
**THE GILROY FOUNDATION
(A CALIFORNIA NON-PROFIT ORGANIZATION)**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

THE GILROY FOUNDATION
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	2
Statements of Financial Position	3
Statement of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 11

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Gilroy Foundation

We have audited the accompanying financial statements of The Gilroy Foundation (a California non-profit corporation) which comprise the statements of financial position as of December 31, 2018 and December 31, 2017, the related statements of cash flows for the years then ended, the related statement of activities for the year ended December 31, 2018, 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 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from 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 risks 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, we express no such opinion. An audit also includes evaluating 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Gilroy Foundation as of December 31, 2018 and December 31, 2017, the changes in its cash flows for the years then ended, and the changes in its net assets for the year ended December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Gilroy Foundation's December 31, 2017 financial statements, and our report dated November 14, 2018 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Nichols, Rick + Co.

May 30, 2019

The Gilroy Foundation
Statements of Financial Position
As of December 31, 2018 and December 31, 2017

	2018	2017
<u>ASSETS</u>		
Assets:		
Cash	\$ 1,227,725	\$ 1,256,776
Accounts receivable, net	1,750	-
Investments	10,991,579	12,104,004
Unconditional promises to give:		
Pledges receivable	10,000	15,000
Prepaid expenses	-	300
Total current assets	12,231,054	13,376,080
Pledges receivable, net	14,275	33,125
Fixed assets, net	7,255	1,829
Cash value of life insurance	5,058	4,902
Deposits	2,600	11,100
TOTAL ASSETS	\$ 12,260,242	\$ 13,427,036
 <u>LIABILITIES & NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 2,130	\$ 300
Accrued salaries & vacation	1,155	1,844
Funds held for others	1,768,705	2,263,211
Total current liabilities	1,771,990	2,265,355
Total long term liabilities	-	-
Total liabilities	1,771,990	2,265,355
Net assets:		
Without donor restrictions	272,388	202,543
With donor restrictions	10,215,864	10,959,138
Total net assets	10,488,252	11,161,681
TOTAL LIABILITIES & NET ASSETS	\$ 12,260,242	\$ 13,427,036

The Gilroy Foundation
Statement of Activities
For the Year ended December 31, 2018
with summarized financial information for the year ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	December 31, 2018 Totals	Comparative Summary Totals for the Year ended December 31, 2017
SUPPORT & REVENUE				
Support				
Contributions	\$ 83,807	\$ 1,118,031	\$ 1,201,838	\$ 1,112,624
Special Events, net	51,733	3,003	54,736	109,023
Total support	135,540	1,121,034	1,256,574	1,221,647
Revenue				
Investment Income (Loss), net	(8,072)	(468,364)	(476,436)	1,164,543
Support Fees	172,810		172,810	152,246
Total revenue	164,738	(468,364)	(303,626)	1,316,789
Net assets released from restrictions	1,395,944	(1,395,944)	-	-
TOTAL SUPPORT & REVENUE	1,696,222	(743,274)	952,948	2,538,436
EXPENSES				
Grants and Scholarships	1,397,123		1,397,123	1,080,333
Program and Administrative	229,254		229,254	214,590
TOTAL EXPENSES	1,626,377	-	1,626,377	1,294,923
Change in net assets from operations	69,845	(743,274)	(673,429)	1,243,513
Change in net assets, other	-	-	-	-
Net assets at beginning of year	202,543	10,959,138	11,161,681	9,918,168
Net assets at end of year	\$ 272,388	\$ 10,215,864	\$ 10,488,252	\$ 11,161,681

The Gilroy Foundation
Statements of Cash Flows
For the Years ended December 31, 2018 and December 31, 2017

	2018	2017
Cash flows from operating activities:		
Increase (decrease) in net assets from operations	\$ (673,429)	\$ 1,243,513
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	859	719
Investment management fees deducted	222,916	184,509
Reinvestment of earnings from investments	(714,602)	(872,144)
Unrealized (gain) loss on investments	969,217	(478,426)
Changes in assets & liabilities:		
Decrease (increase) in accounts and pledges receivable	22,100	(48,125)
Decrease (increase) in prepaid expenses	300	(300)
Decrease (increase) in cash value of life insurance	(156)	(228)
Decrease (increase) in deposits	8,500	(7,500)
Increase (decrease) in accounts payables	1,830	(523)
Increase (decrease) in accrued expenses		(10,615)
Increase (decrease) in accrued payroll expenses	(689)	1,214
Net cash provided (used) by operating activities	(163,154)	12,094
Cash flows from investing activities		
Purchase of investments	(483,049)	(319,463)
Proceeds from sale of investments	623,437	627,386
Acquisition of fixed assets	(6,285)	-
Net cash provided (used) by investing activities	134,103	307,923
Net increase (decrease) in cash	(29,051)	320,017
Cash, beginning of year	1,256,776	936,759
Cash, end of year	\$ 1,227,725	\$ 1,256,776

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:				
Interest	\$	0	\$	0
Income taxes	\$	0	\$	0
Supplemental noncash disclosures:				
Original cost of assets disposed of	\$	0	\$	0

THE GILROY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Gilroy Foundation (“Foundation”), is a non-profit California corporation incorporated in June 1981. The Foundation engages primarily in the administration of funds, which are established by donors who describe either the general or specific purpose 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 Presentation

The Foundation is required to report information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and restricted net assets. Unrestricted net assets are defined as that portion of net assets that has no use or time restrictions. Restricted net assets are defined as those that consist of a restriction on a specific use or the occurrence of a certain event. The financial statements of the Foundation are prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recognized when incurred.

Contributions

Contributions are recorded as unrestricted or restricted support depending on the existence or nature of any donor restrictions. In addition, pledges and unconditional promises to give are reported as temporarily restricted support upon date of notification and are then released from restrictions upon satisfaction of the time or use requirements. If a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. As of December 31, 2018, and 2017, the Foundation’s investments consist primarily of accounts maintained within the Silicon Valley Community Foundation investment pool. The Foundation has adopted ASC 820-10-50, *Fair Value Measurements*, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. For its investments, the Foundation utilized Level 1 inputs, consisting of unadjusted quoted prices in active markets for identical assets and having the highest priority. Level 2 and Level 3 inputs were not utilized.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of these instruments.

Grants Receivable

The Foundation considers all grants receivable to be collectible within the next year. Based on historical experience and an analysis of the specific grants, management has determined that no allowance for uncollectible grants receivable is necessary at December 31, 2018 and 2017.

Special Events

Special events benefitting the Foundation directly are reported net of expenses of \$51,733 and \$70,405, for the years ended December 31, 2018 and December 31, 2017, respectively

Income Taxes

The Foundation is exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3), from California income taxes under Section 23701(d) of the California Bank and Corporation Tax Law, and has been determined to be an organization, which is not a private foundation. Management has determined the implementation of ASC-740-10-65 did not have a material impact on its financial statements. Tax returns for the years from 2014 through 2018 remain available for review by the appropriate taxing authorities.

THE GILROY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Indirect Expenses

The Foundation has in place a cost allocation plan employed to allocate indirect expenses to each program on a basis proportionate to the direct staff time or other cost driver used for each program.

Advertising

The Foundation charges all advertising costs incurred to operations as a current expense. For the years ended December 31, 2018 and December 31, 2017 advertising expenses totaled \$4,986 and \$5,596, respectively.

Depreciation

Fixed assets are reported at cost, or donated value, and are depreciated using the straight-line method over the estimated useful lives of the assets, ranging from five to fifteen years. The Foundation's policy is to capitalize fixed asset additions in excess of \$1,000. At December 31, 2018 and December 31, 2017, the cost and related accumulated depreciation for such assets is as follows:

	<u>2018</u>	<u>2017</u>
Computer equipment	\$ 9,455	\$ 6,242
Furniture & equipment	<u>5,052</u>	<u>1,980</u>
	14,507	8,222
less:		
Accumulated depreciation	<u>7,252</u>	<u>6,393</u>
	<u>\$ 7,255</u>	<u>\$ 1,829</u>

Depreciation expense charged for the years ended December 31, 2018 and December 31, 2017 was \$859 and \$719, respectively.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Compensated Absences and Vacations

All eligible employees accrue seven days of annual paid vacation during the first two continual years of service. This amount is increased gradually until a maximum annual accrual is reached of twenty days after ten years. Upon separation, the terminating employee is directly compensated for unused vacation leave.

Donations

All donations are considered to be available for unrestricted use unless specifically restricted by the donor. If applicable, donated rent, food and other goods, and volunteer services are reflected as occupancy or specific assistance cost in the accompanying statement at their estimated fair market value at date of notification. Not recorded in the financial statements are volunteer services failing to meet the criteria established for inclusion as determined by ASC-958-605-50. During the years ended December 31, 2018 and December 31, 2017, approximately 1,000 hours of such volunteer services were provided to the Foundation.

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 years ended December 31, 2018 and 2017, the Foundation recorded fees charged by the operating fund to the multiple funds administration fee on a net basis totaling \$129,173 and \$125,371, respectively. The Foundation also charges to the funds held for others and special projects. For the years ended December 31, 2018 and 2017, the total fees charged to funds held for others and special projects totaled \$43,637 and \$11,875, respectively.

**THE GILROY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Endowment Funds

The Foundation treats as endowment funds approximately 70 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 permanently restricted is classified as restricted 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 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 assets before recording unrealized gains and losses as restricted assets.

Legacies and Bequests

Legacies and bequests may be received by the Foundation under various wills and trust agreements. The amounts are recorded when they have been legally validated.

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.

2. INVESTMENTS:

Investments are presented in the financial statement at fair market value based on the closing stated value published on the public exchanges on December 31, 2018 and 2017. The investments are not insured.

	<u>2018</u>	<u>2017</u>
SV Community Foundation pooled investment fund	<u>\$10,991,579</u>	<u>\$12,104,004</u>

The fair market value of these investments reflects an unrealized gain (loss) of (\$969,217) and \$478,426 as of December 31, 2018 and 2017, respectively. Investment returns are shown net of management fees. Components of investment income are as follows for the years ended:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 53,227	\$ 65,897
Realized gains and losses	662,470	804,729
Unrealized gains and (losses)	(969,217)	478,426
Management fees charged	<u>(222,916)</u>	<u>(184,509)</u>
	<u>(\$476,436)</u>	<u>\$1,164,543</u>

THE GILROY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

3. CASH VALUE OF LIFE INSURANCE OWNED:

The Foundation has a charitable giving program in which the donor requests the Foundation to purchase a life insurance policy on the life of the donor. As of December 31, 2018, the Foundation has one life insurance policy with a total face value of \$10,000. The proceeds are payable to the Foundation upon the death of the insured.

4. PLEDGES RECEIVABLE:

Unconditional promises to give are included in the financial statements as pledges receivable and revenue in the appropriate net asset category. Conditional promises to give are not included as support until such time as the conditions are substantially met. The total amount of pledges receivable at December 31, 2018 is expected to be collected as follows:

Year Ending December 31,	Amount
2019	\$ 10,000
2020	5,000
2021	10,000
Discount at 3%	(725)
Net pledges receivable	\$ 24,275

5. 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 upon receipt by the Foundation. At December 31, 2018 and 2017, the Foundation held six and nine such accounts, with balances of:

	<u>2018</u>	<u>2017</u>
Stewardship funds	<u>\$1,768,705</u>	<u>\$2,263,211</u>

The following table summarizes the activity in these funds for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$2,263,211	\$1,913,469
Contributions and transfers in	316,736	200,050
Dividend and interest income	9,903	14,660
Fees	(40,800)	(37,905)
Net realized and unrealized gains (losses)	(57,464)	289,378
Grants and transfers out	(722,881)	(116,441)
	<u>\$1,768,705</u>	<u>\$2,263,211</u>

**THE GILROY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

6. RESTRICTED NET ASSETS:

As of December 31, 2018, and 2017, the Foundation's restricted net assets consisted of the following:

	<u>2018</u>	<u>2017</u>
<i>Time restrictions-</i>		
Pledges receivable	\$ 24,275	\$ 48,125
<i>Total Time Restrictions</i>	24,275	48,125
<i>Use restrictions-</i>		
Scholarships and program projects	10,191,589	10,911,013
<i>Total Use Restrictions</i>	10,191,589	10,911,013
<i>Total temporarily restricted net assets</i>	<u>\$10,215,864</u>	<u>\$10,959,138</u>

7. NET ASSETS RELEASED FROM RESTRICTIONS:

Restricted net assets were decreased (increased) as a result of the following restriction releases and transfers during the years ended December 31, 2018 and December 31, 2017:

	<u>2018</u>	<u>2017</u>
<i>Time restrictions-</i>		
Pledges receivable	\$ 23,850	\$ -
<i>Total time restrictions</i>	\$ 23,850	\$ -
<i>Use restrictions-</i>		
Scholarships and program projects	1,372,094	1,255,541
<i>Total use restrictions</i>	1,372,094	1,255,541
	<u>\$ 1,395,944</u>	<u>\$ 1,255,541</u>

8. PROGRAMS AND ADMINISTRATIVE EXPENSES BY FUNCTION AND NATURE:

The table below presents program and administrative expenses by both their nature and their function for the years ending December 31, 2018 and December 31, 2017.

	<u>Program</u>	<u>Management and General</u>	<u>Fund Development</u>	<u>Total Expenses as of 12/31/18</u>	<u>Total Expenses as of 12/31/17</u>
Salaries and benefits	13,686	107,649	24,845	146,180	141,619
Occupancy	2,205	17,340	4,002	23,547	23,493
Professional fees		25,336		25,336	17,522
Office Expense	1,028	8,088	1,867	10,983	8,235
Supplies	3,047	1,294	4,409	8,750	9,578
Advertising			4,986	4,986	5,596
Insurance	395	3,109	717	4,221	4,524
Miscellaneous	280	2,177		2,457	896
Postage, printing, and publications	685	250	1,000	1,935	2,408
Depreciation		859		859	719
Total expenses	<u>\$ 21,326</u>	<u>\$ 166,102</u>	<u>\$ 41,826</u>	<u>\$ 229,254</u>	<u>\$ 214,590</u>

**THE GILROY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

9. LEASE COMMITMENTS:

The Foundation is obligated under a month to month lease for a facility located in Gilroy, California. Rent expense for the years ended December 31, 2018 and December 31, 2017 was \$18,984 and \$18,984, respectively. The lease requires a 30 day notice to terminate

10. CONCENTRATIONS, CONTINGENCIES, AND COMMITMENTS:

At times during the fiscal years ended December 31, 2018 and December 31, 2017, the Foundation maintained cash balances in excess of insured levels at financial institutions. As part of its ongoing scholarship programs, the Foundation maintains future conditional commitments approximating \$700,000 as of December 31, 2018. As these commitments are contingent upon continued student academic success, this contingent liability is not recorded in the statement of position. In addition, approximately 60% of the Foundation's operating revenue and support base for the year ended December 31, 2018 was from one of its major donors and related entities. The Foundation, during the normal course of operating its business within the financial industry, may be subject to various lawsuits, licensing reviews, and government audits. Management believes that losses resulting from these types of matters, if any, would either be covered under the Foundation's insurance policy or are immeasurable. Management further believes the losses, if any, would not have a material effect on the financial position of the Foundation.

11. RECENT ACCOUNTING PRONOUNCEMENTS:

During 2018, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities*". This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and related notes. The main provisions of this guidance that have a significant effect on the Foundation's financial statements include: presentation of two classes of net assets versus the previously required three, and reporting investments income net of external and direct internal investment expenses. Implementation of this guidance did not impact the valuation or classification of the Foundation's net assets. The guidance also enhances disclosures for board designated amounts, compositions of net assets with donor restrictions and how the restrictions affect the use of resources, qualitative information and availability of financial assets to meet general expenditures within one year of the balance sheet date, and expenses by both their natural and functional classification, including methods used to allocate costs among program and support functions.

12. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through May 30, 2019, the date on which the financial statements were available to be issued.