

Evelyn and Walter Haas, Jr. Fund

Financial Statements for the Years Ended
December 31, 2007 and 2006, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Evelyn and Walter Haas, Jr. Fund
San Francisco, California

We have audited the accompanying statements of financial position of the Evelyn and Walter Haas, Jr. Fund (the "Fund") as of December 31, 2007 and 2006, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2007 and 2006, 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.

Deloitte + Touche LLP

July 14, 2008

EVELYN AND WALTER HAAS, JR. FUND

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2007 AND 2006

	2007	2006
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 137,712	\$ 164,072
INTEREST RECEIVABLE	1,354,919	1,222,275
RECEIVABLE FOR UNSETTLED INVESTMENT TRANSACTIONS	27,888,422	
PREPAYMENTS AND OTHER ASSETS	9,907	52,035
INVESTMENTS — At fair value	595,318,688	597,820,993
PROPERTY AND EQUIPMENT — Net	<u>1,961,244</u>	<u>1,842,015</u>
TOTAL	<u>\$ 626,670,892</u>	<u>\$ 601,101,390</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and other accrued expenses	\$ 1,003,093	\$ 925,106
Deferred federal excise tax	965,730	1,094,010
Grants payable	17,068,477	19,356,112
Deferred lease incentive	<u>192,287</u>	<u>244,139</u>
Total liabilities	19,229,587	21,619,367
NET ASSETS — Unrestricted	<u>607,441,305</u>	<u>579,482,023</u>
TOTAL	<u>\$ 626,670,892</u>	<u>\$ 601,101,390</u>

See notes to financial statements.

EVELYN AND WALTER HAAS, JR. FUND

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
INVESTMENT INCOME:		
Dividends, interest, and other	\$ 15,223,456	\$ 13,840,496
Net realized and unrealized gains on investments	51,208,313	70,159,863
Custodial and investment related expenses	<u>(1,511,849)</u>	<u>(1,329,465)</u>
Net investment income before federal excise tax	64,919,920	82,670,894
Federal excise tax	<u>(910,405)</u>	<u>(874,307)</u>
Net investment income	<u>64,009,515</u>	<u>81,796,587</u>
EXPENDITURES:		
Grants	28,745,470	30,205,477
Direct charitable activities	559,692	543,259
Grant management	<u>6,745,071</u>	<u>6,291,296</u>
Total expenditures	<u>36,050,233</u>	<u>37,040,032</u>
INCREASE IN NET ASSETS	27,959,282	44,756,555
NET ASSETS — Unrestricted:		
Beginning of year	<u>579,482,023</u>	<u>534,725,468</u>
End of year	<u>\$ 607,441,305</u>	<u>\$ 579,482,023</u>

See notes to financial statements.

EVELYN AND WALTER HAAS, JR. FUND

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets — unrestricted	\$ 27,959,282	\$ 44,756,555
Adjustments to reconcile increase in net assets — unrestricted to net cash used in operating activities:		
Depreciation and leasehold amortization	606,671	550,675
Deferred lease incentive amortization	(51,852)	(51,852)
Net realized and unrealized gains on investments	(51,208,313)	(70,159,863)
Deferred federal excise tax	(128,280)	447,217
Changes in operating assets and liabilities:		
Interest receivable	(132,644)	(143,432)
Prepayments and other assets	42,128	(29,319)
Accounts payable and other accrued liabilities	77,987	160,919
Grants payable	<u>(2,287,635)</u>	<u>2,423,123</u>
Net cash used in operating activities	<u>(25,122,656)</u>	<u>(22,045,977)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	328,862,351	112,366,159
Purchases of investments	(274,387,548)	(90,176,794)
Change in receivable for unsettled investment transactions	(27,151,723)	
Change in payable for unsettled investment transactions	(1,500,884)	
Purchases of property and equipment	<u>(725,900)</u>	<u>(108,771)</u>
Net cash provided by investing activities	<u>25,096,296</u>	<u>22,080,594</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(26,360)	34,617
CASH AND CASH EQUIVALENTS — Beginning of year	<u>164,072</u>	<u>129,455</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 137,712</u>	<u>\$ 164,072</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid for the period for excise taxes		
	<u>\$ 989,212</u>	<u>\$ 427,090</u>

See notes to financial statements.

EVELYN AND WALTER HAAS, JR. FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2007 AND 2006

1. ORGANIZATION

The Evelyn and Walter Haas, Jr. Fund (the "Fund") is a private family foundation established in 1953. The Fund makes grants primarily to programs that support families and promote the positive development of children and youth, help to revitalize and improve conditions in low-income neighborhoods, assist those who have been marginalized gain full and equal participation in civic life, and strengthen leadership in nonprofit organizations. Most of the Fund's support is focused in San Francisco and Alameda Counties; support is also provided for selected regional, state, and national efforts that directly relate to program objectives. Trustee-initiated grants are made in the areas of the arts, education, and general interest. Primarily, organizations that are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) are considered for support.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents — Cash and cash equivalents consist of cash and short-term, fixed-income investments with maturities of three months or less at the date of purchase.

Investments — Investments are stated at quoted market prices or estimated fair values, which are based on independent valuations with the exception of private equity investments. Gains or losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses that result from sales or maturities of investments are calculated on an adjusted cost basis. Adjusted cost represents the estimated fair value of the investment at the beginning of the year or the cost if purchased during the year. The private equity investments include nonmarketable and restricted investment securities whose values have been estimated by the managing partner of the partnership in the absence of readily ascertainable market values. Because of the inherent uncertainty of the valuation of nonmarketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. Dividend and interest income are accrued when earned.

Receivable for Unsettled Investment Transactions — Receivable for unsettled investment transactions represents cash received subsequent to year end for sales of investments consummated prior to year end.

Property and Equipment — Office furniture and equipment and computer equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of 3 to 10 years. Leasehold improvements are amortized over the lesser of the asset's useful life or the lease term.

Grants — Grants are expensed when the unconditional promise to give is approved by the Board of Trustees. Conditional grants are recognized as grant expense in the period in which the recipient meets the terms of the condition. Additionally, many conditional grants are expensed when, in management's opinion, the likelihood of grant recipients failing to meet the condition is considered remote.

Conditional grants include grants with matching requirements or other requirements, such as for a newly formed organization to successfully establish its 501(c)(3) status before the grant becomes unconditional. All multiyear grants are made on a conditional basis, subject to staff review and approval of current year programmatic and financial reports and a work plan and budget for the ensuing years of the grant. As of December 31, 2007 and 2006, conditional grants were \$30,500,000 and \$20,000,000, respectively, and related primarily to matching requirements. Grant refunds are recorded as a reduction of grant expense at the time the Fund becomes aware the grant will be refunded. Grants payable represent the present value of unconditional grants to be paid in the future.

Deferred Lease Incentive — Reimbursements from the landlord for leasehold improvement expenditures incurred by the Fund are amortized over the lease term.

Functional Expense Allocations — Expenses, such as salaries and wages and depreciation, are allocated among direct charitable activities and grant management classifications on the basis of activity based estimates made by the Fund's management.

Fair Value of Financial Instruments — Financial instruments included in the statements of financial position include cash and cash equivalents, interest receivable, investments, accounts payable and other accrued liabilities, and grants payable. For cash and cash equivalents, interest receivable, and accounts payable and other accrued liabilities, the carrying amounts represent a reasonable estimate of the corresponding fair values. Investments and grants payable are reflected in the accompanying statements of financial position at their estimated fair values using methodologies described above.

Concentration of Credit Risk — Financial instruments, which potentially subject the Fund to credit risk, consist primarily of cash, cash equivalents, and investments. The Fund maintains cash and cash equivalents with major financial institutions. At times, such amounts may exceed Federal Deposit Insurance Corporation limits. The Fund's investments have been placed with major counterparties. The Fund closely monitors these investments and has not experienced significant credit losses.

Tax Exempt Status — The Fund is a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the IRC and from California franchise and/or income taxes under Section 23701(d) of the Revenue and Taxation Code.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements — In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, *Fair Value Measurements*. FASB Statement No. 157 provides guidance for using fair value to measure assets and liabilities. The standard expands required disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. FASB Statement No. 157 is effective for fiscal years beginning after November 15, 2007. On November 14, 2007, the FASB agreed to partially defer the effective date of the standard for certain nonfinancial assets and liabilities. The FASB also issued FSP FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, and FSP FAS 157-2, *Effective Date of FASB No. 157*. FSP FAS 157-1 excludes certain lease transactions from the scope of FASB Statement No. 157, and FSP FAS 157-2 delays the Fund's effective date of the adoption of FASB Statement No. 157 for certain nonfinancial assets and liabilities to December 31, 2009. The Fund does not believe the adoption of FASB Statement No. 157 will impact the financial statement amounts; however, additional disclosures may be required about the inputs used to develop the measurements and the effect of certain of the measurements on the results of operations.

3. INVESTMENTS

Investments at December 31, 2007 and 2006, consisted of the following:

	2007		2006	
	Original Cost	Market Value	Original Cost	Market Value
Corporate stocks	\$ 368,155,734	\$ 456,316,375	\$ 346,490,088	\$ 452,176,677
Bonds, notes, and government obligations	96,985,830	99,307,124	115,068,211	113,238,436
Private equities	26,705,799	32,463,783	19,543,091	24,719,951
Cash and cash equivalents	7,234,429	7,231,406	8,446,621	8,450,114
Receivable for unsettled investment transactions			736,699	736,699
Payable for unsettled investment transactions			(1,500,884)	(1,500,884)
Total	<u>\$ 499,081,791</u>	<u>\$ 595,318,688</u>	<u>\$ 488,783,826</u>	<u>\$ 597,820,993</u>

The Fund has outstanding commitments to 14 private equity partnerships in the aggregate of \$40,707,950 as of December 31, 2007.

4. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2007 and 2006, consisted of the following:

	2007	2006
Office furniture and equipment	\$ 1,590,703	\$ 1,607,924
Leasehold improvements	3,488,071	2,853,032
Computer equipment	<u>276,462</u>	<u>236,851</u>
Total	5,355,236	4,697,807
Accumulated depreciation and amortization	<u>(3,393,992)</u>	<u>(2,855,792)</u>
Property and equipment — net	<u>\$ 1,961,244</u>	<u>\$ 1,842,015</u>

Depreciation and amortization expense was \$606,671 and \$550,675 for the years ended December 31, 2007 and 2006, respectively.

5. GRANTS PAYABLE

Grants payable scheduled to be disbursed as of December 31, 2007, were as follows:

Years Ending December 31	
2008	\$ 10,560,500
2009	3,437,500
2010	2,402,500
2011	1,225,000
2012	<u>500,000</u>
Total	18,125,500
Less discounts on multiyear grants	<u>(1,057,023)</u>
Grants payable — net	<u>\$ 17,068,477</u>

The Fund has made the following conditional grants that are scheduled to be disbursed as follows and are not recognized in the accompanying financial statements in accordance with the grant policy:

Years Ending December 31	
2008	\$ 6,000,000
2009	4,000,000
2010	14,000,000
2011	4,000,000
2012	<u>2,500,000</u>
Conditional grants payable	<u>\$ 30,500,000</u>

6. SUMMARY OF FUND OPERATIONS SINCE INCEPTION

Contributions to the Fund	\$ 147,406,661
Increase in net assets — before deduction of grants	<u>770,872,430</u>
Total	918,279,091
Less grant expenditures — including grants payable	<u>(310,837,786)</u>
Net assets — unrestricted — December 31, 2007	<u>\$ 607,441,305</u>

7. FEDERAL EXCISE TAXES

In accordance with the applicable provisions of the IRC, the Fund 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 IRC are met) on net investment income, excluding unrealized gains. The Fund exceeded the minimum payout requirement to achieve the 1% tax savings in 2007 and 2006. 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 Fund.

The provision for current and deferred federal excise taxes for the years ended December 31, 2007 and 2006, was as follows:

	2007	2006
Current	\$ 1,038,685	\$ 427,090
Deferred	<u>(128,280)</u>	<u>447,217</u>
Total	<u>\$ 910,405</u>	<u>\$ 874,307</u>

The IRC requires that certain minimum distributions be made in accordance with a specified formula. As of December 31, 2007, the Fund had made the required minimum distribution.

8. RETIREMENT PLAN

The Fund has a contributory money purchase pension plan covering all eligible employees. There are no past service costs under the plan. The Fund contributes 15% of the participants' compensation. The total pension cost, excluding employee contributions, was \$421,013 and \$407,269 for the years ended December 31, 2007 and 2006, respectively.

9. COMMITMENTS

Office Leases — The Fund leases its facilities under a noncancelable operating lease. The Fund’s minimum rental payments under its operating lease are as follows:

Years Ending December 31	
2008	\$ 1,329,843
2009	1,352,542
2010	<u>1,352,542</u>
Total	<u>\$ 4,034,927</u>

Rental expense was \$1,243,943 for each of the years ended December 31, 2007 and 2006.

In 2007, the Fund sublet a portion of its facilities under a noncancelable operating lease. The future minimum lease payments to be received under the sublease are as follows:

Years Ending December 31	
2008	\$ 321,960
2009	324,610
2010	<u>324,610</u>
Total	<u>\$ 971,180</u>

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