

CALIFORNIA STATE PARKS FOUNDATION

JUNE 30, 2017

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

California State Parks Foundation

Independent Auditors' Report and Financial Statements

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A Century Strong

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, 2017, 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, 2017, 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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

HOOD & STRONG LLP

San Francisco, California
May 1, 2018

California State Parks Foundation

Statement of Financial Position

<i>June 30, 2017 (with comparative totals for 2016)</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 8,830,775	\$ 7,697,827
Cash and cash equivalents held on behalf of others	1,031,903	1,053,376
Contributions, grants, and other receivables, net	1,164,363	1,614,924
Inventory	15,503	127,993
Prepaid expenses and other assets	313,105	354,699
Investments	8,068,472	7,790,106
Planned gifts	22,806	34,970
Property, plant, and equipment, net	147,377	234,487
Total assets	\$ 19,594,304	\$ 18,908,382
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,594,276	\$ 1,792,449
Funds held on behalf of others	1,031,903	1,053,376
Line of credit	321,295	330,000
Deferred revenue	1,421,965	1,142,215
Deferred rent	75,267	172,387
Liability to beneficiaries of planned gifts	5,002	9,087
Total liabilities	4,449,708	4,499,514
Net Assets:		
Unrestricted	6,150,941	5,656,373
Temporarily restricted	6,084,881	5,843,721
Permanently restricted	2,908,774	2,908,774
Total net assets	15,144,596	14,408,868
Total liabilities and net assets	\$ 19,594,304	\$ 18,908,382

See accompanying notes to financial statements.

California State Parks Foundation

Statement of Activities

Year Ended June 30, 2017 (with comparative totals for 2016)

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and Support:					
Contributions	\$ 962,651	\$ 739,855		\$ 1,702,506	\$ 5,571,930
Membership dues	3,779,930			3,779,930	3,285,031
Donated goods and services	380,738			380,738	376,774
Bequests	235,638	640,000		875,638	476,952
Investment income, net	185,672	131,333		317,005	122,808
Other income	1,359,912	14,648		1,374,560	155,001
Net assets released from restrictions	1,515,651	(1,515,651)			
Total revenues and support	8,420,192	10,185	-	8,430,377	9,988,496
Expenses:					
Program services	5,797,655			5,797,655	7,947,373
Management and general	692,834			692,834	811,453
Fundraising	1,634,751			1,634,751	2,373,879
Total expenses	8,125,240			8,125,240	11,132,705
Change in Net Assets from Operations	294,952	10,185	-	305,137	(1,144,209)
Other Changes:					
Change in value of planned gifts		1,882		1,882	(69,662)
Unrealized investment gain (loss)	199,616	229,093		428,709	(217,747)
Change in Net Assets	494,568	241,160	-	735,728	(1,431,618)
Net Assets - Beginning of year	5,656,373	5,843,721	\$ 2,908,774	14,408,868	15,840,486
Net Assets - End of year	\$ 6,150,941	\$ 6,084,881	\$ 2,908,774	\$ 15,144,596	\$ 14,408,868

See accompanying notes to financial statements.

California State Parks Foundation

Statement of Functional Expenses

Year Ended June 30, 2017 (with comparative totals for 2016)

	2017			Total	2016 Total
	Program Services	Management and General	Fund- raising		
Personnel Costs:					
Salaries	\$ 953,542	\$ 324,204	\$ 629,338	\$ 1,907,084	\$ 2,401,039
Payroll taxes	68,593	23,321	45,271	137,185	168,525
Employee benefits	112,880	38,361	73,904	225,145	338,862
Total personnel costs	1,135,015	385,886	748,513	2,269,414	2,908,426
Expenses:					
Computer expense	315,538	72,437	74,414	462,389	434,371
Consulting	851,997	78,836	173,463	1,104,296	1,403,063
Depreciation	65,282	17,408	26,113	108,803	106,555
Direct grants	413,532	9,350	-	422,882	2,769,241
Direct project expense	227,176	-	23	227,199	239,016
Events	88,866	7,308	216	96,390	99,128
Insurance	11,922	12,008	3,406	27,336	25,333
Legal fees	141,395	5,890	-	147,285	168,435
Membership	1,680,992	-	422,842	2,103,834	1,719,161
Office expense	154,441	35,519	50,799	240,759	184,145
Park policy and advocacy	91,461	-	-	91,461	79,131
Postage and delivery	33,175	1,379	5,511	40,065	105,691
Printing	86,798	237	12,166	99,201	170,911
Public education and promotion	83,610	-	2,682	86,292	96,900
Recruiting	38,670	2,416	7,251	48,337	100
Rent	251,237	44,997	78,746	374,980	378,975
Repairs and maintenance	22,963	3,973	4,158	31,094	40,875
Telecommunications	44,616	6,332	12,866	63,814	82,218
Travel	44,205	5,245	10,491	59,941	93,384
Miscellaneous	14,764	3,613	1,091	19,468	27,646
Total	\$ 5,797,655	\$ 692,834	\$ 1,634,751	\$ 8,125,240	\$ 11,132,705

See accompanying notes to financial statements.

California State Parks Foundation

Statement of Cash Flows

<i>Year Ended June 30, 2017 (with comparative totals for 2016)</i>	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	\$ 735,728	\$ (1,431,618)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net unrealized and realized (gain) loss on investments	(586,140)	269,311
Depreciation	108,803	106,555
Discount on pledges receivable	9,185	18,947
Changes in operating assets and liabilities:		
Contributions, grants and other receivables	441,376	(506,340)
Inventory	112,490	538,133
Prepaid expenses and other assets	41,594	(20,726)
Planned gifts and liability to beneficiaries	8,079	72,195
Accounts payable and accrued expenses	(198,173)	534,554
Funds held on behalf of others	(21,473)	2,627
Deferred revenue	279,750	(13,919)
Deferred rent	(97,120)	(79,914)
Net cash provided (used) by operating activities	834,099	(510,195)
Cash Flows from Investing Activities:		
Purchases of investments	(3,896,707)	(4,715,792)
Proceeds from sale of investments	4,204,481	5,718,628
Purchases of property, plant and equipment	(21,693)	(32,503)
Net cash provided by investing activities	286,081	970,333
Cash Flows from Financing Activities:		
Advances drawn on line of credit	621,295	
Repayments on line of credit	(630,000)	(260,000)
Net cash used by financing activities	(8,705)	(260,000)
Net Change in Cash and Cash Equivalents	1,111,475	200,138
Cash and Cash Equivalents - Beginning of year	8,751,203	8,551,065
Cash and Cash Equivalents - End of year	\$ 9,862,678	\$ 8,751,203
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 12,148	\$ 14,907

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 the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). 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 reclassified and designated \$5,208,937 as Operating Reserve fund for the future needs of the Foundation. (See Note 9.)

Temporarily Restricted Net Assets

The portion of net assets which 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 which 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, 2017, the Foundation recorded in-kind donations of \$380,738 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 \$1,031,903 in cash on behalf of others as of June 30, 2017.

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 (\$5,002 at June 30, 2017) 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. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses are carried at cost or invoiced amount. As of June 30, 2017, and 2016, accounts payable and accrued expenses largely consist of one grant payable in the amount of \$1,250,000 awarded to Department of Parks and Recreation in relation to an ongoing capital project at Yosemite Slough. This grant was expensed in prior years at the time it was initially awarded. The corresponding cash is recorded for the same amount as deferred revenue as of June 30, 2017 and 2016.

j. 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.

k. 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, 2017.

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.

l. 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.

m. 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.

California State Parks Foundation

Notes to Financial Statements

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.

n. 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, 2016 from which the summarized information was derived.

o. Subsequent Events

The Foundation has evaluated subsequent events from June 30, 2017 through May 1, 2018, the date these financial statements were available to be issued. Except as described in Notes 8 and 12, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

p. Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

q. Recent Accounting Pronouncements

In May 2014, FASB issued Accounting Standard Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Foundation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

California State Parks Foundation

Notes to Financial Statements

In August 2014, FASB issued ASU 2014-15 – Presentation of Financial Statements Going Concern: Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. The Update provides U.S. GAAP guidance on management’s responsibility in evaluating whether there is substantial doubt about an entity’s ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about an entity’s ability to continue as a going concern within one year from the date the financial statements are issued. The amendments in this Update are effective for the annual period ending after December 15, 2016. The Foundation’s adoption of the guidance did not have an impact on the financial statements and disclosures.

In February 2016, FASB issued amendments to ASU 2016-02, Leases (Topic 842). Among other things, lessees will be required to recognize the following for all leases (with exception of short-term leases) at the commencement date: 1) A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Foundation is currently evaluating the guidance and the effect that the updated standard will have 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.

Note 3 - Contributions, Grants and Other Receivables:

Contributions, grants and other accounts receivable consist of the following as of June 30, 2017:

Contributions receivable	\$ 231,000
Other receivables	961,495
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	1,192,495
Less: discount	(28,132)
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Total	\$ 1,164,363

California State Parks Foundation

Notes to Financial Statements

The Foundation, among other parties, was a recipient of settlement proceeds resolving a number of lawsuits and related matters concerning Transportation Corridor Agency's proposal to construct an extension of a road through open space and park lands. The Foundation recognized other income of \$1,330,625 on the Statement of Activities and included \$944,323 in other receivables as of and for the year ended June 30, 2017.

Receivables are expected to be collected over the following periods:

Less than one year	\$ 927,495
One to five years	240,000
More than five years	25,000
Less: discount on multi-year pledge	(28,132)
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Total	\$ 1,164,363

Note 4 - Investments:

At June 30, 2017, the fair market value of investments consists of the following:

Cash and equivalents	\$ 632,212
Equities	4,964,720
Fixed income	2,471,540
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	\$ 8,068,472

Investment income for the year ended June 30, 2017 include the following:

Interest and dividends, net of fees	\$ 159,574
Realized gains	157,431
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Investment income, net	317,005
Unrealized gains	428,709
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Total investment returns	\$ 745,714

Total investment income includes endowment and non-endowment investment activities. Investment expenses incurred during the fiscal year ended June 30, 2017 of \$58,836 are netted against interest and dividends above.

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, 2017 on a recurring basis.

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments (see Note 4):			
Cash and equivalents	\$ 632,212		\$ 632,212
Exchange traded funds - global equities	2,606,322		2,606,322
Equities – large cap	874,807		874,807
Equities – small and mid cap	641,117		641,117
Equities – international and emerging markets	842,474		842,474
Fixed Income			
Asset backed		\$ 167,539	167,539
Corporate bonds and notes		806,628	806,628
Government securities		623,856	623,856
Municipal securities		476,934	476,934
Mutual funds		390,663	390,663
Preferred securities		5,920	5,920
	\$ 5,596,932	\$ 2,471,540	\$ 8,068,472

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.

Planned gifts of \$22,806 consist of a common trust fund, which is measured at fair value using Level 3 inputs as of June 30, 2017.

California State Parks Foundation

Notes to Financial Statements

Note 6 - Property, Plant and Equipment:

Property, plant and equipment at June 30, 2017 consist of the following:

Furniture and equipment	\$ 421,746
Leasehold improvements	822,023
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	1,243,769
Less accumulated depreciation	(1,096,392)
	<hr/>
	\$ 147,377

Depreciation expense amounted to \$108,803 for the year ended June 30, 2017.

Note 7 - Line of Credit:

The Foundation had a line of credit up to \$1,000,000.

In December 2017, the Foundation paid off the outstanding balance on the existing line of credit in the amount of \$415,000, which was funded by a new revolving line of credit established at the same financial institution that is the custodian of the Foundation's investments.

The new revolving line of credit is collateralized by various investments held at the financial institution. The line provides up to \$3,000,000 at a variable interest at LIBOR plus an applicable rate or a fixed interest rate. Interest rate was 3.474% as of June 30, 2017. The agreement expires in December 2018. As of June 30, 2017, the outstanding balance on this line of credit was \$321,295.

Note 8 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes or for future periods at June 30, 2017:

Program services	\$ 5,127,753
Unappropriated endowment income	935,202
Planned giving and memorials	21,926
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	\$ 6,084,881

California State Parks Foundation

Notes to Financial Statements

Temporarily restricted net assets of \$1,515,651 were released during 2017 in accordance with the donors' intentions.

Subsequent to year-end, conditions arose that disabled the Foundation from complying with donor-imposed restrictions for a \$500,000 grant that had been awarded in prior years. At the donor's request, the funds were returned in December 2017. This transaction is not recognized in the financial statements as of June 30, 2017.

Note 9 - Endowments Funds:

The Foundation's endowments consist of donor-restricted endowment funds. 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 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.

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.

California State Parks Foundation

Notes to Financial Statements

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, 2017.

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. 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.

Endowment funds as of June 30, 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 935,202	\$ 2,908,774	\$ 3,843,976
Total endowment funds	\$ 935,202	\$ 2,908,774	\$ 3,843,976

California State Parks Foundation

Notes to Financial Statements

Endowment activity by net asset classification for the year ended June 30, 2017 is as follows:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,847,168	\$ 626,325	\$ 2,908,774	\$ 8,382,267
Investment return:				
Income	82,031	85,472		167,503
Net realized and unrealized gains	279,738	292,210		571,948
Total investment return	361,769	377,682		739,451
Appropriation for expenditure		(84,005)		(84,005)
Contributions		15,200		15,200
Reclassify to Operating Reserve	(5,208,937)			(5,208,937)
Endowment net assets, end of year	\$ -	\$ 935,202	\$ 2,908,774	\$ 3,843,976

Note 10 - Joint Costs:

In 2017, the Foundation incurred joint costs of \$2,781,766 for informational materials and activities that included fundraising appeals. Of those costs, \$1,987,929 was allocated to program services and \$793,837 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 \$64,007 during the year ended June 30, 2017.

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 consists 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, 2017 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, 2017, deferred revenue in the amount of \$1,141,964 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 an operating lease agreement for its Sacramento office through May 2018. The Foundation's operating lease agreement for its Los Angeles office expired in June 2017 and was not renewed.

The future minimum lease payments under the lease agreements for the offices in San Francisco and Sacramento as of June 30, 2017 are as follows:

Year Ending June 30, 2018	\$ 309,033
	<hr/> \$ 309,033 <hr/>

Rental expense under these agreements for the year ended June 30, 2017 was approximately \$375,000. 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.

On December 20, 2017, the Foundation signed a seven-year lease for an office facility in San Francisco commencing after April 1, 2018. First year base rent is approximately \$295,000 and subject to a three percent annual increase during the term of the lease.

California State Parks Foundation

Notes to Financial Statements

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.

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.