

**THE GILROY FOUNDATION**  
(A Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS  
December 31, 2016

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# PATRICIA A. BECKWITH

CERTIFIED PUBLIC ACCOUNTANT



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
The Gilroy Foundation

I have audited the accompanying financial statements of financial position of The Gilroy Foundation (a Nonprofit Public Benefit Corporation) which comprise the statement of financial position as of December 31, 2016 and the related statements 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 the 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.

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 risk 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 entity'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 entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluation 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Gilroy Foundation as of December 31, 2016 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

I have previously audited The Gilroy Foundation's 2015 financial statements, and my report dated January 17, 2017 I expressed an unmodified opinion on those financial statements. In my opinion, the summarized comparative information presented herein as of December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in blue ink that reads "Patricia Bedenth". The signature is written in a cursive style with a large initial 'P'.

Aptos, CA  
January 24, 2018

THE GILROY FOUNDATION  
STATEMENT OF FINANCIAL POSITION  
December 31, 2016

With summarized comparative totals for the year ended December 31, 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 936,759	\$ 1,173,587
Accounts receivable	-	300
Investments	10,896,123	10,922,689
Deposits	3,600	1,600
Property and equipment, net	2,549	2,058
Other	4,674	4,673
	<u>11,843,705</u>	<u>12,104,907</u>
TOTAL ASSETS	\$ 11,843,705	\$ 12,104,907
LIABILITIES		
Accounts payable	\$ 823	\$ 3,391
Accrued expenses	10,615	-
Payroll liabilities	630	1,858
Funds held for others	1,913,469	2,043,840
	<u>1,925,537</u>	<u>2,049,089</u>
TOTAL LIABILITIES	1,925,537	2,049,089
NET ASSETS		
Unrestricted	173,755	167,093
Temporarily restricted, as restated in 2015	9,744,413	9,888,725
	<u>9,918,168</u>	<u>10,055,818</u>
TOTAL NET ASSETS	9,918,168	10,055,818
TOTAL LIABILITIES AND NET ASSETS	\$ 11,843,705	\$ 12,104,907

The notes are an integral part of these financial statements.

THE GILROY FOUNDATION  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
Year Ended December 31, 2016

With summarized comparative totals for the year ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2015
REVENUES, GAINS, AND OTHER SUPPORT					
Contributions	\$ 3,097	\$ 303,151	\$ -	\$ 306,248	\$ 864,415
Investment income	8	63,892	-	63,900	72,303
Change in value	-	522,846	-	522,846	(150,601)
Fundraising events, net	(6,057)	-	-	(6,057)	(742,899)
Support fees	128,460	-	-	128,460	139,779
Net assets released from restriction	1,034,201	(1,034,201)	-	-	-
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	1,159,709	(144,312)	-	1,015,397	182,997
EXPENSES					
Grants and scholarships	759,564	-	-	759,564	624,245
Program and administrative expenses	200,032	-	-	200,032	227,045
Investment expenses	193,451	-	-	193,451	220,913
TOTAL EXPENSES	1,153,047	-	-	1,153,047	1,072,203
CHANGE IN NET ASSETS	6,662	(144,312)	-	(137,650)	(889,206)
NET ASSETS AT BEGINNING OF YEAR	167,093	9,888,725	-	10,055,818	10,945,024
NET ASSETS AT END OF YEAR	\$ 173,755	\$ 9,744,413	\$ -	\$ 9,918,168	\$ 10,055,818

The notes are an integral part of these financial statements.



THE GILROY FOUNDATION  
STATEMENT OF CASH FLOWS  
Year Ended December 31, 2016

With summarized comparative totals for the year ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	2015	2015
Increase in net assets	\$ (137,650)	\$ (889,206)
Prior period adjustment		
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in value of investments	(522,846)	422,397
Depreciation	640	873
(Increase) Decrease in:		
Accounts Receivable	300	51,996
Other	-	(170)
Increase (Decrease) in:		
Accounts Payable	(2,567)	1,342
Accrued Expenses	10,614	(52,736)
Accrued Payroll Expenses	(1,228)	(1,401)
Pass through funds	(130,371)	36,643
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(783,108)	(430,262)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in Community Foundations	547,412	(641,710)
Purchases of Equipment	(1,132)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	546,280	(641,710)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(236,828)	(1,071,972)
 CASH AND CASH EQUIVALENTS, beginning of year	1,173,587	2,245,559
CASH AND CASH EQUIVALENTS, end of year	\$ 936,759	\$ 1,173,587

The notes are an integral part of these financial statements.

THE GILROY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities

The Gilroy Foundation (the "Foundation"), a California nonprofit corporation, was organized in 1992 as a public benefit 501(c)(3) nonprofit corporation and has been determined not to be a private foundation under Section 509(a)(1) of the Internal Revenue Code ("IRC"). The Foundation engages primarily in the administration of funds, which are established by donors who describe either the general or specific purposes for which grants are to be made.

The Foundation's commitment to the community is realized through grant making and scholarships. The endowment is used to fund an annual grant making and scholarship cycle. In addition, the Foundation partners with other local public benefit corporations through projects and offers non-endowed investment funds to benefit those corporations.

Basis of accounting

The Foundation prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

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.

Net assets

*Unrestricted Net Assets*

The portion of net assets that have no use or time restrictions is considered unrestricted net assets. Unrestricted net assets consist primarily of operating reserves, capital assets and general operation support.

*Temporarily Restricted Net Assets*

The portion of net assets that are subject to donor-imposed stipulations which can be fulfilled either by actions of those stipulations and/or expire with the passage of time and subject to the variance power of the Board of Directors. Temporarily restricted net assets consist primarily of temporarily restricted contributions, including non-endowed donor-advised funds, charitable gift annuities, cash surrender value of life insurance, and accumulated earnings on endowed funds. When a purpose restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the unrestricted net assets and reported in the statement of activities as "net assets released from restrictions:

*Permanently Restricted Net Assets*

The portion of net assets consisting of the fair value of the gifts where the donor has specified that the assets donated are to be retained in an endowment, providing a permanent source of revenue for charitable purposes, is considered permanently restricted net assets.

As of December 31, 2016 the Foundation had no permanently restricted net assets.



THE GILROY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Concentration of credit risk

Concentrations of market risks exist for cash and cash equivalents. Cash and cash equivalents are held in major financial institutions and in the regular course of business, the Foundation may maintain operating cash balances at a bank in excess of federally insured limits. The Foundation believes it mitigates risk of concentration by depositing at major financial institutions. The Foundation has not experienced any losses in such accounts.

Contributions and grants

Contributions and grants are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions and grants that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions and grants 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.

Revenue recognition

Revenue resulting from special events, fees charged by the Foundation, refunded grants and other income is recorded when earned.

Funds Held for Others

The Foundation accepts funds from unrelated nonprofit organizations which desire to have the Foundation provide efficient investment management, programmatic expertise and technical assistance. A liability is recorded at the readily determinable estimated fair value of assets deposited with the Foundation by nonprofit organizations.

Fair Value Measurements

The Foundation applies the accounting provisions related to fair value measurements. 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. When determining fair value, the Foundation considers the principal or most advantageous market in which it would transact, and considers assumptions that market participants would use when pricing the asset or liability.

THE GILROY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fair Value Measurements

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

*Level 1:* Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.

*Level 2:* Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

*Level 3:* Unobservable inputs that reflect the Foundation's own assumptions.

Investments

All debt securities and equity securities with readily determinable fair values are carried at fair value based on quoted market prices. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities are calculated on a cost basis. Dividend and interest income are accrued when earned.

Investments are made according to the finance policy adopted by the Foundation's Board of Directors. The guidelines provide for investment in equities, fixed income, and alternative investments.

The following tables present the Foundation's investment assets that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of December 31,

<u>2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Measurements</u>
Investments	<u>\$ 10,896,123</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 10,896,123</u>

<u>2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Measurements</u>
Investments	<u>\$ 10,922,689</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 10,922,689</u>

Investment income was comprised of the following for the year ended December 31,

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 63,900	\$ 72,303
Net realized and unrealized gains (losses)	<u>522,846</u>	<u>(150,601)</u>
Investment income, net	<u>\$ 586,746</u>	<u>\$ (78,298)</u>



THE GILROY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Endowment Funds

The Foundation's endowment funds are comprised of 63 individual funds established for a variety of purposes. The endowment funds are composed of donor-restricted and donor-advised funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of relevant law:* The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Foundation classifies its unrealized losses on donor-restricted endowment funds as temporarily restricted net assets to the extent that such losses reduce the fund balance below the historical gift amount. Any gains in subsequent years will first offset the losses in unrestricted net assets before recording unrealized gains and losses as temporarily restricted net assets.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 are capitalized while expenditures for repairs and maintenance that do not improve or extend the useful lives of respective assets are expensed currently. Property and equipment are carried at cost and depreciated using the straight-line method over the estimated useful lives of the assets ranging from 3-7 years.

Income taxes

The Foundation is a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code and therefore, is generally exempt from both federal and state income taxes, except on net income derived from unrelated business activities.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Foundation to report information regarding its exposure to various tax positions taken. Management has determined whether any tax positions have met the recognition threshold and has measured its exposure to those tax positions. Management believes that the Foundation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities.

THE GILROY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fees charged by the Foundation

The Foundation charges fees to the individual funds for administration costs. For those funds investing in the asset pool, a 1.0% fee is charged each month based on an average daily balance. For the year ended December 31, 2016, the Foundation recorded fees charged by the operating fund to the multiple funds administration fee on a net basis, amounted to \$123,102. The Foundation also charges to the funds held for others and special projects. For the year ended December 31, 2016, the total fees charged for these endeavors were \$5,359.

Restatement of 2015 financial statements

The Foundation recorded a net \$350,425 prior period adjustment to correct classifications of restricted contributions that should have been recorded as funds held for others (as noted in Note 3.) The Foundation recorded changes in beginning temporarily restricted net assets to reclassify 13 non-endowed accounts previously classified as temporarily restricted that are deemed to be unrestricted. Both adjustments have no effect on current year operations.

Subsequent events

Subsequent events have been evaluated through January 24, 2018, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

NOTE 2. PROPERTY AND EQUIPMENT

Property and equipment, net consists of the following at December 31,

	<u>2016</u>	<u>2015</u>
Office equipment	\$ 6,241	\$ 5,110
Office furniture	<u>1,980</u>	<u>1,980</u>
	8,221	7,090
Less: Accumulated depreciation	<u>(5,672)</u>	<u>(5,032)</u>
	<u>\$ 2,549</u>	<u>\$ 2,058</u>

Depreciation expense totaled \$640 and \$873 for the years ended December 31, 2016 and 2015, respectively.

NOTE 3. FUNDS HELD FOR OTHERS

At December 31, 2016 and 2015, the Foundation held 7 and 4 nonprofit funds held for others, respectively, with balances as follows:

	<u>2016</u>	<u>2015</u>
Stewardship funds	<u>\$ 1,913,469</u>	<u>\$ 2,043,840</u>

THE GILROY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 3. FUNDS HELD FOR OTHERS (Continued):

The following table summarized the activity in these funds for the years ended December 31, 2016

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 2,043,840	\$ 1,656,952
Amounts raised in contributions or transferred in	76,380	189,750
Dividend and interest income	14,563	14,226
Fees	(41,105)	(40,256)
Net realized and unrealized gains	120,936	(30,045)
Reclassifications, net	--	350,245
Grants or transferred out	<u>(301,145)</u>	<u>(97,032)</u>
	<u>\$ 1,913,469</u>	<u>\$ 2,043,840</u>

NOTE 4. TEMPORARILY RESTRICTED NET ASSETS

For the year ended December 31, 2016, the changes in temporarily restricted net assets are as follows:

	December 31, 2016 <u>(restated)</u>
Temporarily restricted net assets, beginning of period	\$ 10,238,970
Prior period adjustment	<u>(350,245)</u>
Temporarily restricted balance opening balance, as restated	<u>9,888,725</u>