

# THE HERTZ FOUNDATION

JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# The Hertz Foundation

## Independent Auditors' Report and Financial Statements

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## Independent Auditors' Report

THE BOARD OF DIRECTORS  
THE HERTZ FOUNDATION  
Livermore, California

We have audited the accompanying statement of financial position of **THE HERTZ FOUNDATION (the Foundation)** as of June 30, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years 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 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 misstatements. 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 audits provide 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 Hertz Foundation as of June 30, 2009 and 2008, 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.

*Hood & Strong LLP*

January 27, 2010

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# The Hertz Foundation

## Statement of Financial Position

<i>June 30,</i>	2009	2008
<b>Assets</b>		
Cash and cash equivalents	\$ 151,482	\$ 699,034
Receivables	25,000	
Prepaid expenses	21,095	20,668
Investments, at market value	17,668,595	26,597,950
Leasehold improvements and equipment, net	116,833	
Other assets	518,270	518,270
<b>Total assets</b>	<b>\$ 18,501,275</b>	<b>\$ 27,835,922</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payables and accrued expenses	\$ 64,833	\$ 24,200
Fellowships and grants	2,129,248	1,950,956
<b>Total liabilities</b>	<b>2,194,081</b>	<b>1,975,156</b>
<b>Net Assets:</b>		
Unrestricted:		
Designated for future fellowship commitments	4,821,710	4,935,415
Undesignated	10,939,990	20,407,081
<b>Total unrestricted</b>	<b>15,761,700</b>	<b>25,342,496</b>
Temporarily restricted	545,494	518,270
<b>Total net assets</b>	<b>16,307,194</b>	<b>25,860,766</b>
<b>Total liabilities and net assets</b>	<b>\$ 18,501,275</b>	<b>\$ 27,835,922</b>

# The Hertz Foundation

## Statement of Activities

Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Total
<b>Revenues:</b>			
Contributions	\$ 756,612	\$ 60,000	\$ 816,612
Donated services	85,680		85,680
Net realized and unrealized (loss) on investments	(6,394,146)		(6,394,146)
Interest and dividends	67,668		67,668
Other income	215,455		215,455
Net assets released from restrictions	32,776	(32,776)	
<b>Total revenues</b>	<b>(5,235,955)</b>	<b>27,224</b>	<b>(5,208,731)</b>
<b>Expenses:</b>			
Program services:			
Fellowship	2,705,577		2,705,577
Mentoring and entrepreneurial education	778,416		778,416
Supporting services:			
Management and general	477,966		477,966
Fundraising	382,882		382,882
<b>Total expenses</b>	<b>4,344,841</b>		<b>4,344,841</b>
<b>Change in Net Assets</b>	<b>(9,580,796)</b>	<b>27,224</b>	<b>(9,553,572)</b>
<b>Net Assets - Beginning of year</b>	<b>25,342,496</b>	<b>518,270</b>	<b>25,860,766</b>
<b>Net Assets - End of year</b>	<b>\$ 15,761,700</b>	<b>\$ 545,494</b>	<b>\$ 16,307,194</b>

# The Hertz Foundation

## Statement of Activities

*Year Ended June 30, 2008*

	Unrestricted	Temporarily Restricted	Total
<b>Revenues:</b>			
Contributions	\$ 1,108,207		\$ 1,108,207
Net realized and unrealized gain on investments	1,726,173		1,726,173
Donated services	18,124		18,124
Interest and dividends	166,907		166,907
<b>Total revenues</b>	<b>3,019,411</b>		<b>3,019,411</b>
<b>Expenses:</b>			
Program services:			
Fellowship	2,395,382		2,395,382
Mentoring and entrepreneurial education	430,782		430,782
Supporting services:			
Management and general	568,544		568,544
Fundraising	549,360		549,360
<b>Total expenses</b>	<b>3,944,068</b>		<b>3,944,068</b>
<b>Change in Net Assets</b>	<b>(924,657)</b>		<b>(924,657)</b>
<b>Net Assets - Beginning of year</b>	<b>\$ 26,267,153</b>	<b>\$ 518,270</b>	<b>\$ 26,785,423</b>
<b>Net Assets - End of year</b>	<b>\$ 25,342,496</b>	<b>\$ 518,270</b>	<b>\$ 25,860,766</b>

# The Hertz Foundation

## Statement of Cash Flows

<i>Year Ended June 30,</i>	2009	2008
<b>Cash Flows from by Operating Activities:</b>		
Change in net assets	\$ (9,553,572)	\$ (924,657)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	4,121	
Realized and unrealized loss (gain) on investments	6,394,146	(1,726,173)
Changes in operating assets and liabilities		
(Increase) decrease in receivables	(25,000)	10,000
Increase in prepaid expenses	(427)	(20,668)
Increase in accounts payable and accrued expense	40,631	
Increase in fellowships and grants liability	178,291	48,815
<b>Net cash used by operating activities</b>	<b>(2,961,810)</b>	<b>(2,612,683)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of leasehold improvements and equipment	(120,954)	
Proceeds from sale of investments	29,713,256	46,975,240
Purchase of investments	(27,178,044)	(43,921,196)
<b>Net cash provided by investing activities</b>	<b>2,414,258</b>	<b>3,054,044</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(547,552)</b>	<b>441,361</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>699,034</b>	<b>257,673</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 151,482</b>	<b>\$ 699,034</b>

# The Hertz Foundation

## Statement of Functional Expenses

*Year Ended June 30, 2009*

	Program Services		Supporting Services		Total
	Fellowship	Mentoring & Entrepreneurial Education	Management and General	Fundraising	
Fellowships and grants	\$ 2,049,808				\$ 2,049,808
Salaries and benefits	325,444	\$ 256,989	\$ 180,491	\$ 196,064	958,988
Travel	42,109	40,758	73,898	21,332	178,097
Events		199,234	4,596	1,742	205,572
Professional fees			176,800	23,464	200,264
Contract services	24,150	139,623	114,802	44,698	323,273
Infrastructure	20,212	60,528	208,012	14,297	303,049
Investment management and custodial fees			125,790		125,790
	2,461,723	697,132	884,389	301,597	4,344,841
General and administrative recharge	243,854	81,284	(406,423)	81,285	
<b>Total Expenses</b>	<b>\$ 2,705,577</b>	<b>\$ 778,416</b>	<b>\$ 477,966</b>	<b>\$ 382,882</b>	<b>\$ 4,344,841</b>

# The Hertz Foundation

## Statement of Functional Expenses

*Year Ended June 30, 2008*

	Program Services		Supporting Services		Total
	Fellowship	Mentoring & Entrepreneurial Education	Management and General	Fundraising	
Fellowships and grants	\$ 1,866,245				\$ 1,866,245
Salaries and benefits	181,934	\$ 143,566	\$ 184,369	\$ 335,147	845,016
Travel	76,256	3,565	45,615	45,615	171,051
Events		120,477			120,477
Professional fees		7,735	139,775	10,986	158,496
Contract services	13,000	29,085	93,583	70,168	205,836
Infrastructure		40,372	196,554	1,461	238,387
Investment management and custodial fees			338,560		338,560
	2,137,435	344,800	998,456	463,377	3,944,068
General and administrative recharge	257,947	85,982	(429,912)	85,983	
<b>Total Expenses</b>	<b>\$ 2,395,382</b>	<b>\$ 430,782</b>	<b>\$ 568,544</b>	<b>\$ 549,360</b>	<b>\$ 3,944,068</b>

### Note 1 - Nature of Organization

The Fannie and John Hertz Foundation, known as the Hertz Foundation (the Foundation), was incorporated in 1945 in the State of Illinois. The principal objectives of the Foundation are the promotion of education and the enhancement of the defense potential and technological stature of the United States, by aiding in the education of the most capable students, particularly with respect to the applied physical sciences.

### Note 2 - Summary of Significant Accounting Policies:

#### a. Basis of Accounting and Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting. The financial statements have been presented on the basis of unrestricted, temporarily restricted and permanently restricted net assets predicated upon the existence of donor-imposed restrictions.

##### *Unrestricted*

Unrestricted net assets consist of all resources of the Foundation which have not been specifically restricted by a donor.

##### *Temporarily Restricted*

Temporarily restricted net assets consist of cash and other assets received with donor stipulations that limit the use of the donated assets. Donor restrictions are stipulated by either a time restriction or a purpose restriction. Upon expiration of a time restriction or completion of a purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Temporarily restricted amounts received and used during the year flow through the statement of activities as unrestricted.

##### *Permanently Restricted*

Permanently restricted net assets consist of assets whose use has been restricted for investment in perpetuity. The income from these assets is available for either general operations or specific programs as specified by the donor. There were no permanently restricted net assets as of June 30, 2009.

# The Hertz Foundation

## Notes to Financial Statements

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b. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents principally include cash in banks and do not include money market funds held for investment purposes.

c. Investments

Investments are stated at fair value, and the net unrealized appreciation or depreciation on investments held is included in the change in net assets in the accompanying statement of activities. The values of corporate stocks, government obligations and corporate debt are based on their closing market prices. Alternative investments include direct partnership and fund of funds investments in absolute return strategies. The fair values of these investments are based upon fair values of the underlying assets as reported by the entities in their financial statements or as determined by the general partner or manager. The ultimate liquidation of these investments may be restricted to certain time periods, subject to conditions imposed by the manager, or limited by the timing of sales of underlying private securities for which there is no public market. Due to the inherent uncertainty of valuation of non-marketable and restricted investments, those estimated values may differ significantly from the value that would have been used had a ready market for the securities existed and the differences could be material.

d. Leasehold Improvements and Equipment

Leasehold improvements and equipment are recorded at cost of acquisition or construction or, if donated, at the fair market value of the asset at the date of donation in fiscal year 2009. Depreciation is computed using the straight-line method over the estimated useful life of the assets of 15 years. When assets are disposed of, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gains or losses are reflected in statement of activities. Maintenance and repairs are charged to expense as incurred.

Depreciation expense for 2009 was \$4,121. There was no depreciation expense for 2008.

e. Other Assets

Other assets represent the gift of a charitable remainder interest in real property that was valued at appraisal value at the time of gifting. The property is a residence that is being used by the donors until their passing. Consequently, the interest is accounted for as temporarily restricted.

# The Hertz Foundation

## Notes to Financial Statements

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f. Revenue Recognition

The Foundation classifies unconditional gifts of cash and other assets as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When such donor restrictions expire, that is, when stipulated time restrictions end or purpose restrictions are accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying Statements of Activities as net assets released from restrictions.

Contribution receivable in the amount of \$25,000 at June 30, 2009 is unconditional, deemed fully collectible and due in less than one year. There were no receivables at June 30, 2008.

g. Fellowships

Fellowships are recorded as an expense when the grant has been approved by the board of trustees.

h. Fundraising Costs

Fundraising costs are expensed as incurred.

i. Income Taxes

The Foundation, a charitable trust is described in Section 501(c)(3) of the U.S. Internal Revenue Code and is exempt from income taxes on related income under provisions of the U.S. Internal Revenue Code and the California Tax Code.

Effective July 1, 2005, the Foundation has notified the Internal Revenue Service (IRS) of its intent to terminate the Private Foundation status and that it intends to operate as a public charity. As a public charity, donors will receive the maximum tax deduction available.

In connection therewith, the Foundation has received an advanced ruling from the IRS that it will be treated as public charity, and not as a private foundation, during the advanced ruling period, which ends June 30, 2010. The Foundation must submit to the IRS the information needed to determine whether it has met the requirements of the applicable support test during the advanced ruling period.

j. Functional Expenses

Expenses have been charged directly to program and supporting services classifications based on direct expenses incurred. Any expenses not directly chargeable are allocated to program or supporting services classifications based on management analysis of what classification was benefited by the expense.

# The Hertz Foundation

## Notes to Financial Statements

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### k. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### l. Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentations. These reclassifications have no effect on net assets or change in net assets.

### m. New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of application of FIN 48 these will be accounted for as an adjustment to the opening balance of retained earnings. Additional disclosures about the amounts of such liabilities will be required also.

The Foundation presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, Accounting for Contingencies. The Foundation has elected to defer the application of Interpretation 48 in accordance with FASB Staff Position (FSP) FIN 48-3. This FSP defers the effective date of Interpretation 48 for nonpublic enterprises, for fiscal years beginning after December 15, 2008. The Foundation will be required to adopt FIN 48 in its 2010 annual financial statements. Management is currently assessing the impact of FIN 48 on its financial position and results of operations and has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

# The Hertz Foundation

## Notes to Financial Statements

SFAS No. 168, The FASB Accounting Standards Codification: The FASB has issued FAS No. 168, The “FASB Accounting Standards Codification” and the Hierarchy of Generally Accepted Accounting Principles. FASB No 168 establishes the FAS Accounting Standards Codification (Codification) as the single source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. FASB No. 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009.

When effective, the Codification will supersede all existing non-SEC accounting reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. Following SFAS No. 168, the FAS will not issue new standards in the form of statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to: (a) update the Codification; (b) provide background information about the guidance; and (c) provide the bases for conclusions on the change(s) in the Codification.

### Note 3 - Investments:

The following is a summary of the investments held by the Foundation at June 30:

	2009	2008
Cash and short term investments	\$ 145,940	\$ 267,076
Equities	3,053,641	5,448,725
Equity mutual funds	48,345	
Corporate bonds	46,395	
U.S. government and agency	2,999,170	2,372,797
Alternative investments	11,375,104	18,509,352
	<u>\$ 17,668,595</u>	<u>\$ 26,597,950</u>

The Foundation had net realized and unrealized (losses) and gains on investments of \$(6,394,146) and \$1,726,173 as of June 30, 2009 and 2008, respectively.

### Note 4 - Fair Value Measurements:

Effective July 1, 2008, the Foundation adopted Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements*, (FASB Statement No.157), which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). FASB Statement No. 157 has been applied prospectively as of the beginning of the calendar year. The three levels of the fair value hierarchy under FASB Statement No. 157 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Foundation has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

*Investment:* Valued at the net asset value (NAV) of shares held by the Foundation at year end.

*Other Assets (charitable remainder interest in real property):* Valued at the estimated appraisal value held by the Foundation at year end.

# The Hertz Foundation

## Notes to Financial Statements

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2009.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Cash and short term investment	\$ 145,940	\$ 145,940		
Equities	3,053,641	3,053,641		
Equity mutual funds	48,345	48,345		
Corporate bonds	46,395		\$ 46,395	
U.S. government and agency	2,999,170	2,999,170		
Alternative investments	11,375,104			\$ 11,375,104
<hr/>				
Total assets measured at fair value	\$ 17,668,595	\$ 6,247,096	\$ 46,395	\$ 11,375,104

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Foundation has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category may include changes in fair value that were attributed to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

Changes in Level 3 assets measured at fair value for the year ended June 30, 2009:

	Beginning Balance July 1, 2008	Realized and unrealized Gains (Losses)	Purchases, Sales and Settlements	Net Transfers In and/or (Out) of Level 3	Ending Balance June 30, 2009
Alternative investments	\$ 18,509,352	\$ (4,162,690)	\$ 1,411,908	\$ (4,383,466)	\$ 11,375,104

# The Hertz Foundation

## Notes to Financial Statements

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Realized and unrealized gains and losses are included in realized and unrealized gain (loss) in the statement of activities. The change in unrealized gains (losses) for the year ended June 30, 2009 for investments still held at June 30, 2009 of \$(3,653,338) are reflected in unrealized gain (loss) in the statement of activities.

### Note 5 - Related Party Transactions:

Two Directors are partners in an investment advisory firm, which renders investment management and custodial services to the Foundation. This firm is compensated for these services through commissions and investment management fees, which amounted to \$46,663 and \$94,070 for the fiscal year 2009 and 2008, respectively. Another Director provided \$83,645 and \$17,500 of legal services to the Foundation for the fiscal years 2009 and 2008, respectively. Additionally, a key employee is the owner of an information technology services firm that provided \$80,713 and \$56,675 of services to the Foundation for the fiscal years 2009 and 2008, respectively.

### Note 6 - Contributed Goods and Services:

Contributed goods and services are reflected in the financial statements at their fair market value. The contributions of goods and services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

The contributed goods and services are included in the statement of activities and comprised the following for the fiscal year June 30, 2009:

Legal services	\$	27,625
Information technology		28,980
Supplies		29,075
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Total contributed services and facilities	\$	85,860

# The Hertz Foundation

## Notes to Financial Statements

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### Note 7 - Appropriations and Fellowship Commitments:

Fellowships are granted for one year but may be renewed, at the option of the Foundation, on a year-to-year basis not to exceed five years of Fellowship support. Any fellowships that are renewed will require additional funding by the Foundation.

Conditional fellowship commitments outstanding, as of June 30, 2009, by year of expected payment are approximately as follows:

Year ending	
June 30,	
2010	\$ 1,800,795
2011	1,478,670
2012	924,171
2013	578,701
2014	39,373
	<hr/>
	\$ 4,821,710

### Note 8 - Commitments:

The Foundation has a lease commitment for its office space in Livermore, California which extends to May 30, 2014. Lease expense through that time will be approximately \$44,000 for fiscal years 2010 through 2013 and \$41,000 for fiscal year 2014.

### Note 9 - Employee Benefit Plan:

The Foundation maintains a Simplified Employee Benefit Plan (SEP) IRA for the benefit of employees. Contributions are based on a percentage of employee compensation and approximated \$110,000 and \$112,000 for fiscal years June 30, 2009 and 2008, respectively.

# The Hertz Foundation

## Notes to Financial Statements

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### **Note 10 - Concentrations of Risk:**

The Foundation's financial instruments that could be exposed to concentrations of credit risk consist primarily of cash and investments. The Foundation places its cash and investments with what it believes to be quality financial institutions. The Foundation invests in securities of financially strong corporations and the United States Government agencies. Investment securities are exposed to various risks such as interest rate, market and credit. Due to the level of uncertainty related to changes in interest rates, market, volatility and credit risks, it is reasonably possible that changes in these risks could materially affect the fair value of the investments reported in the statement of financial position as of June 30, 2009. The Foundation routinely assesses the diversification and the financial strength of its cash and investment portfolio. As a consequence, concentrations of credit risk are limited.

### **Note 11 - Subsequent Events:**

Management has reviewed the results of operations for the period of time from its fiscal year ended June 30, 2009 through January 27, 2010, the date the financial statements were issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor subsequent events have occurred, the nature of which would require disclosure.