

THE GILROY FOUNDATION
(A Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS
December 31, 2015

THE GILROY FOUNDATION
(A Nonprofit Public Benefits Corporation)

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT.....	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position.....	3
Statement of Activities and Changes in Net Assets.....	4
Statement of Cash Flows.....	5
NOTES TO FINANCIAL STATEMENTS.....	6-12

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, 2015, 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, 2015 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 2014 financial statements, and my report dated June 3, 2015 I expressed an unmodified opinion on those financial statements. In my opinion, the summarized comparative information presented herein as of December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Aptos, CA
January 17, 2017

THE GILROY FOUNDATION
STATEMENT OF FINANCIAL POSITION
December 31, 2015

With summarized comparative totals for the year ended December 31, 2014

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 1,173,587	\$ 2,245,559
Accounts receivable	300	52,296
Investments	10,922,689	10,703,376
Deposits	1,600	1,600
Property and equipment	2,058	2,931
Other	4,674	4,504
	<hr/>	<hr/>
TOTAL ASSETS	\$ 12,104,907	\$ 13,010,266
	<hr/>	<hr/>
LIABILITIES		
Accounts payable	\$ 3,391	\$ 2,050
Accrued expenses	-	52,736
Payroll liabilities	1,858	3,259
Funds held for others	1,693,595	1,656,952
	<hr/>	<hr/>
TOTAL LIABILITIES	1,698,844	1,714,997
	<hr/>	<hr/>
NET ASSETS		
Unrestricted	167,093	176,994
Temporarily restricted	10,238,970	11,118,275
	<hr/>	<hr/>
TOTAL NET ASSETS	10,406,063	11,295,269
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 12,104,907	\$ 13,010,266
	<hr/>	<hr/>

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, 2015

With summarized comparative totals for the year ended December 31, 2014

	Unrestricted	Temporarily Restricted	Total	2014
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	\$ 5,318	\$ 859,097	\$ 864,415	\$ 489,235
Investment income	360	71,943	72,303	84,705
Change in value	-	(150,601)	(150,601)	421,762
Fundraising events, net	73,639	(816,538)	(742,899)	(1,076,117)
Support fees	139,779	-	139,779	171,189
Net assets released from restriction	843,206	(843,206)	-	
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	1,062,302	(879,305)	182,997	90,774
EXPENSES				
Grants and scholarships	624,245	-	624,245	611,731
Program and administrative expenses	227,045	-	227,045	226,287
Investment expenses	220,913	-	220,913	224,916
TOTAL EXPENSES	1,072,203	-	1,072,203	1,062,934
CHANGE IN NET ASSETS	(9,901)	(879,305)	(889,206)	(972,160)
NET ASSETS AT BEGINNING OF YEAR	176,994	11,118,275	11,295,269	12,267,429
NET ASSETS AT END OF YEAR	<u>\$ 167,093</u>	<u>\$ 10,238,970</u>	<u>\$ 10,406,063</u>	<u>\$ 11,295,269</u>

The notes are an integral part of these financial statements.

THE GILROY FOUNDATION
STATEMENT OF CASH FLOWS
Year Ended December 31, 2015

With summarized comparative totals for the year ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	2015	2014
Increase in net assets	\$ (889,206)	\$ (972,160)
Prior period adjustment		
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in value of investments	422,397	173,199
Depreciation	873	1,075
(Increase) Decrease in:		
Accounts Receivable	51,996	(52,296)
Other	(170)	(144)
Increase (Decrease) in:		
Accounts Payable	1,342	2,050
Accrued Expenses	(52,736)	52,736
Accrued Payroll Expenses	(1,401)	3,853
Pass through funds	36,643	(39,075)
NET CASH PROVIDED BY OPERATING ACTIVITIES	(430,262)	(830,762)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in Community Foundations	(641,710)	2,614,836
NET CASH (USED) BY FINANCING ACTIVITIES	(641,710)	2,614,836
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,071,972)	1,784,074
CASH AND CASH EQUIVALENTS, beginning of year	2,245,559	461,485
CASH AND CASH EQUIVALENTS, end of year	\$ 1,173,587	\$ 2,245,559

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

Since 1980 the Gilroy Foundation, (the Foundation) a nonprofit public benefit corporation designated by the I.R.S. as 501(c)(3), has worked to create opportunities for all Gilroy area residents. The Gilroy Foundation was organized specifically to help meet the needs of the community in the areas of Health, Education, Recreation, Culture and Civic Services. Giving opportunity to individuals, families and corporations, who share a common commitment to the future prosperity and well-being of the community, they come together to build an endowment that will last in perpetuity.

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 and Presentation

The Foundation has prepared their financial statements on the accrual basis of accounting under which revenues are recognized when they are earned and expenses are recognized when the related liability is incurred.

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.

- *Unrestricted Net Assets:* Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets consist primarily of operating reserves, capital assets, and general operating support.
- *Temporarily Restricted Net Assets:* 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, investments in charitable trusts, and accumulated earnings on endowed funds. When a donor 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:* Net assets, including contributions and any portion of investment income and appreciation that may not be spent pursuant to donor-imposed restrictions.

THE GILROY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

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

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less at the date of acquisition to be cash equivalents. The carrying amounts of cash and cash equivalents approximate their fair values.

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 the risk of concentration by depositing at major financial institutions. The Foundation has not experienced any losses in such accounts.

Use of Estimates

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America includes the use of estimates and assumptions that the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

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.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

THE GILROY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

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

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. These funds are similar to restricted purpose and designated funds; however the agency has the option of withdrawing a portion or its entire fund's principal at any time upon written request by the Board of Directors of the nonprofit agency.

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 three-level hierarchy is for the fair value measurements are defined as follows:

- *Level 1:* Valuation is based on observable inputs using quoted prices on active markets for identical assets or liabilities that are accessible at the measurement date.
- *Level 2:* Valuation is based on inputs from sources other than quoted prices in active markets that are either directly or indirectly observable as of the reporting date. This may include quoted prices for similar assets in an active market, quoted prices for similar assets in a market that is not active or valuation methods using models, interest rates and yield curves as observable inputs.
- *Level 3:* Valuation is based on unobservable inputs for the assets, reflecting the Foundation's consideration about the assumptions that a market participant would use in pricing the asset or liability, to the extent that observable inputs (Levels 1 and 2) are not available. Level 3 assets and liabilities include situations where there is little or no market activity for the asset or liabilities, and significant management judgement or estimates are required.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the disclosed level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the item being measured.

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 62 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.

Revenue Recognition

Contributions received are recognized as revenue when received or unconditionally promised. Contributions of assets other than cash are recorded at their fair values. Contributions of public stock are recorded at the high-low average of the quoted price on the date of donation.

Expense Allocation

Expenses relating to more than one function are allocated to program service, general and administrative and fundraising costs based on employee time and expense studies or other appropriate usage factors.

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.

THE GILROY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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

Income Taxes

The Gilroy Foundation is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization on its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three and four years respectively, after they are filed.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform with the 2015 presentation.

Subsequent Events

These financial statements considered subsequent events through January 17, 2017, the date the financial statements were available to be issued.

NOTE 2. INVESTMENTS

The Foundation has entered into an agreement with Silicon Valley Community Foundation (SVCF) to manage, hold in trust, and invest certain assets according to the SVCF's investment policy guideline. The funds are held in investment pools with 80% on long term growth consisting of fixed income, domestic equity, foreign equity, alternative investments in hedged equity, absolute return and real estate asset funds and 20% in capital preservation pools consisting of money market funds and bank certificates of deposit. Under the terms of the agreement, the principal and accumulated income and interest of the funds is at all times owned by the Foundation. In addition, the Foundation's Board of Directors may direct the expenditure of any or all of the principal or income from the fund. Investments with the SVCF are recorded at fair value.

The following tables present the Foundation's assets and liabilities 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>2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Measurements</u>
Investments	\$ 10,922,689	\$ --	\$ --	\$ 10,922,689

THE GILROY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2. INVESTMENTS (Continued)

<u>2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Measurements</u>
Investments	<u>\$ 10,703,376</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 10,703,376</u>

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

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 72,303	\$ 84,705
Net realized and unrealized gains (losses)	<u>(150,601)</u>	<u>427,695</u>
Investment income, net	<u>\$ (78,298)</u>	<u>\$ 512,400</u>

NOTE 3. PROPERTY AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Office equipment	\$ 5,110	\$ 5,110
Office furniture	<u>1,980</u>	<u>1,980</u>
	7,090	7,090
Less: Accumulated depreciation	<u>(5,032)</u>	<u>(4,159)</u>
	<u>\$ 2,058</u>	<u>\$ 2,931</u>

Depreciation expense totaled \$873 and \$1,075 for the years ended December 31, 2015 and 2014, respectively.

NOTE 4. OPERATING LEASE COMMITMENTS

The Organization renewed the office lease for a period of one year due to expire October 31, 2016. Rent expense for the year was \$20,566. The following is a schedule of future minimum payments under the lease at December 31, 2015:

December 31, 2016	<u>\$ 15,820</u>
-------------------	------------------

THE GILROY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 5. FUNDS HELD FOR OTHERS

At December 31, 2015 and 2014, the Foundation held 7 and 4 nonprofit funds held for others, respectively, with balances as follows:

	<u>2015</u>	<u>2014</u>
Stewardship funds	<u>\$ 1,693,595</u>	<u>\$ 1,656,952</u>

The following table summarized the activity in these funds for the years ended December 31, 2015

	<u>2015</u>
Beginning balance	\$ 1,656,952
Amounts raised in contributions or transferred in	189,750
Dividend and interest income	14,226
Fees	(40,256)
Net realized and unrealized gains	(30,045)
Grants	<u>(97,032)</u>
	<u>\$ 1,693,595</u>

NOTE 6. RESTATEMENTS

Temporarily restricted net assets have been adjusted in 2014 to account for the addition of permanently restricted net assets that were previously unrecorded. The adjustment does not affect current year activities.