

CALIFORNIA STATE PARKS FOUNDATION

JUNE 30, 2016

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

California State Parks Foundation

Independent Auditors' Report and Financial Statements

Independent Auditors' Report	1 - 2
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 20



Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of **CALIFORNIA STATE PARKS FOUNDATION (the Foundation)** which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and 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 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 Foundation as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation's June 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 2, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
January 27, 2017

California State Parks Foundation

Statement of Financial Position

<i>June 30, 2016 (with comparative totals for 2015)</i>	2016	2015
Assets		
Cash and cash equivalents	\$ 7,697,827	\$ 7,500,316
Cash and cash equivalents held on behalf of others	1,053,376	1,050,749
Contributions, grants, and other receivables, net	1,614,924	1,127,531
Inventory	127,993	666,126
Prepaid expenses and other assets	354,699	333,973
Investments	7,790,106	9,062,253
Planned gifts	34,970	114,201
Property, plant, and equipment, net	234,487	308,539
Total assets	\$ 18,908,382	\$ 20,163,688
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,792,449	\$ 1,257,895
Funds held on behalf of others	1,053,376	1,050,749
Line of credit	330,000	590,000
Deferred revenue	1,142,215	1,156,134
Deferred rent	172,387	252,301
Liability to beneficiaries of planned gifts	9,087	16,123
Total liabilities	4,499,514	4,323,202
Net Assets:		
Unrestricted	5,656,373	6,674,228
Temporarily restricted	5,843,721	6,257,484
Permanently restricted	2,908,774	2,908,774
Total net assets	14,408,868	15,840,486
Total liabilities and net assets	\$ 18,908,382	\$ 20,163,688

See accompanying notes to financial statements.

California State Parks Foundation

Statement of Activities

Year Ended June 30, 2016 (with comparative totals for 2015)

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and Support:					
Contributions	\$ 2,531,599	\$ 3,971,479		\$ 6,503,078	\$ 3,939,911
Membership dues	2,353,883			2,353,883	4,124,899
Donated goods and services	376,774			376,774	718,828
Bequests	412,042	64,910		476,952	405,388
Investment income, net	85,926	36,882		122,808	1,300,889
Events					426,122
Other income	105,477	49,524		155,001	127,542
Net assets released from restrictions	4,400,852	(4,400,852)			
Total revenues and support	10,266,553	(278,057)		9,988,496	11,043,579
Expenses:					
Program services	7,947,373			7,947,373	7,349,670
Management and general	811,453			811,453	1,014,034
Fundraising	2,373,879			2,373,879	2,371,815
Total expenses	11,132,705			11,132,705	10,735,519
Change in Net Assets from Operations	(866,152)	(278,057)		(1,144,209)	308,060
Other Changes:					
Change in value of planned gifts		(69,662)		(69,662)	74,948
Unrealized investment loss	(151,703)	(66,044)		(217,747)	(1,286,768)
Change in Net Assets	(1,017,855)	(413,763)		(1,431,618)	(903,760)
Net Assets - Beginning of year	6,674,228	6,257,484	\$ 2,908,774	15,840,486	16,744,246
Net Assets - End of year	\$ 5,656,373	\$ 5,843,721	\$ 2,908,774	\$ 14,408,868	\$ 15,840,486

See accompanying notes to financial statements.

California State Parks Foundation

Statement of Functional Expenses

Year Ended June 30, 2016 (with comparative totals for 2015)

	2016			Total	2015 Total
	Program Services	Management and General	Fund- raising		
Personnel Costs:					
Salaries	\$ 1,104,133	\$ 409,706	\$ 887,200	\$ 2,401,039	\$ 2,218,513
Payroll taxes	77,335	28,804	62,386	168,525	160,958
Employee benefits	155,046	57,995	125,821	338,862	386,159
Total personnel costs	1,336,514	496,505	1,075,407	2,908,426	2,765,630
Expenses:					
Direct grants	2,769,241			2,769,241	879,822
Membership	1,158,144		561,017	1,719,161	2,965,130
Consulting	1,216,180	43,937	142,946	1,403,063	977,290
Computer expenses	198,890	67,609	167,872	434,371	374,669
Rent	177,332	59,322	142,321	378,975	380,220
Direct project expense	239,016			239,016	292,294
Office expenses	86,545	22,777	74,823	184,145	212,771
Printing	117,607	210	53,094	170,911	199,567
Legal and professional fees	118,194	43,400	6,841	168,435	172,895
Depreciation	49,007	18,170	39,378	106,555	110,835
Postage and delivery	90,423	2,215	13,053	105,691	84,989
Events	89,781	892	8,455	99,128	422,186
Public education and promotion	89,046		7,854	96,900	99,438
Travel	47,933	25,677	19,774	93,384	94,376
Telecommunications	39,752	12,887	29,579	82,218	83,831
Park policy and advocacy	79,131			79,131	55,955
Repairs and maintenance	20,479	6,440	13,956	40,875	27,510
Insurance	9,310	11,411	4,612	25,333	25,029
Training	4,545	1,255	10,189	15,989	7,126
Communications	7,002			7,002	13,132
Recruiting	50		50	100	26,161
Forgiveness of debt					426,305
E-Commerce					27,927
Miscellaneous	3,251	(1,254)	2,658	4,655	10,431
Total	\$ 7,947,373	\$ 811,453	\$ 2,373,879	\$ 11,132,705	\$ 10,735,519

See accompanying notes to financial statements.

California State Parks Foundation

Statement of Cash Flows

<i>Year Ended June 30, 2016 (with comparative totals for 2015)</i>	2016	2015
Cash Flows from Operating Activities:		
Change in net assets	\$ (1,431,618)	\$ (903,760)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net unrealized and realized loss on investments	269,311	229,459
Bad debt expense		426,305
Depreciation	106,555	110,835
Discount on pledges receivable	18,947	20,990
Changes in operating assets and liabilities:		
Contributions, grants and other receivables	(506,340)	(793,720)
Inventory	538,133	(666,126)
Planned gifts and liability to beneficiaries	72,195	2,080
Prepaid expenses and other assets	(20,726)	(20,118)
Accounts payable and accrued expenses	534,554	(353,621)
Deferred revenue	(13,919)	(45,091)
Deferred rent	(79,914)	(66,287)
Funds held on behalf of others	2,627	(48,939)
Net cash used in operating activities	(510,195)	(2,107,993)
Cash Flows from Investing Activities:		
Purchases of investments	(4,715,792)	(7,550,140)
Proceeds from sale of investments	5,718,628	8,135,140
Purchases of property, plant and equipment	(32,503)	(16,679)
Payments received on note receivable		290,940
Net cash provided by investing activities	970,333	859,261
Cash Flows from Financing Activities:		
Advances drawn on line of credit		708,000
Repayments on line of credit	(260,000)	(296,000)
Net cash (used in) provided by financing activities	(260,000)	412,000
Net Change in Cash and Cash Equivalents	200,138	(836,732)
Cash and Cash Equivalents - Beginning of year	8,551,065	9,387,797
Cash and Cash Equivalents - End of year	\$ 8,751,203	\$ 8,551,065
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 14,907	\$ 7,408

See accompanying notes to financial statements.

California State Parks Foundation

Notes to Financial Statements

Note 1 - Organization:

California State Parks Foundation (the Foundation) is the only statewide independent nonprofit dedicated to protecting, improving and advocating for California's 279 state parks so that they are available and accessible to all. We achieve lasting benefits for park users by facilitating park maintenance and improvement projects, supporting programs that connect people to parks, and serving as staunch advocates for sound policies and funding for parks.

Our community of park supporters make our work possible through volunteerism, political activism, financial support and local engagement. Together we ensure that the natural beauty, rich culture and history, and recreational and educational opportunities of California's state parks are available to everyone now and for generations 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's financial statements are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) applicable to not-for-profit organizations. The Foundation's financial statements include three categories of net assets as follows:

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 \$4,847,168 as a quasi-endowment fund for the long-term investment and future needs of the Foundation. (See Note 9.)

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, 2016, the Foundation recorded in-kind donations of \$376,774 for membership premiums. 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.

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. The Foundation held \$1,053,376 in cash on behalf of others as of June 30, 2016.

e. Inventory

Inventory consists of passes to state parks, which are reported at the lower of cost or market. Cost is determined by weighted average method.

California State Parks Foundation

Notes to Financial Statements

f. 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.

g. 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 \$2,500.

h. Planned Gifts

Planned gifts include a pooled income fund and various charitable remainder trusts, all of which 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 (\$9,087 at June 30, 2016) 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.

California State Parks Foundation

Notes to Financial Statements

i. Functional Expenses

The costs of providing 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.

j. Income Taxes

The Foundation is a tax-exempt organization under Internal Revenue Code Section 509(a)(1) under Section 501(c)(3) and related California code sections. The Foundation may be subject to tax on unrelated business income. No estimated unrelated business income tax was recorded for the year ended June 30, 2016.

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.

k. Use of Estimates

The preparation of financial statements in conformity with 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.

l. 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.

California State Parks Foundation

Notes to Financial Statements

m. 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2015 from which the summarized information was derived.

n. Subsequent Events

The Foundation has evaluated subsequent events from June 30, 2016 through January 27, 2017, 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.

o. Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

p. Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02 – Leases (Topic 842). The amendments in this update will supersede much of the existing authoritative guidance for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The standard will be effective for the Foundation, since it is not deemed a public business entity, for its fiscal year beginning after December 15, 2019, and for interim periods beginning after December 15, 2020 with early application permitted. Entities are required to use modified retrospective application for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements with the option to elect certain transition reliefs. The Foundation is currently evaluating the impact of this pronouncement on its financial statements.

In August 2016, FASB issued ASU 2016-04 Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities. The amendments in this update are designed to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. Amendments should be applied on a retrospective basis in the year the update is first applied. The Foundation is currently evaluating the impact of this pronouncement on its financial statements.

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, 2016:

Contributions receivable	\$ 308,208
Grants receivable	1,317,496
Other receivables	8,167
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	1,633,871
Less: discount on multi-year pledge	(18,947)
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Total	\$ 1,614,924

Receivables are expected to be collected over the following periods:

Less than one year	\$ 1,483,871
One to five years	100,000
More than five years	50,000
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Total	\$ 1,633,871

Note 4 - Investments:

The amortized cost and estimated fair values of the major components of investment securities as of June 30, 2016 are as follows:

	Amortized Cost	Fair Value
Cash and equivalents	\$ 911,867	\$ 911,867
Stock - international	742,828	711,031
Stock – large cap	1,006,755	1,097,668
Exchange traded funds – global equities	2,818,255	2,845,717
Mutual funds – fixed income	392,634	382,722
U.S. Treasury securities	508,591	524,718
Municipals	301,428	307,125
Government agency mortgage-backed bonds	296,800	300,182
Foreign government bonds	7,174	7,385
Corporate bonds	688,128	701,691
	<hr/>	
	\$ 7,674,460	\$ 7,790,106

California State Parks Foundation

Notes to Financial Statements

Investment income for the year ended June 30, 2016 include the following:

Interest and dividends, net of fees	\$	174,372
Realized losses		(51,564)
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Investment income		122,808
Unrealized losses		(217,747)
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Total investment loss, net	\$	(94,939)

Total investment income and loss include endowment and non-endowment investment activities. Investment expenses incurred during the fiscal year ended June 30, 2016 of \$62,246 are netted against interest and dividends above.

Note 5 - Fair Value Measurements:

The table below presents the balances of assets measured at fair value at June 30, 2016 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 equivalents	\$ 911,867			\$ 911,867
Stock - international	711,031			711,031
Stock - large cap	1,097,668			1,097,668
Exchange traded funds- global equities	2,845,717			2,845,717
Mutual funds-fixed income		\$ 382,722		382,722
U.S. Treasury securities	524,718			524,718
Municipals		307,125		307,125
Government agency mortgage-backed bonds		300,182		300,182
Foreign government bonds		7,385		7,385
Corporate bonds		701,691		701,691
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	6,091,001	1,699,105		7,790,106

California State Parks Foundation

Notes to Financial Statements

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Planned gifts:				
Pooled income investment:				
Cash and cash equivalents	2,000			2,000
Common trust fund			\$ 32,970	32,970
	2,000		32,970	34,970
Total	\$ 6,093,001	\$ 1,699,105	\$ 32,970	\$ 7,825,076

The following is a schedule of Level 3 asset activity for the year ended June 30, 2016:

Fair value at June 30, 2015	\$ 111,716
Payments to beneficiaries	(73,402)
Net realized and unrealized losses	(5,344)
Fair value at June 30, 2016	\$ 32,970

Other financial instruments

The recorded amounts of cash equivalents, receivables and payables represent a reasonable estimate of their fair values. Liability to beneficiaries of planned gifts approximates fair value using methodologies described in Note 2.

Note 6 - Property, Plant and Equipment:

Property, plant and equipment at June 30, 2016 consist of the following:

Furniture and equipment	\$ 400,053
Leasehold improvements	822,023
	1,222,076
<u>Less accumulated depreciation</u>	<u>(987,589)</u>
	<u>\$ 234,487</u>

Depreciation expense amounted to \$106,555 for the year ended June 30, 2016.

California State Parks Foundation

Notes to Financial Statements

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 2017. As of June 30, 2016, the outstanding balance on this line of credit was \$330,000.

Note 8 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes or for future periods at June 30, 2016:

Program services	\$ 5,197,352
Unappropriated endowment income	626,325
Planned giving and memorials	20,044
	<hr/>
	\$ 5,843,721

Temporarily restricted net assets of \$4,400,852 were released during 2016 in accordance with the donors' intentions.

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.

California State Parks Foundation

Notes to Financial Statements

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.

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 a deficiency of \$7,454 of this nature as of June 30, 2016.

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.

California State Parks Foundation

Notes to Financial Statements

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.

Endowment funds as of June 30, 2016 are as follows:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 626,325	\$ 2,908,774	\$ 3,535,099
Board-designated funds	\$ 4,847,168			4,847,168
Total endowment funds	\$ 4,847,168	\$ 626,325	\$ 2,908,774	\$ 8,382,267

California State Parks Foundation

Notes to Financial Statements

Endowment activity by net asset classification for the year ended June 30, 2016 is as follows:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 5,366,618	\$ 762,397	\$ 2,908,774	\$ 9,037,789
Investment return:				
Income	80,848	87,386		168,234
Net realized and unrealized losses	(141,907)	(120,347)		(262,254)
Total investment return	(61,059)	(32,961)		(94,020)
Appropriation for expenditure		(103,111)		(103,111)
Transfer to operating funds	(458,391)			(458,391)
Endowment net assets, end of year	\$ 4,847,168	\$ 626,325	\$ 2,908,774	\$ 8,382,267

Note 10 - Joint Costs:

In 2016, the Foundation incurred joint costs of \$2,350,285 for informational materials and activities that included fundraising appeals. Of those costs, \$1,212,243 was allocated to program services and \$1,138,042 was allocated to fundraising.

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 of 5% 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. 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 \$86,959 during the year ended June 30, 2016.

California State Parks Foundation

Notes to Financial Statements

Note 12 - Commitments and Contingencies:

Wetlands Restoration Project

The Foundation and the California Department of Parks and Recreation (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, 2013, which cost approximately \$12 million. Phase 2 was on hold during the fiscal year ended June 30, 2016 and is expected to 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, 2016, deferred revenue on the Statement of Financial Position relates to the wetlands restoration project.

Operating Leases

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 follows:

Year Ending	
June 30,	
2017	\$ 435,700
2018	276,100
	<hr/>
	\$ 711,800

Rental expense under these agreements for the year ended June 30, 2016 was approximately \$379,000. 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.

California State Parks Foundation

Notes to Financial Statements

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.

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.