

**THE PARKER FOUNDATION
(GERALD AND INEZ GRANT PARKER)
FINANCIAL STATEMENTS
AUDITED
FOR THE YEARS ENDED
SEPTEMBER 30, 2008 AND 2007**

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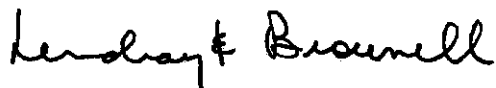
INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Parker Foundation
San Diego, California

We have audited the accompanying statements of financial position of The Parker Foundation as of September 30, 2008 and 2007, 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. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit 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 Parker Foundation as of September 30, 2008 and 2007, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Lindsay & Brownell, LLP

August 20, 2009

THE PARKER FOUNDATION

STATEMENTS OF FINANCIAL POSITION

September 30, 2008 and 2007

	Parker	Dempster- Larsen	Total 2008	2007
ASSETS				
Current Assets				
Cash (Note 6)	\$ 1,023,274	\$ 59,571	\$ 1,082,845	\$ 1,636,429
Grants receivable (Note 5)	-	-	-	25,000
Partnership receivable (Note 2)	195,686	35,049	230,735	-
Accrued interest and dividends	11,146	130	11,276	17,307
Prepaid taxes	69,079	12,373	81,452	1,116
Prepaid expenses	2,927	-	2,927	-
Total current assets	1,302,112	107,123	1,409,235	1,679,852
Investments (Note 2)	31,178,169	2,332,060	33,510,229	43,447,242
Due (To)/From Related Fund	(2,865,093)	2,865,093	-	-
	\$ 29,615,188	\$ 5,304,276	\$ 34,919,464	\$ 45,127,094
LIABILITIES AND NET ASSETS				
Current Liabilities				
Grants payable (Note 5)	\$ 430,500	\$ -	\$ 430,500	\$ 132,500
Accrued expenses	38,335	-	38,335	41,129
Total current liabilities	468,835	-	468,835	173,629
Commitments (Note 5)	-	-	-	-
Net Assets				
Total unrestricted net assets	29,146,353	5,304,276	34,450,629	44,953,465
	\$ 29,615,188	\$ 5,304,276	\$ 34,919,464	\$ 45,127,094

See Accompanying Notes and Independent Auditor's Report.

THE PARKER FOUNDATION

STATEMENTS OF ACTIVITIES

September 30, 2008 and 2007

	Parker	Dempster-Larsen	Total 2008	2007
Unrestricted Net Assets				
Revenues and gains				
Interest and dividends	\$ 774,312	\$ 138,684	\$ 912,996	\$ 892,337
Capital gain dividends	558,688	100,065	658,753	429,790
Partnership loss	(102,758)	(18,405)	(121,163)	434,252
Miscellaneous income	2,966	531	3,497	3,213
Net gain on sale of investments	3,200,096	573,158	3,773,254	962,721
Unrealized gain (loss) on investments	(11,125,504)	(1,992,651)	(13,118,155)	3,334,092
	<u>(6,692,200)</u>	<u>(1,198,618)</u>	<u>(7,890,818)</u>	<u>6,056,405</u>
Expenses				
Grants paid and payable	1,985,005	322,000	2,307,005	2,001,900
Advisory and investment	90,454	16,201	106,655	132,206
Administrative	43,367	7,767	51,134	42,901
Accounting and audit	41,140	7,369	48,509	40,828
Custodian fees	30,202	5,409	35,611	34,213
Federal excise, state and foreign taxes	25,317	4,534	29,851	71,321
Conferences and community functions	11,203	2,006	13,209	7,103
Memberships	10,036	1,798	11,834	11,388
Insurance	3,401	609	4,010	1,031
Consulting fees	2,035	365	2,400	-
Postage, printing, and reproductions	901	161	1,062	1,433
Mileage and parking	494	89	583	598
Filing fees	136	24	160	180
Dues and subscriptions	(4)	(1)	(5)	-
	<u>2,243,687</u>	<u>368,331</u>	<u>2,612,018</u>	<u>2,345,102</u>
Increase (Decrease) In Unrestricted Net Assets	(8,935,887)	(1,566,949)	(10,502,836)	3,711,303
Net Assets, Beginning	38,082,240	6,871,225	44,953,465	41,242,162
Net Assets, Ending	<u>\$ 29,146,353</u>	<u>\$ 5,304,276</u>	<u>\$ 34,450,629</u>	<u>\$ 44,953,465</u>

See Accompanying Notes and Independent Auditor's Report.

THE PARKER FOUNDATION

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities		
Increase (decrease) in unrestricted net assets	\$(10,502,836)	\$ 3,711,303
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Undistributed earnings on investments	121,163	(434,252)
Net gain on sale of investments	(3,773,254)	(962,721)
Unrealized (gain) loss on investments	13,118,155	(3,334,092)
Change in assets and liabilities:		
(Increase) decrease in:		
Prepaid taxes and interest and dividends receivable	(307,967)	20,952
Grants receivable	25,000	(25,000)
(Decrease) increase in:		
Accrued expenses and grants payable	295,206	(50,368)
Net cash used in operating activities	(1,024,533)	(1,074,178)
Cash Flows from Investing Activities		
Investments purchased	(9,995,677)	(6,551,578)
Proceeds from investments sold	8,460,914	7,279,439
Cash distribution from partnership	2,005,712	700,000
Net cash provided by investing activities	470,949	1,427,861
Net increase (decrease) in cash	(553,584)	353,683
Cash		
Beginning	1,636,429	1,282,746
Ending	<u>\$ 1,082,845</u>	<u>\$ 1,636,429</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for:		
Interest	\$ -	\$ -
Income taxes	\$ 96,116	\$ 61,483

See Accompanying Notes and Independent Auditor's Report.

THE PARKER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies and Other Information

Nature of Activities: The Parker Foundation (the "Foundation") is an independent, private foundation and California non-profit corporation. The Foundation provides grants to charitable organizations operating in San Diego County, with the goal of bettering the lives of County residents. Grants cover a broad range of organizations and services, with special consideration given to matching or challenge grants. Individuals are not eligible to receive grants.

The assets of the Foundation are denoted as either the Parker Fund ("Parker"), originally created by a gift from Gerald and Inez Grant Parker, or the Dempster-Larsen Fund ("Dempster-Larsen"), created by a subsequent separate gift to the Foundation. This separate gift was unrestricted; however, the decision was made to report it separately from the Parker fund for grant-making purposes only, allowing the Board of Directors to specifically award grants in support of the arts, an interest of the benefactor. When the Dempster-Larsen Fund was created, it represented 4.76% of the total assets of the foundation; therefore, all investments made with the subsequent earnings on the entire fund are allocated between the Parker and Dempster-Larsen funds in this same ratio. Allocated investments not specifically held in the Dempster-Larsen fund are shown as Due From Related Fund.

The Foundation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. As a private foundation, it is required to pay an excise tax on investment income (see Note 3).

Basis of Presentation: The financial statements of The Parker Foundation have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents: Cash and cash equivalents include highly liquid investments with an initial maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Investments: Investments are carried at fair value based on quoted market prices for all investments other than the investment in limited partnerships, which is determined by the investment manager.

Concentration of Credit Risk: The Foundation invests the corpus of the Foundation and its excess cash in various types of investments. The Foundation has established guidelines relative to diversification and maturities that maximize safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

Net Gain or Loss on Sale of Securities: Marketable securities included in investments (see Note 2) are held jointly by Parker and Dempster-Larsen. Net gain or loss on sale of the securities is recognized on a proportionate basis based upon the ownership percentage of these securities.

Grants Paid and Payable: Grants paid and payable expense is shown net of grants that have been repaid to the Foundation from grant recipients. Repayments of grants previously dispersed may be required by the Foundation Board if a change in the use or purpose of grant funds is not acceptable to the Board.

THE PARKER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies and Other Information (Continued)

Allocation of Expenses: Beginning in 1993, all expenses between Parker and Dempster-Larsen are allocated based on the relative year-end fund balances. For the period ended September 30, 2008, the percentages used for allocation between Parker and Dempster-Larsen were approximately 84.81% and 15.19%, respectively. The amount of Dempster-Larsen grants is based on grants designated by the Board as such. For the twelve-month periods ended September 30, 2008 and 2007, the percentage of Dempster-Larsen grants to total grants was approximately 14% and 21%, respectively.

Reclassifications: Certain items in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements.

Use of 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.

Note 2. Analysis of Investments

	Carrying Value	Market Value
September 30, 2008		
Mutual funds	\$ 19,264,371	\$ 18,344,566
Marketable securities	9,147,755	8,348,920
Investment in limited partnerships	3,341,141	3,176,285
Alternative investments	4,000,000	3,640,458
	<u>\$ 35,753,267</u>	<u>\$ 33,510,229</u>
September 30, 2007		
Mutual funds	\$ 15,243,402	\$ 18,991,667
Marketable securities	9,885,258	12,277,247
Investment in limited partnerships	4,443,465	9,061,431
Alternative investments	3,000,000	3,116,897
	<u>\$ 32,572,125</u>	<u>\$ 43,447,242</u>

The relationship between carrying values and market values of investments during the period ended September 30, 2008 is summarized as follows:

	Carrying Value	Market Value	Excess of Market Value Over Carrying Value
Balance, September 30, 2008	\$ 35,753,267	\$ 33,510,229	\$(2,243,038)
Balance, September 30, 2007	\$ 32,572,125	\$ 43,447,242	\$ 10,875,117
Decrease in unrealized appreciation			<u>\$ 13,118,155</u>

Ownership in L-R Global Fund, Ltd. consists of 5,230.5467 shares of Class A voting stock; as such, the investment is reported as common stock. L-R Global Fund is a Cayman Islands exempted company incorporated in 2002. The investment manager of the Fund is L-R Managers LLC.

THE PARKER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2. Analysis of Investments (Continued)

In August 2004, funds were transferred from Union Bank custodian care into a joint investment partnership, known as Westcliff Fund, L.P. These funds are managed and accounted for by Westcliff Capital Management, LLC ("Westcliff"). Westcliff prepares monthly statements detailing fund assets, performance, and partnership balances. In addition, Westcliff provides calendar year audited financial statements annually. Other than investment management fees, no expenditures or grants are paid out of the investment partnership.

On March 6, 2006, the Board voted to exchange all of the warrants included in the original investment in Westcliff, L.P. for additional interests in the limited partnership. In becoming a limited partner on September 1, 2004, the Foundation contributed to Westcliff Fund's capital certain warrants to buy 154,468 shares of the common stock of KFx, Inc. (the warrants) and agreed with the General Partner that the warrants should be maintained in a side pocket account. Based upon the agreement approved on March 6, 2006, the warrants are considered to have been distributed to the Foundation as of the end of the day on March 31, 2006, and recontributed to Westcliff Fund as of the beginning of the day on April 1, 2006. Beginning on April 1, 2006, the warrants were no longer held in a side pocket account but were instead included in the Fund's general portfolio. The price at which the warrants were deemed distributed and recontributed was the publicly reported closing price of KFx, Inc. common stock on March 31, 2006, which was \$18.20 per share.

On March 31, 2008, the Foundation sold their partnership interest in Westcliff, L.P. and recognized a gain for the historical increase in fair market value of the interest. Pursuant to Section 5.3.3 of the partnership agreement, Westcliff withheld 10% of the Foundation's remaining capital pending completion of the financial statements for their calendar year end. Once they have completed their financial statements, they will allocate a management fee to all of the partners for the period during which each partner held an interest. At this time they will calculate how much, if any, of the withheld capital the Foundation will receive as a final distribution payment. As such, the Foundation has recorded a receivable for the amount withheld until they receive a final distribution from Westcliff.

In January 2003, funds were used to purchase a joint investment partnership known as Frontier Mid Cap Growth Fund, L.P. These funds are managed and accounted for by Frontier Capital Management Co., LLC ("Frontier"). Frontier prepares monthly statements detailing fund assets, performance, and partnership balances. In addition, Frontier provides calendar year audited financial statements annually. Other than investment management fees, no expenditures or grants are paid out of the investment partnership.

On July 3, 2006, funds were used to purchase a joint investment partnership known as AG Super Fund, L.P. These funds are managed and accounted for by Angelo, Gordon & Co., L.P. ("Angelo"). Angelo prepares monthly statements detailing fund assets, performance, and partnership balances. In addition, Angelo provides calendar year audited financial statements annually. Other than investment management fees, no expenditures or grants are paid out of the investment partnership.

On June 26, 2007, funds were used to purchase an alternative investment known as Giovine Investment Partners International Ltd. These funds are managed and accounted for by Giovine Capital Group LLC ("Giovine"). Giovine prepares monthly statements detailing fund assets, performance, and alternative investment fair market value. In addition, Giovine provides calendar year audited financial statements annually. Other than investment management fees, no expenditures or grants are paid out of the alternative investment.

On June 26, 2007, funds were used to purchase an alternative investment known as Southport Millennium Offshore Fund, Inc. These funds are managed and accounted for by Dawson Herman Capital Management ("Dawson"). Dawson prepares monthly statements detailing fund assets, performance, and alternative investment fair market value. In addition, Dawson provides calendar year audited financial statements annually. Other than investment management fees, no expenditures or grants are paid out of the alternative investment.

THE PARKER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2. Analysis of Investments (Continued)

On June 26, 2007, funds were used to purchase an alternative investment known as Taconic Opportunity Offshore Fund Ltd. These funds are managed and accounted for by Taconic Capital Advisors LLC ("Taconic"). Taconic prepares monthly statements detailing fund assets, performance, and alternative investment fair market value. In addition, Taconic provides calendar year audited financial statements annually. Other than investment management fees, no expenditures or grants are paid out of the alternative investment.

On December 28, 2007, funds were used to purchase an alternative investment known as Apis Offshore Capital, Ltd. These funds are managed and accounted for by Apis Capital Advisors, LLC. ("Apis"). Apis prepares quarterly statements detailing fund assets, performance, and alternative investment fair market value. In addition, Apis provides calendar year audited financial statements annually. Other than investment management fees, no expenditures or grants are paid out of the alternative investment.

On December 28, 2007, funds were used to purchase an alternative investment known as GoldenTree Offshore Fund, Ltd. These funds are managed and accounted for by GoldenTree Asset Management, LP ("GoldenTree"). GoldenTree prepares monthly statements detailing fund assets, performance, and alternative investment fair market value. In addition, GoldenTree provides calendar year audited financial statements annually. Other than investment management fees, no expenditures or grants are paid out of the alternative investment.

On March 18, 2008, funds were used to purchase a joint investment partnership known as Montauk Triguard Fund IV LP. These funds are managed and accounted for by TriGuard Management LLC. ("TriGuard"). TriGuard prepares quarterly statements detailing fund assets, performance, and partnership balances. In addition, TriGuard provides calendar year audited financial statements annually. Other than investment management fees, no expenditures or grants are paid out of the investment partnership.

Note 3. Federal Excise Tax

In accordance with the applicable provisions of the Internal Revenue Code, the Foundation is subject to an excise tax on net investment income, including realized gains. For the year ended September 30, 2008, federal excise tax payments of \$80,000 were made and an overpayment of \$16,116 was applied from the prior year. For the years ended September 30, 2008 and 2007, the actual tax liability was \$14,664 and \$60,367, respectively.

In addition, the Internal Revenue Code requires that certain minimum distributions be made in accordance with a specified formula. As of September 30, 2008, the Foundation has undistributed income of \$49,900 which is required to be distributed in the year ended September 30, 2009. As of December 31, 2008, this amount had been distributed. The calculation of the minimum distribution amount and any amounts distributed in excess of the minimum are done annually, in conjunction with the preparation of the Foundation's income tax return.

Note 4. Distributable Income

The Board, on an annual basis, determines a grant budget that will equal or exceed the minimum distribution requirement of the Internal Revenue Code applicable to that fiscal year.

Note 5. Grants Payable and Commitments

Grants which have been approved by the Board but not yet disbursed are reported as grants payable. Grants payable totaled \$430,500 and \$132,500 for the years ended September 30, 2008 and 2007, respectively. At September 30, 2007, a grant recipient requested that the terms of a \$25,000 grant be changed. Instead, the Board of Directors requested the repayment of the grant. The repayment was received in October 2007.

THE PARKER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 5. Grants Payable and Commitments (Continued)

Not included in grants payable are specific grants which have been approved by the board but are subject to certain conditions prior to the funds being paid to the intended recipients. As of September 30, 2007, the Foundation had approved \$430,000 of these grants. During the year ended September 30, 2008, the Foundation approved an additional \$172,500 of conditional grants and disbursed \$289,505 of the approved funds for which the conditions were met. The conditions related to \$31,485 in approved conditional grants were not met and the funds were not disbursed. The balance of approved conditional grants as of September 30, 2008 is \$281,510. The board anticipates that the conditions related to these grants will be issued and all funds will be disbursed within the coming year.

Note 6. Significant Concentrations of Credit Risk

The Foundation maintains its cash balances primarily at Union Bank. At September 30, 2008, the Foundation's cash and cash equivalents exceeded federally insured limits by \$981,521. Of these amounts, \$980,197 is invested in brokerage money market accounts.

Note 7. Subsequent Events

On November 11, 2008, the Foundation contributed an additional \$30,000 to the Montauk TriGuard Fund.

On December 10, 2008, the Foundation contributed an additional \$60,000 to the Montauk TriGuard Fund.

In February, 2009, the Directors of L-R Global Fund, Ltd. (the "Fund") notified the Foundation that certain illiquid assets would be removed from the Fund in a compulsory redemption to increase the marketability and long-term viability of the Fund. These assets were to be transferred to a newly created Cayman Islands exempt company, L-R Global Fund II, Ltd. in exchange for 1,264.4738 Class A shares. This transaction was initiated and confirmed on March 1, 2009.

On March 2, 2009, the Foundation invested \$1,000,000 in the York Credit Opportunities Fund.

On March 25, 2009, the Foundation received their final distribution from Westcliff in the full amount of the recorded receivable.

In May, 2009, the Board voted to invest \$750,000 in the Loomis Sayles Investment Grade Bond Fund and \$750,000 in the Loomis Sayles Bond Fund.