

CALIFORNIA STATE PARKS FOUNDATION

JUNE 30, 2012

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

California State Parks Foundation

Independent Auditors' Report and Financial Statements

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Independent Auditors' Report

THE BOARD OF TRUSTEES
CALIFORNIA STATE PARKS FOUNDATION
San Francisco, California

We have audited the accompanying statement of financial position of **CALIFORNIA STATE PARKS FOUNDATION (the Foundation)** as of June 30, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the Foundation's 2011 financial statements and, in our report dated September 22, 2011, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2012, and the results of its activities and changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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September 21, 2012

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California State Parks Foundation

Statement of Financial Position

<i>June 30, 2012 (with comparative totals for 2011)</i>	2012	2011
Assets		
Cash and cash equivalents	\$ 10,405,081	\$ 8,270,409
Cash and cash equivalents held on behalf of others	1,121,725	1,113,840
Contributions, grants and other receivables	3,001,822	1,027,110
Prepaid expenses and other assets	219,345	234,992
Investments	7,221,079	7,110,711
Planned gifts	699,566	701,674
Property, plant and equipment, net	558,167	618,521
Total assets	\$ 23,226,785	\$ 19,077,257
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,653,669	\$ 611,865
Funds held on behalf of others	1,121,725	1,113,840
Deferred revenue	1,954,022	3,994,420
Deferred rent	410,270	432,785
Liability to beneficiaries of planned gifts	42,017	52,158
Total liabilities	5,181,703	6,205,068
Net Assets:		
Unrestricted	8,598,699	6,698,781
Temporarily restricted	7,453,588	4,168,834
Permanently restricted	1,992,795	2,004,574
Total net assets	18,045,082	12,872,189
Total liabilities and net assets	\$ 23,226,785	\$ 19,077,257

The accompanying notes are an integral part of this statement.

California State Parks Foundation

Statement of Activities

Year Ended June 30, 2012 (with comparative totals for 2011)

	2012				2011 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Revenue and Support:					
Contributions	\$ 2,799,299	\$ 6,858,210		\$ 9,657,509	\$ 5,059,697
Membership dues	5,984,331			5,984,331	4,789,003
Grants and project funding for State Parks	6,058,614			6,058,614	
Donated goods and services	1,134,422			1,134,422	888,790
Bequests	160,278	300,000		460,278	63,539
Investment income, net	269,404	115,352	\$ 4,050	388,806	479,752
Events	113,557	38,560		152,117	291,638
Other income	228,450	20,762		249,212	355,969
Net assets released from restrictions	3,989,220	(3,989,220)			
Total revenues and support	20,737,575	3,343,664	4,050	24,085,289	11,928,388
Expenses:					
Program services	14,748,863			14,748,863	9,040,452
Management and general	1,471,996			1,471,996	1,311,736
Fundraising	2,424,211			2,424,211	1,922,441
Total expenses	18,645,070			18,645,070	12,274,629
Change in Net Assets from Operations	2,092,505	3,343,664	4,050	5,440,219	(346,241)
Other Changes:					
Change in value of planned gifts		19,817		19,817	23,526
Unrealized investment (loss) gains	(192,587)	(78,727)	(15,829)	(287,143)	535,181
Change in Net Assets	1,899,918	3,284,754	(11,779)	5,172,893	212,466
Net Assets - beginning of year	6,698,781	4,168,834	2,004,574	12,872,189	12,659,723
Net Assets - end of year	\$ 8,598,699	\$ 7,453,588	\$ 1,992,795	\$ 18,045,082	\$ 12,872,189

The accompanying notes are an integral part of this statement.

California State Parks Foundation

Statement of Functional Expenses

Year Ended June 30, 2012 (with comparative totals for 2011)

	2012				2011 Total
	Program Services	Management and General	Fund- raising	Total	
Personnel Costs:					
Salaries	\$ 1,000,882	\$ 813,503	\$ 451,438	\$ 2,265,823	\$ 2,000,212
Payroll taxes	70,190	57,035	31,648	158,873	146,715
Employee benefits	148,876	120,974	67,126	336,976	321,378
Total personnel costs	1,219,948	991,512	550,212	2,761,672	2,468,305
Expenses:					
Direct grants	6,717,109			6,717,109	2,097,943
Park policy and advocacy	410,109			410,109	676,309
Membership	1,983,062		344,335	2,327,397	2,265,207
Direct project expense	307,259			307,259	720,408
Postage and delivery	552,047	7,752	261,938	821,737	584,536
Printing	480,057	2,007	355,964	838,028	515,913
Consulting	1,935,852	73,133	548,549	2,557,534	1,207,505
E-Commerce	1,392	12,526	4,798	18,716	34,023
Events	127,349	4,979	113,959	246,287	506,831
Marketing services for State Parks	175,002			175,002	112,939
Public education and promotion	163,750		20,473	184,223	14,110
Rent and relocation	161,547	130,610	72,472	364,629	348,398
Office supplies and expenses	45,041	31,314	17,376	93,731	67,897
Legal and professional fees	14,581	36,360	3,500	54,441	52,895
Communications	163,327	28,472	8,323	200,122	223,486
Travel	68,668	20,852	10,282	99,802	60,341
Computer expenses	92,148	37,654	35,536	165,338	70,058
Telephone	31,211	22,925	12,721	66,857	53,059
Depreciation	49,723	40,404	22,419	112,546	106,983
Insurance	14,213	8,878	4,926	28,017	23,138
Meetings and conferences	11,290	7,216	4,004	22,510	28,328
Repairs and maintenance	5,726	4,653	2,582	12,961	11,579
Development	15,127		29,586	44,713	4,190
Training	162	132	73	367	607
Recruiting	25	10,266		10,291	17,649
Miscellaneous	3,138	351	183	3,672	1,992
Total	\$ 14,748,863	\$ 1,471,996	\$ 2,424,211	\$ 18,645,070	\$ 12,274,629

The accompanying notes are an integral part of this statement.

California State Parks Foundation

Statement of Cash Flows

<i>Year Ended June 30, 2012 (with comparative totals for 2011)</i>	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	\$ 5,172,893	\$ 212,466
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net unrealized/realized loss (gain) on investments	62,999	(840,133)
Planned gifts	(8,033)	(42,054)
Depreciation and amortization	112,546	106,983
Changes in operating assets and liabilities:		
Contributions, grants and other receivables	(1,974,712)	349,827
Prepaid expenses and other assets	15,647	13,659
Accounts payable and accrued expenses	1,041,804	(36,076)
Deferred revenue	(2,040,398)	22,580
Deferred rent	(22,515)	(15,681)
Funds held on behalf of others	7,885	158
Net cash provided (used) by operating activities	2,368,116	(228,271)
Cash Flows from Investing Activities:		
Purchases of investments	(3,357,025)	(4,309,394)
Proceeds from sale of investments	3,183,658	4,353,517
Purchases of property, plant and equipment	(52,192)	(18,838)
Net cash (used) provided by investing activities	(225,559)	25,285
Net Change in Cash and Cash Equivalents	2,142,557	(202,986)
Cash and Cash Equivalents - Beginning of year	9,384,249	9,587,235
Cash and Cash Equivalents - End of year	\$ 11,526,806	\$ 9,384,249

The accompanying notes are an integral part of this statement.

California State Parks Foundation

Notes to Financial Statements

Note 1 - Organization:

California State Parks Foundation (the Foundation) is a nonprofit membership organization, established in 1969, dedicated to protecting, enhancing and advocating for California's magnificent State Parks.

The Foundation raises funds from a diverse base of members and donors to improve and expand park programs and facilities, with special emphasis on environmental education, diversity, volunteerism, and stewardship. Through advocacy, the Foundation educates the public, media and elected officials of the great contributions our 278 State Parks make to the quality of life in California. The preservation of our precious parklands is essential to serving the needs of California's increasingly urbanized population.

The Foundation and its 130,000 members are committed to ensuring that State Parks continue to provide recreation, adventure, renewal and inspiration to all Californians, both now and in the years to come.

The primary sources of the Foundation's support are from membership dues and contributions.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Presentation and Description of Net Assets

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets

The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations. The Board of Trustees has designated \$4,938,037 as a quasi-endowment fund for the long-term investment and future needs of the Foundation.

Temporarily Restricted Net Assets

The portion of net assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation.

Permanently Restricted Net Assets

The portion of net assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

California State Parks Foundation

Notes to Financial Statements

b. Recognition of Revenue

Contributions and grants are recognized at their fair value when the donor/grantor makes an unconditional promise to give to the Foundation. 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. Membership dues are recognized during the applicable membership period.

The Foundation earns unrestricted project revenue which includes grant reimbursements and mitigation funding for State Parks projects. Project revenue is reported when earned based upon the contract terms.

The Foundation is the beneficiary under various wills and trust agreements. Such amounts are recognized in the Foundation's financial statements as bequests receivable and planned gifts when clear title is established and the proceeds are measurable.

c. Donated Goods and Services

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

During the year ended June 30, 2012, the Foundation recorded in-kind donations of \$1,134,422 for membership premiums and professional services. These contributions are reflected in the financial statements as both in-kind donations and expense, and have no effect on the change in net assets for the year ended June 30, 2012.

The Foundation also receives donated services from various media outlets to promote program activities. However, the value of these services is not reflected in these statements because the criteria for recognition have not been satisfied.

d. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. In 2012, the Foundation held \$1,121,725 in cash on behalf of others.

California State Parks Foundation

Notes to Financial Statements

e. Investments

Investments are carried at estimated fair value on the Statement of Financial Position. Stocks, exchange traded funds and mutual funds with readily determinable fair value are reported at estimated fair value based on quoted market prices. Bonds are valued using observable market based inputs or unobservable inputs that are corroborated by market data. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is reflected in the Statement of Activities. Investments received as contributions are recorded at fair market value on the date of receipt.

f. Property, Plant, and Equipment

Property, plant and equipment are recorded at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets which range from 3-10 years. Amortization of leasehold improvements is computed over the life of the related lease. The Foundation's policy is to capitalize property, plant and equipment expenditures or donations greater than \$1,000.

g. Planned Gifts

Planned gifts include the gift annuities, pooled income fund, and various charitable remainder trusts and consist primarily of marketable securities.

Pooled Income Fund

The Foundation recognizes its remainder interest in its pooled income fund as temporarily restricted contribution revenue in the period in which the assets are received from the donor. The assets are invested in a common trust fund with its fair value determined and provided by the bank trust managing the fund. The remainder interest is calculated by taking the fair value of the assets discounted for the estimated period of the donor's life expectancy. The remaining balance which is recorded as liability to beneficiaries of planned gifts (\$42,017 at June 30, 2012) represents the amount of the discount for future interest and is amortized over the expected life of the donor as temporarily restricted net assets using the appropriate discount rate and applicable mortality tables.

Charitable Remainder Trusts

The Foundation has not recorded its beneficial interest in several charitable remainder trusts as sufficient information is not available to value these interests.

The Foundation has been named an irrevocable beneficiary of a charitable remainder trust established by a long-time board member. The portion of the trust attributable to the future interest of the Foundation was recorded in the statement of activities as a temporarily restricted contribution in the year the Foundation was named an irrevocable beneficiary.

California State Parks Foundation

Notes to Financial Statements

Beneficial Interest in Perpetual Trust

The Foundation was named as irrevocable beneficiary of a residual trust under trustee management by a California financial institution. The portion of the trust attributable to the future interest of the Foundation was recorded as permanently restricted revenue at the time of death of the income beneficiary in 1999. The fair value of the Foundation's interest in the trust is measured using the fair value of the assets contributed and held in the trust. The investment income received on the Trust has been designated to support a specific State Park and is recorded as temporarily restricted revenue when earned. Realized and unrealized gains and losses are recorded as changes to permanently restricted assets.

h. Functional Expenses

The costs of providing the various program services and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and support services benefited based on estimates of related efforts or time usage by the Foundation's management.

i. Income Taxes

The Foundation is a tax-exempt organization under the Internal Revenue Code, Section 509(a)(1) under Section 501(c)(3) and related California code sections.

The Foundation follows the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 for accounting for uncertainty in income taxes. Management evaluated the Foundation's tax positions and concluded that the Foundation had maintained its tax exempt status and had not taken uncertain tax positions that required adjustment to the financial statements. With few exceptions, the Foundation is no longer subject to income tax examinations by federal and state authorities for years before 2008 and 2007, respectively.

j. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates based on assumptions. Those estimates affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

California State Parks Foundation

Notes to Financial Statements

k. 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.

The Foundation classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Foundation's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

l. Financial 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2011 from which the summarized information was derived.

m. Subsequent Events

The Foundation has evaluated subsequent events through September 21, 2012, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

n. Recent Accounting Pronouncements

Pronouncements effective in the future:

In May 2011, the FASB issued an update with amendments that change the wording used to describe the requirements in U. S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include clarification of the Board's intent about the application of existing fair value measurement and disclosure requirements and some changes of a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. Some of the disclosures required by the amendments in this update are not required for nonpublic entities. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011 for nonpublic entities. The Foundation is assessing the impact of the adoption of this update on its financial statements, but anticipates the impact to be minor.

California State Parks Foundation

Notes to Financial Statements

Note 3 - Contributions, Grants and Other Receivables:

Contributions, grants and other accounts receivable consist of the following as of June 30:

	2012	2011
Contributions receivable	\$ 1,035,904	\$ 217,888
Grants receivable	1,867,233	795,822
Other receivables	98,685	13,400
Total	\$ 3,001,822	\$ 1,027,110

At June 30, 2012, except for long-term grants receivable of \$400,000, all receivables are expected to be received within one year. A discount to the present value of the long-term receivables was not considered significant to the financial statements. Furthermore, management has determined that all amounts are fully collectible and has not recorded an allowance for uncollectible accounts.

Note 4 - Investments:

The amortized cost and estimated fair values of the major components of investment securities are as follows:

June 30, 2012	Amortized Cost	Fair Value
Cash and cash equivalents	\$ 481,075	\$ 481,075
Stock and other equities	1,883,974	2,090,854
Exchange traded funds – equities	1,252,217	1,353,972
Mutual funds – fixed income	1,198,153	1,298,577
U.S. Treasury securities	498,521	503,249
Government agency bonds	900,017	930,350
Corporate bonds	526,811	563,002
	\$ 6,740,768	\$ 7,221,079

California State Parks Foundation

Notes to Financial Statements

June 30, 2011	Amortized Cost	Fair Value
Cash and cash equivalents	\$ 698,268	\$ 698,268
Stock and other equities	2,380,859	2,719,684
Exchange traded funds – equities	699,267	770,790
Mutual funds – fixed income	1,150,237	1,218,224
U.S. Treasury securities	421,140	420,383
Government agency bonds	704,752	728,656
Corporate bonds	526,811	554,706
	\$ 6,581,334	\$ 7,110,711

Investment income at June 30, 2012 and 2011 include the following:

	2012	2011
Interest and dividends, net of fees	\$ 164,662	\$ 174,800
Realized gains	224,144	304,952
	Investment income 388,806	479,752
	Unrealized (losses) gains (287,143)	535,181
	\$ 101,663	\$ 1,014,933

Total investment income includes endowment and non-endowment investment activities. Investment expenses incurred during the fiscal years ended June 30, 2012 and 2011 of \$57,900 and \$58,653, respectively, are netted against investment income on the Statement of Activities.

California State Parks Foundation

Notes to Financial Statements

Note 5 - Fair Value Measurements:

The table below presents the balances of assets measured at fair value at June 30, 2012 on a recurring basis.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments (see Note 4):				
Cash and cash equivalents	\$ 481,075			\$ 481,075
Stock and other equities	2,090,854			2,090,854
Exchange traded funds-equities	1,353,972			1,353,972
Mutual funds – fixed income		\$ 1,298,577		1,298,577
U.S. Treasury securities	503,249			503,249
Government agency mortgage-backed bonds		930,350		930,350
Corporate bonds		563,002		563,002
	4,429,150	2,791,929		7,221,079
Planned gifts:				
Perpetual trust investments:				
Cash and cash equivalents	8,715			8,715
Mutual funds – stocks	93,074			93,074
Mutual funds – bonds	44,630			44,630
Mutual funds – other	41,103			41,103
Pooled income investment:				
Common trust fund			\$ 246,352	246,352
Charitable trust receivable – outside trustee			265,692	265,692
	187,522		512,044	699,566
Total	\$4,616,672	\$2,791,929	\$ 512,044	\$7,920,645

California State Parks Foundation

Notes to Financial Statements

The table below presents the balances of assets measured at fair value at June 30, 2011 on a recurring basis.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments (see Note 4):				
Cash and cash equivalents	\$ 698,268			\$ 698,268
Stock and other equities	2,719,684			2,719,684
Exchange traded funds-equities	770,790			770,790
Mutual funds – fixed income		\$ 1,218,224		1,218,224
U.S. Treasury securities	420,383			420,383
Government agency mortgage-backed bonds		728,656		728,656
Corporate bonds		554,706		554,706
	4,609,125	2,501,586		7,110,711
Planned gifts:				
Perpetual trust investments:				
Cash and cash equivalents	9,951			9,951
Mutual funds – stocks	76,925			76,925
Mutual funds – bonds	69,259			69,259
Mutual funds – other	43,450			43,450
Pooled income investment:				
Common trust fund			\$ 236,397	236,397
Charitable trust receivable – outside trustee			265,692	265,692
	199,585		502,089	701,674
Total	\$ 4,808,710	\$ 2,501,586	\$ 502,089	\$ 7,812,385

The following is a rollforward of the Level 3 assets as of June 30, 2012:

	<u>Planned gifts</u>	<u>Total</u>
Fair value at June 30, 2011	\$ 502,089	\$ 502,089
Total realized and unrealized gains	23,266	23,266
Payments to beneficiaries	(13,311)	(13,311)
Fair value at June 30, 2012	\$ 512,044	\$ 512,044

California State Parks Foundation

Notes to Financial Statements

Other financial instruments

Financial instruments, which are included in the Statement of Financial Position as of June 30, 2012 but not required to be measured at fair value, consist of cash equivalents, contribution receivables, grant and other receivables, and accounts payable. Their carrying amounts represent a reasonable estimate of the corresponding fair values.

Liability to beneficiaries of planned gifts approximate fair value using methodologies described in Note 2.

Note 6 - Property, Plant and Equipment:

Property, plant and equipment at June 30, 2012 and 2011, consist of the following:

	2012	2011
Furniture and equipment	\$ 321,718	\$ 269,745
Leasehold improvements	815,073	817,237
	<hr/>	<hr/>
Less accumulated depreciation	1,136,791 (578,624)	1,086,982 (468,461)
	<hr/>	<hr/>
	\$ 558,167	\$ 618,521

Note 7 - Line of Credit:

The Foundation entered into a secured line of credit agreement in October 2010 with a financial institution to provide working capital for major facilities projects in State Parks and operating capital. The line provides up to \$1,000,000 at a variable interest at prime. The agreement was subsequently extended to January 2013. The Foundation has not drawn on the line of credit as of June 30, 2012.

California State Parks Foundation

Notes to Financial Statements

Note 8 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes or periods at June 30:

	2012	2011
Planned giving and memorials	\$ 474,942	\$ 532,095
Unappropriated endowment income	355,206	342,291
Program services	6,623,440	3,294,448
	<hr/>	<hr/>
	\$ 7,453,588	\$ 4,168,834

Net assets of \$3,989,220 were released during 2012, in accordance with the donors' intent.

Note 9 - Endowments Funds:

The Foundation's endowments consist of donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Donor-restricted endowment funds are restricted to investment in perpetuity, the income from which is expendable to support programmatic activities of the Foundation. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The State of California adopted a version of the Uniform Prudent Management of Institutional Funds Act as its State Prudent Management of Institutional Funds Act (SPMIFA). The Board of Trustees of the Foundation has interpreted SPMIFA 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 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 organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

California State Parks Foundation

Notes to Financial Statements

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the organization.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. There was no deficiency of this nature as of June 30, 2012.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that will ultimately provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 and other relevant indexes while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return exceeding the CPI rate of inflation. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation is reinvesting all interest and gain associated with its endowments. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average rate exceeding the CPI rate of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

California State Parks Foundation

Notes to Financial Statements

Endowment funds as of June 30, 2012 are as follows:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 355,206	\$ 1,992,795	\$ 2,348,001
Board-designated funds	4,938,037			4,938,037
Total endowment funds	\$ 4,938,037	\$ 355,206	\$ 1,992,795	\$ 7,286,038

Endowment activity by net asset classification as of June 30, 2012:

Endowment net assets, beginning of year	\$ 4,863,100	\$ 342,291	\$ 2,004,574	\$ 7,209,965
Investment return:				
Income	114,821	51,651		166,472
Net realized and unrealized loss	(39,884)	(11,794)	(11,779)	(63,457)
Total investment return	74,937	39,857	(11,779)	103,416
Appropriation of endowment assets for expenditure		(26,942)		(26,942)
Endowment net assets, end of year	\$ 4,938,037	\$ 355,206	\$ 1,992,795	\$ 7,286,038

Note 10 - Joint Costs:

In 2012, the Foundation incurred joint costs of \$4,399,646 for informational materials and activities that included fundraising appeals. Of those costs, \$3,250,823 was allocated to program services and \$1,148,823 was allocated to fundraising in 2012.

California State Parks Foundation

Notes to Financial Statements

Note 11 - Employee Benefit Plan:

The Foundation established a defined contribution retirement plan on July 1, 1997 for all individuals employed as of January 1, 1997. Individuals hired after January 1, 1997 are eligible to participate at the beginning of the calendar quarter after their hire date and are eligible for the Foundation match after one year of service. Part-time employees are not eligible to participate in the plan until they reach 1,000 hours of service for the Foundation.

The Foundation matches up to 7% of the employee's elected deferral amount. Other contributions could be made by the Foundation on behalf of employees on a discretionary basis. Employee contributions are vested 100%. Employer matching contributions are vested immediately. The Foundation made matching contributions of \$95,956 and \$90,624 during the years ended June 30, 2012 and 2011, respectively.

Note 12 - Commitments and Contingencies:

The Foundation currently has an agreement with California Department of Parks and Recreation (CDPR) that allows the Foundation to issue annual and day use passes as part of its membership benefit program through June 2014. The State provides passes to the Foundation at a percentage of their retail price.

Wetlands Restoration Project

The Foundation and CDPR are jointly working on a multi-year wetlands restoration project on State Parks land. The project consisted of two phases. Phase 1 was substantially completed as of June 30, 2012, which cost approximately \$12 million. Phase 2 is in process and will cost approximately \$8 million to \$10 million to complete. The project is funded by various sources including mitigation funds, grants and contributions received by the Foundation. At June 30, 2012, approximately \$1,851,000 included in deferred revenue on the Statement of Financial Position relates to the wetlands restoration project.

Grants

In 2012, the Foundation awarded \$836,000 in operating grants to non-profit organizations and others to operate selected park units slated for closure by the California Department of Parks and Recreation. The payment of the grants was contingent on the organizations receiving an approved operating agreement with the Department. As of June 30, 2012, \$716,000 of those grants were outstanding.

California State Parks Foundation

Notes to Financial Statements

Operating Lease

The Foundation has an operating lease agreement for its headquarters in San Francisco through April 2018, which requires minimum base lease payments. The Foundation also has operating lease agreements for its Los Angeles office through June 2017 and its Sacramento office through May 2018.

The future minimum lease payments under the lease agreements for the offices in San Francisco, Los Angeles and Sacramento are as follow:

Year Ending	
June 30,	
2013	\$ 376,100
2014	391,000
2015	405,600
2016	420,600
2017	435,700
Thereafter	94,200
	<hr/>
	\$ 2,123,200

Rental expense under these agreements for the year ended June 30, 2012 was approximately \$334,000. In 2008, the Foundation received an allowance for tenant improvements from the landlord of its headquarters office in the amount of \$334,520. The Foundation also received seven months of free rent under the lease agreement for a total of approximately \$159,000. The allowance and free rent have been deferred and are recognized over the life of the lease.

Note 13 - Concentration of Credit Risk:

The Foundation has identified its financial instruments which are potentially subject to credit risk. These financial instruments consist principally of cash, investments, receivables and planned gifts.

The Foundation invests its excess cash in cash deposits and money market funds with various financial institutions. Periodically, throughout the year, the Foundation has maintained balances in its bank and investment accounts in excess of federally insured limits.

In order to mitigate credit and market risk, the Foundation maintains a formal investment policy that sets out performance criteria, investment guidelines and requires review of the investment managers' performance. Investments are managed by UBS Private Wealth Services of San Francisco, California.

Assets of the pooled income fund are held by Union Bank of California.

California State Parks Foundation

Notes to Financial Statements

All receivables consist primarily of unsecured amounts due from individuals, foundation and corporate grants and contractual obligations due from governmental agencies as part of the Foundation's programmatic efforts. The credit risk associated with the receivables from individuals is mitigated by the number of individuals and grantors comprising the receivable balance. Management evaluates the collectability of receivables on a regular basis and establishes a reserve, if needed.