

# **BOTHIN** **FOUNDATION**

**Financial Statements**  
**December 31, 2017 and 2016**

**Together with**  
**Independent Auditors' Report**

# **THE BOTHIN FOUNDATION**

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December 31, 2017

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
The Bothin Foundation  
San Francisco, California

We have audited the accompanying financial statements of The Bothin Foundation, (the "Foundation"), a California nonprofit private foundation, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years 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 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.

### **Auditors' Responsibility**

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 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Board of Directors of  
The Bothin Foundation  
San Francisco, California

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Bothin Foundation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Robert Lee + Associates, LLP*

San Jose, California  
September 7, 2018

**THE BOTHIN FOUNDATION**  
**Statements of Financial Position**

	December 31,	
	2017	2016
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 226,528	\$ 226,333
Interest and dividends receivable	48,972	44,173
Prepaid expenses	16,578	17,456
Investments	41,855,838	38,489,762
Total assets	\$ 42,147,916	\$ 38,777,724
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Accounts payable and other accrued expenses	\$ 23,814	\$ 22,499
Deferred excise tax liability	185,000	134,000
Total liabilities	208,814	156,499
Net assets, unrestricted	41,939,102	38,621,225
Total liabilities and net assets	\$ 42,147,916	\$ 38,777,724

The accompanying notes are an integral part of these financial statements

**THE BOTHIN FOUNDATION**  
**Statements of Activities and Changes in Net Assets**

	For the Years Ended December 31,	
	2017	2016
<b><u>REVENUE AND SUPPORT</u></b>		
Dividend income	\$ 908,307	\$ 935,416
Interest income	116,122	134,092
Realized and unrealized gains on investments, net	4,498,543	1,848,897
Other income	1,134	2,353
	5,524,106	2,920,758
Total revenue and support		
Investment related expense	(194,501)	(189,664)
Current excise tax expense	(54,878)	(20,675)
Deferred excise tax expense	(51,000)	(12,000)
	5,223,727	2,698,419
Net revenue and support		
<b><u>EXPENSES</u></b>		
Program services - grants	1,485,776	1,547,842
Management and general	420,074	399,812
	1,905,850	1,947,654
Total expenses		
Change in net assets	3,317,877	750,765
Net assets, unrestricted, beginning of year	38,621,225	37,870,460
Net assets, unrestricted, end of year	\$ 41,939,102	\$ 38,621,225

The accompanying notes are an integral part of these financial statements

**THE BOTHIN FOUNDATION**  
**Statements of Cash Flows**

	For the Years Ended	
	December 31,	
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,317,877	\$ 750,765
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Realized and unrealized gains on investments, net	(4,498,543)	(1,848,897)
Deferred federal excise tax	51,000	12,000
Changes in operating assets and liabilities:		
Receivable from unsettled investment trades, net	-	81,528
Interest and dividends receivable	(4,799)	(5,511)
Prepaid expenses	878	10,579
Accounts payable and other accrued expenses	1,315	573
Net cash used by operating activities	<u>(1,132,272)</u>	<u>(998,963)</u>
Cash flows from investing activities:		
Acquisition of investments	(12,298,604)	(9,473,153)
Proceeds from sales of investments	13,431,071	10,494,789
Net cash provided by investing activities	<u>1,132,467</u>	<u>1,021,636</u>
Increase in cash and cash equivalents	195	22,673
Cash and cash equivalents, beginning of year	<u>226,333</u>	<u>203,660</u>
Cash and cash equivalents, end of year	<u>\$ 226,528</u>	<u>\$ 226,333</u>
<u>Supplemental disclosure of cash flow information</u>		
Cash paid during the year for excise taxes	\$ 54,000	\$ 10,000

The accompanying notes are an integral part of these financial statements

# **THE BOTHIN FOUNDATION**

## **Notes to Financial Statements**

December 31, 2017

### **Note 1 - Organization and operations:**

The Bothin Foundation (the “Foundation”), formerly The Bothin Helping Fund, is a benevolent organization established in 1917 by Henry E. Bothin. The Foundation makes capital grants to organizations providing direct services to disadvantaged children, youth and families, and the disabled. Grants are made exclusively to organizations in San Francisco, Marin, Sonoma, and San Mateo Counties.

### **Note 2 - Summary of significant accounting policies:**

Basis of accounting - The financial statements have been prepared on the accrual basis of accounting which recognizes revenue when earned, expenses when incurred, and reflects all significant receivables, payables, and other liabilities accordingly.

Basis of presentation - The Foundation presents information regarding its financial position and activities according to three classes of net assets: permanently restricted, temporarily restricted, and unrestricted net assets. As of December 31, 2017 and 2016, all of the Foundation’s net assets were unrestricted. Unrestricted net assets have no donor-imposed restrictions and include those revenues and expenses associated with program and supporting services.

Use of estimates - The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent 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 these estimates under different assumptions or conditions.

Revenue recognition - The Foundation does not accept contributions. The only revenue source is investment income which is recognized when earned.

Functional expense allocations - The costs of providing the grant program and supporting services have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated, based on estimates of time and other factors, among the classifications.

Cash and cash equivalents - Cash and cash equivalents consist of cash and money market funds. The Foundation considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. The carrying amount in the statements of financial position approximates fair value.



# **THE BOTHIN FOUNDATION**

## **Notes to Financial Statements**

December 31, 2017

### **Note 2 - Summary of significant accounting policies (continued):**

Prepaid expenses - The Foundation has prepaid expense for insurance and prepaid excise taxes.

Investments - The Foundation invests in marketable securities and money market funds. All debt securities and equity securities are carried at quoted market prices as of the last trading date of the Foundation's fiscal year. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur as part of unrestricted net assets. Realized gains or losses resulting from sales or maturities are the differences between the investment's cost basis and the sale or maturity settlement of the investment. Dividend and interest income are accrued when earned. The Foundation may have risk associated with its concentration of investments in one geographic region and in certain industries.

Accounts payable and other accrued expenses - Accounts payable include the Foundation's trade accounts payable and other liabilities incurred in the normal course of operations.

Grants payable - Grants are made in accordance with the Foundation's mission. Unconditional grants that are expected to be paid after one year are evaluated at a discount rate as determined by the federal interest free rate valid for the year the grant was pledged and are stated at their net present value. Such present value reserves are recorded only if material to the financial statements. Conditional grants are expensed and considered payable in the period the conditions are substantially satisfied. Conditional grants at December 31, 2017 were \$30,000. There were no conditional grants at December 31, 2016.

Concentration of credit risk - Financial instruments that potentially subject the Foundation to credit risk consist primarily of cash and cash equivalents and investments. The Foundation maintains cash and cash equivalents with commercial banks and other major financial institutions. Cash equivalents include overnight investments and money market funds. These accounts are insured up to \$250,000 per depositor by an agency of the federal government. At times, such amounts might exceed Federal Deposit Insurance Corporation ("FDIC") limits. The Foundation monitors these investments and has not experienced significant credit losses. It is the Foundation's opinion that it is not exposed to any significant credit risks.

Fair value of financial instruments - Financial instruments included in the Foundation's statements of financial position as of December 31, 2017 and 2016 include cash and cash equivalents, receivables, prepaid expenses, investments, and accounts payable and other accrued expenses. For cash and cash equivalents, receivables, prepaid expenses, accounts payable and other accrued expenses the carrying amount approximates fair value due to their short maturities. Investments are reflected in the accompanying statements of financial position at their estimated fair values using methodologies described above.

# **THE BOTHIN FOUNDATION**

## **Notes to Financial Statements**

December 31, 2017

### **Note 2 - Summary of significant accounting policies (continued):**

Income taxes - The Foundation has been classified as a privately supported, tax exempt organization and is exempt from federal income and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code and under Section 23701(d) Revenue and Taxation Code, respectively.

Accounting for uncertainty in income taxes - The Foundation evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of December 31, 2017 and 2016 management did not identify any uncertain tax positions.

The Foundation is subject to potential examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and the State of California. The tax years that remain subject to potential examination for the U.S. federal jurisdiction is 2014 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years 2013 and forward.

Recent accounting pronouncements - In August 2016, the Financial Standards Accounting Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14 “Not-for-Profit Entities: Presentation of Financial Statements for Not-for-Profit Entities.” The standard is intended to improve identified issues about the current financial reporting model for not-for-profits. The standard imposes several new requirements related to reporting net asset classes, expenses, including providing information about expenses by their natural classification, and cash flows. The standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. Management has not determined the impact of this pronouncement.

In June 2018, the FASB issued ASU No. 2018-08 “Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.” The new standard provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction based on whether a resource provider is receiving value in return for the resources transferred. Further, the ASU provides additional guidance to help determine whether a contribution is conditional and better distinguish a donor-imposed condition from a donor-imposed restriction. The effective date of this amendment is for fiscal years beginning after December 15, 2019. Early application is permitted. Management has not determined the impact of this pronouncement.

# **THE BOTHIN FOUNDATION**

## **Notes to Financial Statements**

December 31, 2017

### **Note 2 - Summary of significant accounting policies (continued):**

Subsequent events - Subsequent events have been evaluated through the date of the independent auditors' report, which is the date the financial statements were available to be issued and it had been determined that no material subsequent events require an estimate to be recorded or disclosed as of December 31, 2017.

### **Note 3 - Investments:**

The Foundation follows the provisions of the Fair Value Measurements and Disclosure topic of the Financial Accounting Standards Board Accounting Standards Codification. These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of significant unobservable inputs. All investments are at quoted prices in active markets for identical assets (Level 1 inputs) as follows:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Equities and equity funds	\$ 28,654,722	\$ 25,513,746
Fixed income	12,580,988	11,496,841
Cash and cash equivalents	<u>620,128</u>	<u>1,479,175</u>
Total investments	<u>\$ 41,855,838</u>	<u>\$ 38,489,762</u>

The net realized and unrealized gains and losses related to investments consist of the following as of:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Unrealized gains and losses, net	\$ 2,525,292	\$ 603,927
Realized gains and losses, net	<u>1,973,251</u>	<u>1,244,970</u>
	<u>\$ 4,498,543</u>	<u>\$ 1,848,897</u>

# **THE BOTHIN FOUNDATION**

## **Notes to Financial Statements**

December 31, 2017

### **Note 4 - Federal excise taxes and distribution requirements:**

The Foundation qualifies as a tax-exempt organization; however the Foundation is classified as a private foundation and is subject to federal excise tax of 2% of its investment income for tax purposes. In accordance with Internal Revenue Code, the excise tax is reduced to 1% if certain conditions are met. For the year ended December 31, 2017, the Foundation did not meet the specific distribution requirements and the excise taxes for the year were estimated at 2% of net investment income. For the year ended December 31, 2016, the Foundation met the specific distribution requirements and the excise taxes for the year were estimated at 1% of net investment income.

The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, it must distribute within one year after the end of each fiscal year 5% of the fair value of its investment assets, as defined. The investments includable for the 5% distribution requirement are based on the average monthly balance and are exclusive of those investments deemed to be held for charitable activities. In determining qualifying distributions, grant payments are considered on a cash basis and certain expenses are considered as qualifying distributions. The Foundation has undistributed income of approximately \$53,000 at December 31, 2017. The Foundation must distribute this amount by the end of the 2018 tax period to avoid the excise tax on undistributed income.

Deferred federal excise tax arises from timing differences between the cost basis and market value of investments. For the years ended December 31, 2017 and 2016, the Foundation incurred cumulative net unrealized gains which resulted in a deferred excise tax liability.

### **Note 5 - Related-party transactions:**

The Foundation has a management service contract with Pacific Foundation Services, LLC in which one of the program officers and two board members of the Foundation have an ownership interest. The contract provides for program management, grants management and accounting services at an annual cost of approximately \$365,000 and \$353,000 for the years ended December 31, 2017 and 2016, respectively. Consequently, the Foundation does not incur employee, facility, fixed assets or lease costs. This contract is renewed annually. The Foundation's Board periodically reviews the reasonableness of the payments to Pacific Foundation Services, LLC.

The Foundation makes unconditional grants to organizations where members of the Foundation's Board of Directors are also board members of the grantee organizations. There was \$62,000 of related grants identified for the year ended December 31, 2017. There were no related grants identified for the year ended December 31, 2016.