ 761,000
Arts and culture	210,073	440,050
Environment	410,500	495,000
Philanthropic process	<u>120,296</u>	<u>77,916</u>
	1,713,891	1,773,966
Less recoveries of prior year grants	<u>(32,081)</u>	<u>(2,528)</u>
	<u>\$ 1,681,810</u>	<u>\$ 1,771,438</u>

NOTE H - FEDERAL EXCISE TAXES AND DISTRIBUTION REQUIREMENTS

In accordance with the applicable provisions of the Internal Revenue Code, the Foundation is a private foundation and qualifies as a tax-exempt organization. Private foundations are liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the Internal Revenue Code are met) on net investment income, excluding unrealized gains, as defined. The Foundation qualified for the 2% and 1% rates during the years ended December 31, 2004 and 2003, 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.

The provision for current and deferred federal excise taxes was as follows for the years ended December 31:

	<u>2004</u>	<u>2003</u>
Current	\$ 75,250	\$ 27,805
Deferred	<u>132,438</u>	<u>97,743</u>
Total	<u>\$ 207,688</u>	<u>\$ 125,548</u>
Federal excise taxes paid	<u>\$ 67,000</u>	<u>\$ 24,000</u>

THE WALLACE ALEXANDER GERBODE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, it must distribute within one year after the end of each fiscal year, 5 percent of the fair value of its investment assets, as defined. The investments includable for the 5 percent distribution requirement are based on average monthly balances and are exclusive of those investments deemed to be held for charitable activities or other program-related investments. In determining qualifying distributions, grant payments are considered on a cash basis and certain expenses are considered as qualifying distributions. The Foundation has complied with distribution requirements through December 31, 2004.

NOTE I - PENSION PLAN

The Foundation has a defined contribution employee pension plan that covers employees who meet specific service requirements. The assets of this plan are not reflected in the accompanying financial statements. The pension plan is administered by the Foundation. Total expenses incurred by the Foundation under this pension plan were \$57,081 and \$51,613 in 2004 and 2003, respectively. The total vested benefits equaled the plan assets as of December 31, 2004 and 2003.

NOTE J - CONCENTRATION OF CREDIT RISK

The Foundation has money market funds at financial institutions that are not insured by the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation. As of December 31, 2004 and 2003, the Foundation's money market funds were \$1,848,662 and \$2,350,500, respectively.

NOTE K - 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, 2004 and 2003 was \$63,067 and \$5,320, respectively. Minimum future rental payments under the lease are as follows:

Year ended December 31:	
2005	\$ 66,880
2006	69,920
2007	72,960
2008	76,000
2009	<u>79,040</u>
	364,800
Thereafter	<u>346,560</u>
	\$ <u>711,360</u>