

CALIFORNIA STATE PARKS FOUNDATION

JUNE 30, 2019

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, 2019, 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, 2019, 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, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 5, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Effect of Adopting New Accounting Standard

As described in Note 2, the Foundation adopted the Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Accordingly, the accounting change has been retrospectively applied to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to that matter.

HOOD & STRONG LLP

San Francisco, California
June 17, 2020

California State Parks Foundation

Statement of Financial Position

| <i>June 30, 2019 (with comparative totals for 2018)</i> | 2019 | 2018 |
|---|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,120,123 | \$ 7,149,969 |
| Cash and cash equivalents held on behalf of others | 1,037,346 | 1,034,052 |
| Contributions, grants, and other receivables, net | 1,340,272 | 1,263,086 |
| Prepaid expenses and other assets | 260,153 | 260,363 |
| Investments | 13,555,953 | 8,314,979 |
| Planned gifts | | 19,710 |
| Property, plant, and equipment, net | 232,078 | 128,208 |
| Total assets | \$ 17,545,925 | \$ 18,170,367 |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 220,773 | \$ 400,518 |
| Grants payable | 1,740,264 | 1,379,031 |
| Funds held on behalf of others | 1,037,346 | 1,034,052 |
| Liquidity access line | | 340,978 |
| Deferred revenue | 1,381,965 | 381,965 |
| Deferred rent | 102,267 | 46,166 |
| Liability to beneficiaries of planned gifts | | 1,906 |
| Total liabilities | 4,482,615 | 3,584,616 |
| Net Assets: | | |
| Without donor restrictions: | | |
| Undesignated | 1,023,269 | 2,154,377 |
| Board designated operating reserve | 4,317,347 | 4,196,611 |
| Total net assets without donor restrictions | 5,340,616 | 6,350,988 |
| With donor restrictions: | | |
| Time and purpose restrictions | 4,813,920 | 5,325,989 |
| Perpetual restrictions | 2,908,774 | 2,908,774 |
| Total net assets with donor restrictions | 7,722,694 | 8,234,763 |
| Total net assets | 13,063,310 | 14,585,751 |
| Total liabilities and net assets | \$ 17,545,925 | \$ 18,170,367 |

See accompanying notes to financial statements.

California State Parks Foundation

Statement of Activities

Year Ended June 30, 2019 (with comparative totals for 2018)

| | 2019 | | | 2018 Total |
|---|-------------------------------|----------------------------|----------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | |
| Revenue and Support: | | | | |
| Contributions | \$ 2,038,397 | \$ 476,681 | \$ 2,515,078 | \$ 3,513,430 |
| Membership dues | 3,403,738 | | 3,403,738 | 3,545,587 |
| Donated goods and services | 402,589 | | 402,589 | 376,917 |
| Bequests | 648,789 | 547,705 | 1,196,494 | 1,050,664 |
| Investment income, net | 256,023 | 224,314 | 480,337 | 396,721 |
| Other income | 36,346 | 4,237 | 40,583 | 1,117,447 |
| Net assets released from restrictions | 1,892,214 | (1,892,214) | - | - |
| Total revenues and support | 8,678,096 | (639,277) | 8,038,819 | 10,000,766 |
| Expenses: | | | | |
| Program services | 7,248,232 | | 7,248,232 | 7,339,299 |
| Management and general | 836,835 | | 836,835 | 834,428 |
| Fundraising | 1,505,759 | | 1,505,759 | 1,904,724 |
| Total expenses | 9,590,826 | - | 9,590,826 | 10,078,451 |
| Change in Net Assets from Operations | (912,730) | (639,277) | (1,552,007) | (77,685) |
| Other Changes: | | | | |
| Unrealized investment gain (loss) | (97,642) | 127,208 | 29,566 | 18,840 |
| Return of contribution | | | - | (500,000) |
| Change in Net Assets | (1,010,372) | (512,069) | (1,522,441) | (558,845) |
| Net Assets - Beginning of year | 6,350,988 | 8,234,763 | 14,585,751 | 15,144,596 |
| Net Assets - End of year | \$ 5,340,616 | \$ 7,722,694 | \$ 13,063,310 | \$ 14,585,751 |

See accompanying notes to financial statements.

California State Parks Foundation

Statement of Functional Expenses

Year Ended June 30, 2019 (with comparative totals for 2018)

| | 2019 | | | | 2018 Total |
|-----------------------------------|---------------------|---------------------------|---------------------|---------------------|----------------------|
| | Program Services | Management and General | Fund- raising | Total | |
| Personnel Costs: | | | | | |
| Salaries | \$ 1,499,283 | \$ 372,420 | \$ 88,401 | \$ 1,960,104 | \$ 1,867,998 |
| Payroll taxes | 111,115 | 27,601 | 6,552 | 145,268 | 138,016 |
| Employee benefits | 174,604 | 43,130 | 10,238 | 227,972 | 206,845 |
| Total personnel costs | 1,785,002 | 443,151 | 105,191 | 2,333,344 | 2,212,859 |
| Expenses: | | | | | |
| Computer expense | 221,045 | 59,998 | 34,736 | 315,779 | 300,054 |
| Consulting | 154,570 | 134,806 | 124,734 | 414,110 | 334,058 |
| Depreciation and loss on disposal | 43,844 | 11,901 | 6,890 | 62,635 | 116,079 |
| Direct grants | 1,988,448 | 23 | 16,923 | 2,005,394 | 1,134,462 |
| Direct project expense | 663,225 | 20 | 98 | 663,343 | 1,833,138 |
| Events | 80,794 | 6,869 | 18,080 | 105,743 | 88,385 |
| Insurance | 22,379 | 5,463 | 1,297 | 29,139 | 27,105 |
| Legal fees | 73,192 | 8,269 | | 81,461 | 133,979 |
| Membership | 1,244,020 | 111 | 869,604 | 2,113,735 | 2,730,750 |
| Office expense | 139,849 | 37,926 | 21,976 | 199,751 | 288,250 |
| Park policy and advocacy | 53,010 | | | 53,010 | 189,000 |
| Postage and shipping | 344,699 | 587 | 234,793 | 580,079 | 18,653 |
| Printing | 25,752 | 711 | 13,661 | 40,124 | 58,355 |
| Public education and promotion | 31,500 | | 3,470 | 34,970 | 98,030 |
| Recruiting | 662 | 25,073 | 17,243 | 42,978 | 27,539 |
| Rent | 260,026 | 64,610 | 15,332 | 339,968 | 318,619 |
| Repairs and maintenance | 20,518 | 5,097 | 1,210 | 26,825 | 23,136 |
| Telecommunications | 22,267 | 6,044 | 3,499 | 31,810 | 50,795 |
| Travel | 50,456 | 21,941 | 11,404 | 83,801 | 71,977 |
| Miscellaneous | 22,974 | 4,235 | 5,618 | 32,827 | 23,228 |
| Total | \$ 7,248,232 | \$ 836,835 | \$ 1,505,759 | \$ 9,590,826 | \$ 10,078,451 |

See accompanying notes to financial statements.

California State Parks Foundation

Statement of Cash Flows

| <i>Year Ended June 30, 2019 (with comparative totals for 2018)</i> | 2019 | 2018 |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Change in net assets | \$ (1,522,441) | \$ (558,845) |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | | |
| Net unrealized and realized gain on investments | (239,523) | (221,073) |
| Depreciation | 40,104 | 85,062 |
| Loss on disposal of property and equipment | 22,531 | 31,017 |
| Discount on pledges receivable | (20,507) | |
| Changes in operating assets and liabilities: | | |
| Contributions, grants and other receivables | (56,679) | (98,723) |
| Prepaid expenses and other assets | 210 | 68,245 |
| Planned gifts and liability to beneficiaries | 17,804 | |
| Accounts payable and accrued expenses | (179,745) | 56,242 |
| Grants payable | 361,233 | 129,031 |
| Funds held on behalf of others | 3,294 | 2,149 |
| Deferred revenue | 1,000,000 | (1,040,000) |
| Deferred rent | 56,101 | (29,101) |
| Net cash used by operating activities | (517,618) | (1,575,996) |
| Cash Flows from Investing Activities: | | |
| Purchases of investments | (9,489,875) | (2,922,119) |
| Proceeds from sale of investments | 4,488,424 | 2,896,685 |
| Purchases of property, plant and equipment | (166,505) | (96,910) |
| Net cash used by investing activities | (5,167,956) | (122,344) |
| Cash Flows from Financing Activities: | | |
| Advances drawn on line of credit | 204,544 | 960,033 |
| Repayments on line of credit | (545,522) | (940,350) |
| Net cash (used) provided by financing activities | (340,978) | 19,683 |
| Net Change in Cash and Cash Equivalents | (6,026,552) | (1,678,657) |
| Cash and Cash Equivalents - Beginning of year | 8,184,021 | 9,862,678 |
| Cash and Cash Equivalents - End of year | \$ 2,157,469 | \$ 8,184,021 |
| Supplemental Cash Flow Information: | | |
| Cash paid for interest | \$ 6,254 | \$ 19,685 |

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 280 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 two categories of net assets as follows:

Without Donor Restrictions

The portion of net assets that is not limited by donor-imposed stipulations. Net assets without donor restrictions include an operating reserve designated by the Board in the amount of \$4,317,347 as of June 30, 2019.

With Donor Restrictions

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. Other donor-imposed restrictions are perpetual in nature where the donor stipulates that the principal be invested in perpetuity. Expenditures in earnings are made in accordance with donors' stipulations and the Foundation's spending policy.

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. Contributions and grants with donor restrictions are reported accordingly as increases in net assets with donor restrictions on the Statement of Activities. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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, 2019, the Foundation recorded in-kind donations of \$402,589 for membership premiums and donated 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.

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 \$1,037,346 in cash on behalf of others as of June 30, 2019.

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.

California State Parks Foundation

Notes to Financial Statements

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 \$2,500.

g. Grants

Grants in the amount of \$2,005,394 for the year ended June 30, 2019 were unconditional in nature and were recorded at the time they were approved and expected to be paid within the next fiscal year. As of June 30, 2019, grants payable 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. There were no conditional grants as of June 30, 2019.

h. 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.

i. 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, 2019.

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.

j. 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.

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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2018 from which the summarized information was derived.

m. Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

n. Subsequent Events

The Foundation has evaluated subsequent events from June 30, 2019 through June 17, 2020, the date these financial statements were available to be issued. Except as described below and in Note 8, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

The recent effects of the outbreak of Coronavirus (COVID-19) has resulted in significant volatility in the economies and financial markets of many countries and affecting the operations of the Foundation. In April 2020, the Foundation has applied and received \$379,686 under the Paycheck Protection Program from the CARES Act. The Foundation also made the necessary headcount reduction and budget cuts as a result of COVID-19.

California State Parks Foundation

Notes to Financial Statements

o. Recent Accounting Pronouncements

Pronouncement adopted:

In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14 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 adopted this ASU as of July 1, 2018. Accordingly, the accounting change has been retrospectively applied to all periods presented.

Pronouncements effective in the future:

In May 2014, FASB issued 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. The updated standard will be effective for annual reporting periods beginning after December 15, 2019. The Foundation is currently evaluating the effect that the updated standard will have on its financial statements.

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, 2021. Early adoption is permitted. The Foundation is currently evaluating the impact that ASU 2016-02 will have on its financial statements.

California State Parks Foundation

Notes to Financial Statements

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). The ASU clarifies and improves current guidance about whether a transfer of assets is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The amendments in this ASU related to contributions received are effective for the fiscal year ending June 30, 2020, while the amendments related to contributions made are effective one year later. The Foundation is currently evaluating the impact that ASU 2018-08 will have 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, 2019:

| | |
|--------------------------|--------------|
| Contributions receivable | \$ 157,131 |
| Other receivables | 1,190,766 |
| | <hr/> |
| | 1,347,897 |
| Less: discount | (7,625) |
| | <hr/> |
| Total | \$ 1,340,272 |

The Foundation was the recipient of settlement proceeds resolving a lawsuit related to matters concerning environmental cleanup of California state beaches. As a result, the Foundation recognized deferred revenue and other receivables in the amount of \$1,000,000 as of June 30, 2019.

Receivables are expected to be collected over the following periods:

| | |
|-------------------------------------|--------------|
| Less than one year | \$ 622,897 |
| One to five years | 725,000 |
| Less: discount on multi-year pledge | (7,625) |
| | <hr/> |
| Total | \$ 1,340,272 |

California State Parks Foundation

Notes to Financial Statements

Note 4 - Investments:

At June 30, 2019, the fair market value of investments consists of the following:

| | |
|----------------------|---------------|
| Cash and equivalents | \$ 111,795 |
| Equities | 4,268,779 |
| Fixed income | 8,959,289 |
| Alternatives | 216,090 |
| | <hr/> |
| | \$ 13,555,953 |

Investment income for the year ended June 30, 2019 includes the following:

| | |
|-------------------------------------|------------|
| Interest and dividends, net of fees | \$ 270,380 |
| Realized gains | 209,957 |
| | <hr/> |
| Investment income, net | 480,337 |
| Unrealized gains | 29,566 |
| | <hr/> |
| Total investment returns | \$ 509,903 |

Total investment income includes endowment and non-endowment investment activities. Investment expenses incurred during the fiscal year ended June 30, 2019 of \$45,916 are netted against interest and dividends above.

Investments in the amount of \$3,534,048 are pledged as collateral to the liquidity access line described in Note 7.

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, 2019 on a recurring basis.

| | <u>Level 1</u> | <u>Level 2</u> | <u>Total</u> |
|---|----------------|----------------|---------------|
| Investments (see Note 4): | | | |
| Cash and equivalents | \$ 111,795 | | \$ 111,795 |
| Exchange traded funds – global equities | 855,939 | | 855,939 |
| Equities – large cap | 984,778 | | 984,778 |
| Equities – small and mid cap | 336,363 | | 336,363 |
| Equities – international and emerging markets | 2,091,699 | | 2,091,699 |
| Fixed Income: | | | |
| Corporate bonds and notes | | \$ 920,092 | 920,092 |
| Government securities | | 1,336,525 | 1,336,525 |
| Municipal securities | | 378,642 | 378,642 |
| Mutual funds | | 6,297,279 | 6,297,279 |
| Preferred securities | | 26,751 | 26,751 |
| Alternatives | | 216,090 | 216,090 |
| | \$ 4,380,574 | \$ 9,175,379 | \$ 13,555,953 |

Other financial instruments

The recorded amounts of cash equivalents, receivables and payables represent a reasonable estimate of their fair values.

Note 6 - Property, Plant and Equipment:

Property, plant and equipment at June 30, 2019 consist of the following:

| | |
|-------------------------------|-------------------|
| Furniture and equipment | \$ 168,245 |
| Software development costs | 149,983 |
| Less accumulated depreciation | (86,150) |
| | <u>\$ 232,078</u> |

Depreciation expense amounted to \$40,104 for the year ended June 30, 2019.

California State Parks Foundation

Notes to Financial Statements

Note 7 - Liquidity Access Line:

The Foundation has a liquidity access line that is collateralized by various investments held with the same financial institution. The line provides up to \$1,500,000 at a variable interest rate at LIBOR plus an applicable rate or fixed interest rate. Interest rate was 3.65% as of June 30, 2019. As of June 30, 2019, there was no outstanding balance on this liquidity access line.

Note 8 - Net Assets With Donor Restrictions:

Net assets with donor restrictions are available for the following purposes at June 30, 2019:

Time and purpose restrictions:

| | |
|---------------------------------|--------------|
| Program services | \$ 3,596,922 |
| Unappropriated endowment income | 1,195,953 |
| Planned giving and memorials | 21,045 |

| | |
|-------------------------------------|-----------|
| Total time and purpose restrictions | 4,813,920 |
|-------------------------------------|-----------|

Perpetual restrictions:

| | |
|-----------|-----------|
| Endowment | 2,908,774 |
|-----------|-----------|

| | |
|------------------------------|-----------|
| Total perpetual restrictions | 2,908,774 |
|------------------------------|-----------|

| | |
|--|--------------|
| Total net assets with donor restrictions | \$ 7,722,694 |
|--|--------------|

Net assets with donor restrictions of \$1,892,214 were released during 2019 in accordance with the donors' intentions.

Subsequent to year-end, conditions arose that prevented the Foundation from complying with donor-imposed restrictions for a \$611,000 grant that had been awarded in prior years. In February 2020, the Foundation returned the funds back to the donor.

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.

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 net assets with donor restrictions in perpetuity (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 net assets with donor restrictions in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation 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 Foundation 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 Foundation, and (7) the investment policies of the Foundation.

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, 2019.

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.

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, 2019 are as follows:

| | <u>With Donor Restrictions</u> | | |
|----------------------------------|--------------------------------|---------------------|---------------------|
| | Time and Purpose | Perpetuity | Total |
| Donor-restricted endowment funds | \$ 1,195,953 | \$ 2,908,774 | \$ 4,104,727 |
| <u>Total endowment funds</u> | <u>\$ 1,195,953</u> | <u>\$ 2,908,774</u> | <u>\$ 4,104,727</u> |

California State Parks Foundation

Notes to Financial Statements

Endowment activity by net asset classification for the year ended June 30, 2019 is as follows:

| | <u>With Donor Restrictions</u> | | Total |
|--|--------------------------------|--------------|---------------|
| | Time and Purpose | Perpetuity | |
| Endowment net assets, beginning of year | \$ 1,007,260 | \$ 2,908,774 | \$ 3,916,034 |
| Investment return: | | | |
| Income | 87,331 | | 87,331 |
| Net realized and unrealized gains | 192,346 | | 192,346 |
| <hr/> Total investment return | <hr/> 279,677 | | <hr/> 279,677 |
| Appropriation for expenditure | (90,984) | | (90,984) |
| Endowment net assets, end of year | \$ 1,195,953 | \$ 2,908,774 | \$ 4,104,727 |

Note 10 - Joint Costs:

In 2019, the Foundation incurred joint costs of \$3,555,813 for informational materials and activities that included fundraising appeals. Of those costs, \$2,146,318 was allocated to program services and \$1,409,495 was allocated to fundraising.

Note 11 - Employee Benefit Plan:

The Foundation established a 401(k) 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 and employer matching contributions vest immediately. The Foundation made matching contributions of \$67,218 during the year ended June 30, 2019.

California State Parks Foundation

Notes to Financial Statements

Note 12 - Commitments and Contingencies:

Operating Leases

The Foundation has an operating lease for its main office in San Francisco through March 2025, which requires minimum base lease payments. The Foundation also has an operating lease agreement for its Sacramento office through May 2023.

The future minimum lease payments under the lease agreements for the offices in San Francisco and Sacramento as of June 30, 2019 are as follows:

| | |
|-------------|--------------|
| Year Ending | |
| June 30, | |
| 2020 | \$ 345,900 |
| 2021 | 355,159 |
| 2022 | 365,593 |
| 2023 | 371,876 |
| 2024 | 344,000 |
| Thereafter | 263,761 |
| | <hr/> |
| | \$ 2,046,289 |

Rental expense under these agreements for the year ended June 30, 2019 was \$339,968.

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 and receivables.

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 Morgan Stanley Private Wealth Management of San Francisco, 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.

California State Parks Foundation

Notes to Financial Statements

Note 14 - Availability and Liquidity:

As of June 30, 2019, the Foundation's financial assets available within one year for general expenditures are as follows:

| | |
|--|--------------|
| Financial assets: | |
| Cash and cash equivalents | \$ 1,120,123 |
| Cash and cash equivalents held on behalf of others | 1,037,346 |
| Contributions, grants, and other receivables, net | 1,340,272 |
| Investments | 13,555,953 |
| | <hr/> |
| | 17,053,694 |
| | <hr/> |
| Less amounts not available to be used within one year: | |
| Funds held for others | (1,037,346) |
| Long term receivables | (725,000) |
| Net assets with donor restrictions | (7,722,694) |
| Board designated reserve | (4,317,347) |
| | <hr/> |
| Financial assets available to meet general expenditures within one year | \$ 3,251,307 |

The Foundation has a \$1,500,000 line of credit as described in Note 7. Additionally, the Board designated reserve of \$4,317,347 can be made available at the Board's discretion.