

BOTHIN **FOUNDATION**

Financial Statements
December 31, 2014 and 2013

Together with
Independent Auditors' Report

THE BOTHIN FOUNDATION

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December 31, 2014

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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, 2014 and 2013, 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 audits 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, 2014 and 2013, 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

August 4, 2015

THE BOTHIN FOUNDATION
Statements of Financial Position

	December 31,	
	2014	2013
<u>ASSETS</u>		
Cash and cash equivalents	\$ 229,329	\$ 305,664
Interest and dividends receivable	106,281	97,696
Prepaid expenses	1,487	1,460
Investments	39,810,061	39,512,257
Receivable from unsettled investment trades, net	-	83,396
 Total assets	 \$ 40,147,158	 \$ 40,000,473
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 17,052	\$ 18,363
Payable from unsettled investment trades, net	28,197	-
Grants payable, net	50,000	50,000
Current excise tax payable	2,108	11,100
Deferred excise tax liability	181,000	200,000
 Total liabilities	 278,357	 279,463
 Net assets, unrestricted	 39,868,801	 39,721,010
 Total liabilities and net assets	 \$ 40,147,158	 \$ 40,000,473

The accompanying notes are an integral part of these financial statements

THE BOTHIN FOUNDATION
Statements of Activities and Change in Net Assets

	For the Years Ended	
	December 31,	
	2014	2013
<u>REVENUE AND SUPPORT</u>		
Dividend income	\$ 1,166,399	\$ 844,319
Interest income	342,289	120,004
Net realized gains on investments	1,998,847	2,310,172
Net unrealized gains (losses) on investments	(1,082,143)	4,510,185
Other income	5,016	7,704
	2,430,408	7,792,384
Total revenue and support		
Investment related expense	(238,351)	(223,002)
Current excise tax expense	(64,408)	(59,000)
Change in deferred excise tax expense	7,978	(145,454)
	2,135,627	7,364,928
Net revenue and support		
<u>EXPENSES</u>		
Program services - grants	1,605,946	1,301,578
Management and general	381,891	385,674
	1,987,837	1,687,252
Total expenses		
Change in net assets	147,791	5,677,676
Net assets, unrestricted, beginning of year	39,721,010	34,043,334
Net assets, unrestricted, end of year	\$ 39,868,801	\$ 39,721,010

The accompanying notes are an integral part of these financial statements

THE BOTHIN FOUNDATION
Statements of Cash Flows

	For the Years Ended December 31,	
	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 147,791	\$ 5,677,676
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net realized gains on investments	(1,998,847)	(2,310,172)
Net unrealized (gains) losses on investments	1,082,143	(4,510,185)
Deferred federal excise tax	(19,000)	145,454
Changes in operating assets and liabilities:		
Interest and dividends receivable	(8,585)	3,906
Prepaid expenses	(27)	2,831
Receivable from unsettled investment trades, net	83,396	(83,396)
Payable from unsettled investment trades, net	28,197	-
Accounts payable	(1,311)	(1,521)
Grants payable, net	-	(45,742)
Federal excise tax payable	(8,992)	11,100
Net cash used by operating activities	(695,235)	(1,110,049)
Cash flows from investing activities:		
Acquisition of investments	(12,431,443)	(10,439,451)
Proceeds from sales of investments	13,050,343	11,680,254
Net cash provided by investing activities	618,900	1,240,803
Increase in cash and cash equivalents	(76,335)	130,754
Cash and cash equivalents, beginning of year	305,664	174,910
Cash and cash equivalents, end of year	\$ 229,329	\$ 305,664
<u>Supplemental disclosure of cash flow information</u>		
Cash paid during the year for excise taxes	\$ 73,900	\$ 45,514

The accompanying notes are an integral part of these financial statements

THE BOTHIN FOUNDATION

Notes to Financial Statements

December 31, 2014

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 and expenses when incurred and accordingly, reflect all significant receivables, payables and other liabilities.

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, 2014 and 2013, 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 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 - Since the Foundation does not accept contributions, the only revenue source is from investments which are 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, 2014

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

Prepaid expenses - The Foundation has prepaid expense for membership dues and insurance.

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. Contributions of investments are recorded at quoted market prices at the date of donation and are sold as soon as reasonably possible. 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 - 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. There were no conditional grants at December 31, 2014 and 2013.

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, 2014 and 2013 include cash and cash equivalents, receivables, prepaid expenses, investments, accounts payable and grants payable. For cash and cash equivalents, receivables, prepaid expenses and accounts payable the carrying amount approximates fair value due to their short maturities. Investments and grants payable 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, 2014

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, 2014 and 2013 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 2011 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years 2010 and forward.

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 has been determined that no material subsequent events require an estimate to be recorded or disclosed as of December 31, 2014.

THE BOTHIN FOUNDATION

Notes to Financial Statements

December 31, 2014

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:

	December 31,	
	2014	2013
Equities and equity funds	\$ 28,576,307	\$ 28,862,816
Fixed income	9,667,764	9,068,669
Cash and cash equivalents	1,565,990	1,580,772
Total investments	\$ 39,810,061	\$ 39,512,257

Note 4 - Grants payable:

The Foundation made a multi-year grant during 2009 which has historically been recorded after discounting the future cash flows to present value using a discount rate of 2.25%. The final payment of \$50,000 is expected to be paid in 2015 and no discount has been recorded at December 31, 2014 as management has determined the value is immaterial to the financials.

Note 5 - 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 years ended December 31, 2014 and 2013, the Foundation did not meet the specific distribution requirements and the current excise taxes for the respective years have been estimated at 2% of net investment income.

THE BOTHIN FOUNDATION

Notes to Financial Statements

December 31, 2014

Note 5 - Federal excise taxes and distribution requirements (continued):

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 \$47,000 at December 31, 2014. The Foundation must distribute this amount by the end of the 2015 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, 2014 and 2013, the Foundation incurred cumulative net unrealized gains which resulted in a deferred excise tax liability.

Note 6 - Related party transactions:

The Foundation has a management service contract with Pacific Foundation Services, LLC in which the Executive Director of the Foundation has an ownership interest. The contract provides for residency management, clerical and bookkeeping services at an annual cost of approximately \$340,000 and \$335,000 for the years ended December 31, 2014 and 2013, 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 made unconditional grants to an organization in which a member of the Foundation's Board of Directors is an officer of the organization. The grant expenses for the related organization for the year ended December 31, 2013 was approximately \$34,000. There were no grant expenses to the related organization for the year ended December 31, 2014.