



CALIFORNIA  
HISTORICAL  
SOCIETY since 1871

# CALIFORNIA HISTORICAL SOCIETY

*Financial Statements*

*June 30, 2015 and 2014*

# CALIFORNIA HISTORICAL SOCIETY

(A California Not-For-Profit Corporation)  
June 30, 2015

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## INDEPENDENT AUDITORS' REPORT

### **The Board of Trustees California Historical Society**

We have audited the accompanying financial statements of California Historical Society (a California nonprofit organization) which comprise the statements of financial position as of June 30, 2015 and 2014 and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 California Historical Society as of June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Danville, California  
November 12, 2015*

**CALIFORNIA HISTORICAL SOCIETY**

**Statement of Financial Position**

**June 30, 2015**

*(with Summarized Financial Information for the Year Ended June 30, 2014)*

	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>2015 Total</b>	<b>2014 Total</b>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 139,064	\$ -	\$ -	\$ 139,064	\$ 30,952
Grants and accounts receivable	300	149,687	-	149,987	251,600
Prepaid expenses and other assets	27,977	-	-	27,977	34,948
<b>Total current assets</b>	<b>167,341</b>	<b>149,687</b>	<b>-</b>	<b>317,028</b>	<b>317,500</b>
Noncurrent assets:					
Investments and restricted cash	-	-	2,676,025	2,676,025	3,789,146
Interfund borrowings	(1,033,214)	464,334	568,880	-	-
Note receivable	803,051	-	-	803,051	-
Collections (Notes 2 and 10)	-	-	-	-	-
Property and equipment, net	1,980,623	-	-	1,980,623	2,136,839
<b>Total noncurrent assets</b>	<b>1,750,460</b>	<b>464,334</b>	<b>3,244,905</b>	<b>5,459,699</b>	<b>5,925,985</b>
<b>Total assets</b>	<b>\$1,917,801</b>	<b>\$ 614,021</b>	<b>\$ 3,244,905</b>	<b>\$ 5,776,727</b>	<b>\$6,243,485</b>
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 202,661	\$ -	\$ -	\$ 202,661	\$ 312,509
Deferred revenue	803,551	-	-	803,551	9,812
Line of credit	150,000	-	-	150,000	-
<b>Total liabilities</b>	<b>1,156,212</b>	<b>-</b>	<b>-</b>	<b>1,156,212</b>	<b>322,321</b>
Net assets:					
Unrestricted	761,589	-	-	761,589	2,027,888
Temporarily restricted	-	614,021	-	614,021	648,371
Permanently restricted	-	-	3,244,905	3,244,905	3,244,905
<b>Total net assets</b>	<b>761,589</b>	<b>614,021</b>	<b>3,244,905</b>	<b>4,620,515</b>	<b>5,921,164</b>
<b>Total liabilities and net assets</b>	<b>\$1,917,801</b>	<b>\$ 614,021</b>	<b>\$ 3,244,905</b>	<b>\$ 5,776,727</b>	<b>\$6,243,485</b>

**CALIFORNIA HISTORICAL SOCIETY**

**Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2015**

*(with Summarized Financial Information for the Year Ended June 30, 2014)*

<i>Changes in net assets:</i>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>2015 Total</b>	<b>2014 Total</b>
	<b>Net Assets</b>	<b>Net Assets</b>	<b>Net Assets</b>		
<b>Revenue and support:</b>					
Memberships and annual fund	\$ 223,600	\$ -	\$ -	\$ 223,600	\$ 222,015
Programs and activities	69,152	-	-	69,152	70,178
Contributions, grants and bequests	828,835	176,736	-	1,005,571	1,182,017
Endowment income appropriated	188,175	-	-	188,175	188,482
Merchandise sales	90,601	-	-	90,601	31,552
Collection sharing	200,000	-	-	200,000	200,000
Rentals, royalties, and other revenue	549,751	-	-	549,751	27,780
Total unrestricted revenue	<u>2,150,114</u>	<u>176,736</u>	<u>-</u>	<u>2,326,850</u>	<u>1,922,024</u>
<b>Net assets released from restrictions and other transfers:</b>					
Funds released for program activities	211,086	(211,086)	-	-	-
Total revenue and support	<u>2,361,200</u>	<u>(34,350)</u>	<u>-</u>	<u>2,326,850</u>	<u>1,922,024</u>
<b>Expenses:</b>					
Program services:					
Programs and activities	2,110,563	-	-	2,110,563	1,494,150
Management and general	865,841	-	-	865,841	718,940
Fundraising and development	356,038	-	-	356,038	220,343
Total expenses excluding depreciation	<u>3,332,442</u>	<u>-</u>	<u>-</u>	<u>3,332,442</u>	<u>2,433,433</u>
<b>Increase (decrease) in net assets</b>					
before endowment investment					
income and depreciation	(971,242)	(34,350)	-	(1,005,592)	(511,409)
Investment interest and dividends	-	-	93,010	93,010	98,592
Realized gain on investments	-	-	204,549	204,549	37,731
Unrealized gains (losses) on investments	(135,581)	-	(109,384)	(244,965)	440,487
Total investment return	<u>(135,581)</u>	<u>-</u>	<u>188,175</u>	<u>52,594</u>	<u>576,810</u>
Appropriation of endowment assets for					
expenditure (net of other transfers)	-	-	(188,175)	(188,175)	(188,482)
Endowment investment income, net	(135,581)	-	-	(135,581)	388,328
Depreciation	(159,476)	-	-	(159,476)	(162,181)
Decrease in net assets	<u>(1,266,299)</u>	<u>(34,350)</u>	<u>-</u>	<u>(1,300,649)</u>	<u>(285,262)</u>
Net assets at beginning of year	2,027,888	648,371	3,244,905	5,921,164	6,206,426
Net assets at end of year	<u>\$ 761,589</u>	<u>\$ 614,021</u>	<u>\$ 3,244,905</u>	<u>\$ 4,620,515</u>	<u>\$ 5,921,164</u>

**CALIFORNIA HISTORICAL SOCIETY**

**Statements of Cash Flows  
Years Ended June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<i>Operating activities:</i>		
Decrease in net assets	(1,300,649)	(285,262)
Adjustments to reconcile to cash provided by (used for) operating activities:		
Unrealized losses (gains) on investments	244,965	(440,487)
Depreciation	159,476	162,181
Realized investment income and income reinvested	(297,559)	(136,323)
Bad debt expense	-	2,846
Changes in:		
Grants and accounts receivable	101,613	57,184
Prepaid expenses and other assets	6,971	(10,356)
Notes receivable	(803,051)	-
Accounts payable and accrued liabilities	(109,848)	173,481
Deferred revenue	793,739	7,712
Cash used for operating activities	<b>(1,204,343)</b>	<b>(469,024)</b>
<i>Investing activities:</i>		
Net funds received from disposition of investments	1,165,715	499,916
Funds used for acquisition of property and equipment	(3,260)	(29,474)
Cash provided by investing activities	<b>1,162,455</b>	<b>470,442</b>
<i>Financing activities:</i>		
Borrowings under line of credit	150,000	-
Cash provided by financing activities	<b>150,000</b>	<b>-</b>
Increase in cash	108,112	1,418
Cash and cash equivalents at beginning of year	30,952	29,534
Cash and cash equivalents at end of year	<b>139,064</b>	<b>30,952</b>
<i>Additional cash flow information:</i>		
Franchise taxes paid	150	150
Interest paid	-	-

**CALIFORNIA HISTORICAL SOCIETY**

**Statement of Functional Expenses  
Year Ended June 30, 2015**

*(with Summarized Financial Information for the Year Ended June 30, 2014)*

	Programs and Activities	Manage- ment and General	Fund- raising and Dev- elopment	Totals Year Ended June 30 2015	Totals Year Ended June 30 2014
Advertising	\$ 37,804	\$ -	\$ 4,945	\$ 42,749	\$ 3,625
Accounting and audit	2,400	90,996	-	93,396	86,544
Bank and Financial Service Fees	22,612	12,564	-	35,176	37,472
Catering and Hospitality	112,202	14,231	8,371	134,804	29,236
Collections Conservation	2,749	-	-	2,749	468
Collections Management	34,122	-	-	34,122	50,699
Conferences and Meetings	4,671	5,624	1,530	11,825	5,253
Cost of Sales	45,015	-	-	45,015	20,582
Dues and Subscriptions	10,594	4,515	5,418	20,527	17,744
Equipment Rental	659	12,631	-	13,290	12,134
Insurance	24,656	24,841	-	49,497	45,024
Interest	-	3,523	-	3,523	-
Internet and Website	29	31,102	8,280	39,411	37,425
Legal Fees	-	3,725	-	3,725	2,225
Postage and Shipping	7,378	5,001	982	13,361	13,413
Printing	100,834	951	17,862	119,647	90,800
Production and Exhibition	397,297	70,228	122,002	589,527	301,355
Professional Fees - Other	181,702	28,015	10,000	219,717	113,190
Programs and Other	24,659	28,151	1,485	54,295	12,614
Repairs and Maintenance	8,135	23,444	22	31,601	34,829
Salaries and benefits	1,037,227	416,404	172,687	1,626,318	1,383,067
Supplies	22,651	11,217	1,826	35,694	26,565
Telephone	514	23,049	-	23,563	19,876
Travel	32,653	12,250	628	45,531	45,741
Utilities	-	43,379	-	43,379	43,552
Total expenses excluding depreciation	2,110,563	865,841	356,038	3,332,442	2,433,433
Depreciation	86,882	72,594	-	159,476	162,181
Total expenses	<b>\$2,197,445</b>	<b>\$ 938,435</b>	<b>\$ 356,038</b>	<b>\$ 3,491,918</b>	<b>\$2,595,614</b>

Notes to Financial Statements  
June 30, 2015 and 2014

**1. Organization**

California Historical Society (the Society) is a California tax-exempt, non-profit corporation established in 1871 as a statewide organization with a mission to inspire and empower people to make California's richly diverse past a meaningful part of their contemporary lives.

**2. Summary of Significant Accounting Policies**

*Basis of Accounting and Presentation*

The financial statements of the Society have been prepared on the accrual basis of accounting in accordance with the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958.205, *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958.205, the Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Society has also adopted the provisions of ASC 958.205.55.31 thru 958.205.55.53, *Presentation of Financial Statements – Endowment Disclosures*.

*Support and Revenue Recognition*

The Society records contributions in accordance with the recommendations of ASC 958.605, *Revenue Recognition of Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statements of activities and changes in net assets as net assets released from restrictions.

*Contributed Services*

A substantial number of unpaid volunteers have made significant contributions of time to various departments or programs of the Society. The value of this contributed time is not reflected in the financial statements since it is not susceptible to objective measurement or valuation.

*Property and Equipment*

Property and equipment purchased by the Society are recorded at cost. Property and equipment donated to the Society are recorded at estimated fair value as of the date of the gift. Repairs and maintenance are charged to expense as incurred. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets of between 5 to 30 years.

*Functional Allocation of Expenses*

The costs of providing the Society's various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.



## Notes to Financial Statements

**2. Summary of Significant Accounting Policies** *(continued)**Grants and Pledges Receivable*

Grants and pledges receivable are recognized as unrestricted or temporarily restricted contributed revenue when the contractual obligation is received.

*Investments and Endowment*

The Society follows the provisions of ASC 958.320, *Investments – Debt and Equity Securities of Not-for-Profit Entities*, and has estimated the fair value of its investments using available market information and other valuation methodologies. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Society could realize in a current market exchange. The use of different assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The estimates are based on pertinent information available to management as of June 30, 2015.

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities and changes in net assets. Purchased investments are initially stated at cost. Investments received by gift are recorded at market value at the date of contribution. As required by ASC 958.320, the recorded amounts of all investments are adjusted annually to reflect current market values, and current estimates of fair value may differ significantly from the statements presented. Realized and unrealized gains and losses are included in investment income on the statements of activities and changes in net assets.

The Society's endowment consists of a diverse mixture of funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by FAS 117-1, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Society has interpreted the State Prudent Management of Institutional Funds Act (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 Society 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 Society in a manner consistent with the standard of prudence prescribed by SPMIFA.

*Collections*

Inexhaustible collections include research books, manuscripts, photographs, art objects, and other items of historical significance which have been donated to the Society. In conformity with the practice followed by many similar organizations and in accordance with ASC 958.360.25-3, *Property, Plant and Equipment (including Collections) of Not-for-Profit Entities*, the Society does not capitalize its collection materials. ASC 958.360.25-3 precludes the capitalization of such items if collections are: (1) held for public exhibition, education, or research in furtherance of public service rather than financial gain, (2) protected, kept unencumbered, cared for, and preserved, and (3) subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

**Notes to Financial Statements**

**2. Summary of Significant Accounting Policies** *(continued)*

*Income Taxes*

Financial statement presentation follows the recommendations of ASC 740, *Income Taxes*. Under ASC 740, the Society is required to report information regarding its exposure to various tax positions taken by the Society and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that it has adequately evaluated its current tax positions and has concluded that as of June 30, 2015, the Society does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

The Society has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. This exemption is subject to periodic review by the federal and state taxing authorities and management is confident that the Society continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status. The Society may periodically receive unrelated business income (such as advertising revenue) requiring the Society to file separate tax returns under federal and state statutes. Under such conditions, the Society calculates and accrues the applicable taxes payable.

*Reclassifications*

Certain reclassifications have been made to the 2014 financial statements in order to conform to the presentation used in 2015.

**3. Bank Savings Deposit Accounts**

The Society has several interest-bearing bank savings deposit accounts at a financial institution including funds held in a “sweep” account in which funds are transferred to and from checking in order to maximize interest earned on all available deposits. Cash consists of funds held in a checking account and amounted to \$139,064 and \$30,952 at June 30, 2015 and 2014, respectively.

**4. Accounts, Pledges, and Grants Receivable**

Accounts, pledges, and grants receivable consist of the following at June 30, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Accounts receivable	\$ 300	\$ 850
Pledges receivable	99,312	133,750
Grants receivable	50,375	117,000
Grants and accounts receivable, net	\$ 149,987	\$ 251,600

Receivables are classified as Level 2 assets under fair value hierarchy.

*(continued)*

Notes to Financial Statements

**4. Accounts, Pledges, and Grants Receivable** *(continued)*

Accounts, pledges, and grants receivable represent amounts due from individuals, foundations, and other organizations.

The Society uses the direct write-off method with regards to receivables deemed uncollectible. During the year ended June 30, 2014, the Society reflected bad debt expense of \$2,846. There were no bad debts for the year ended June 30, 2015. Management has evaluated the receivables as of June 30, 2015 and determined that such amounts are fully collectible based on the financial strength of the donors involved.

**5. Note Receivable and Other Income**

During the year ended June 30, 2015, the Society successfully closed a transaction with Third and Mission Associates, LLC ("TMA") wherein the Society sold a portion of its rights to leased premises in the adjoining property at 680 Mission Street. As more fully explained in **footnote 15**, the closing resulted in the payment of \$500,000 to the Society (included with "Rentals, royalties, and other revenue" on the statement of activities and changes in net assets) and the signing of a promissory note in the amount of \$803,051, which bears interest at the fixed rate of 1.0% per annum. The note receivable is reflected on the statement of financial position along with a corresponding deferred income figure of \$803,551 reflected under liabilities.

Principal payments due under the note receivable are scheduled to be collected as follows: principal balance to be collected during the year ending June 30, 2018: \$53,051; principal balance to be collected during the year ending June 30, 2019: \$250,000; principal balance to be collected during the year ending June 30, 2020: \$250,000; and principal balance to be collected during the year ending June 30, 2021: \$250,000. As payments are received, the Society will reclassify a corresponding amount (plus accrued interest) as income on the statement of activities and changes in net assets.

**6. Property and Equipment**

Property and equipment consist of the following at June 30, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Land and buildings	\$ 4,625,130	\$ 4,625,130
Equipment and furnishings	776,559	773,298
Less: accumulated depreciation	(3,421,066)	(3,261,589)
Property and equipment, net	<b>\$ 1,980,623</b>	<b>\$ 2,136,839</b>

Depreciation expense amounted to \$159,476 and \$162,181 for the years ended June 30, 2015 and 2014, respectively. The Society has not obtained a recent appraisal of its non-capitalized collections. However, these collections have been insured at \$16 million and covers (1) photographic prints and negatives, (2) reference and research papers and (3) fine arts and manuscripts.

*(continued)*

# CALIFORNIA HISTORICAL SOCIETY

## Notes to Financial Statements

### 7. Investments, Restricted Cash and Endowment

Investments and restricted cash consist of the following at June 30, 2015 and 2014:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 32,991	\$ 32,991	\$ 50,432	\$ 50,432
Mutual funds principally invested in bonds	756,153	741,809	927,319	929,986
Mutual funds principally invested in equity securities	821,127	991,946	1,212,017	1,493,935
Other mutual funds and exchange traded funds	649,290	909,279	1,158,892	1,314,793
<b>Totals</b>	<b>\$ 2,259,561</b>	<b>\$ 2,676,025</b>	<b>\$ 3,348,660</b>	<b>\$ 3,789,146</b>

During the years ended June 30, 2015 and 2014, proceeds from the sale of investments were reinvested into other investments. Investment income consists of interest and dividends and amounted to \$93,010 and \$98,592 for the years ended June 30, 2015 and 2014, respectively.

Realized gains amounted to \$204,549 and \$37,731 for the years ended June 30, 2015 and 2014, respectively. During the years ended June 30, 2015 and 2013, unrealized gains (losses) on investments amounted to (\$244,965) and \$440,487, respectively. All investments are maintained in an account at an investment brokerage firm.

Cash equivalents include funds held in highly liquid investments with maturity dates of three months or less. Composition of investments utilizing fair value measurements at June 30, 2015 is as follows:

	Unrestricted	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 32,991	\$ 32,991	\$ -	\$ -
Mutual funds principally invested in bonds	741,809	741,809	-	-
Mutual funds principally invested in equity securities	991,946	991,946	-	-
Other mutual funds and exchange traded funds	909,279	909,279	-	-
<b>Totals</b>	<b>\$ 2,676,025</b>	<b>\$ 2,676,025</b>	<b>\$ -</b>	<b>\$ -</b>

Fair value measurements establish a fair value hierarchy that prioritizes the input used to measure fair value. This hierarchy consists of three broad levels: (a) Level 1 measurement reflects the value of the investments at quoted prices in active markets for identical assets, generally without any adjustments, (b) Level 2 assets and liabilities are valued based on "observable inputs" other than quoted active market prices, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and interest rates and yield curves, and (c) Level 3 assets and liabilities are valued based on "unobservable inputs," such as a company's own estimates and pricing models. The Society had no investments classified as Level 2 or Level 3 at June 30, 2015.

*(continued)*

# CALIFORNIA HISTORICAL SOCIETY

## Notes to Financial Statements

### 7. Investments, Restricted Cash and Endowment *(continued)*

In May 2013 the California Historical Foundation was dissolved and the role of oversight of the endowment fund was transferred to the Society's Investment and Endowment Committee. This group of individuals reports to the Board of Directors and has the responsibility for establishing the Society's return objectives (generally lower rates of return associated with more stable and safer investments) and to define the risk parameters (generally low risk securities, certificates of deposit and mutual funds). The Investment and Endowment Committee routinely oversees investment performances and reviews cash flows necessary to sustain the Society's operating activities.

Endowment net asset composition by type of fund is summarized as follows as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 3,244,905	\$ 3,244,905
Board-designated endowment funds	-	-	-	-
Interfund borrowings	(568,880)	-	-	(568,880)
<b>Total funds</b>	<b>\$ (568,880)</b>	<b>\$ -</b>	<b>\$ 3,244,905</b>	<b>\$ 2,676,025</b>

Changes in endowment net assets for the year ended June 30, 2015 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 62,121	\$ 482,120	\$ 3,244,905	\$ 3,789,146
Investment return:				
Investment income	-	-	93,010	93,010
Investment realized gains, net	-	-	204,549	204,549
Investment unrealized gains, net	(135,581)	-	(109,384)	(244,965)
<b>Total investment return</b>	<b>(135,581)</b>	<b>-</b>	<b>188,175</b>	<b>52,594</b>
Contributions/transfers	(495,420)	(482,120)	-	(977,540)
Appropriation of endowment assets	-	-	(188,175)	(188,175)
<b>Endowment net assets at end of year</b>	<b>\$ (568,880)</b>	<b>\$ -</b>	<b>\$ 3,244,905</b>	<b>\$ 2,676,025</b>

## Notes to Financial Statements

**7. Investments, Restricted Cash and Endowment** *(continued)**Funds with Deficiencies*

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 Society to retain as a fund of perpetual duration. In accordance with ASC 958.205.55.31, there were no deficiencies of this nature that were required to be reported in unrestricted net assets as of June 30, 2015. There is the possibility that future deficiencies could result from unfavorable market fluctuations which occur after the investment of permanently restricted contributions and ongoing appropriation for certain programs which were deemed prudent by the Board of Trustees. The Society's investments may decline below their original basis due to market fluctuations and unrealized losses which are beyond the control of the Society's management. Deficiencies of this nature are reported in unrestricted net assets.

*Return Objectives and Risk Parameters*

The Board of Trustees has adopted investment and spending policies for endowment assets that attempt to 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 Society must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Investment Committee and the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that approximate the price and yield results of the general market conditions while assuming a moderate level of investment risk.

*Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Society utilizes a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society 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 Society has a policy of appropriating for distribution each year 5.50 percent of its endowment fund's average fair value over the previous 12 quarters (and through the calendar year-end preceding the fiscal year in which the distribution is planned). In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average of 5 to 7 percent annually (before distributions). Actual returns in any given year may vary from this amount. This is consistent with the Society'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.

**Notes to Financial Statements**

**8. Net Assets**

The Society recognizes support from temporarily restricted and permanently restricted net assets when the restrictions imposed by the donors have been satisfied or expired. Temporarily restricted net assets consist of the following at June 30, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Available for acquisition of collections (see footnote 11)	\$ 462,601	\$ 464,600
Available for programs	10,932	71,771
Available under time restrictions	140,488	112,000
	\$ 614,021	\$ 648,371

Permanently restricted net assets consist of the following at June 30, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Restricted for endowment	\$ 3,244,905	\$ 3,244,905

Endowment funds, classified as permanently restricted net assets, represent donor contributions that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. Earnings from investments may be used for general operating purposes of each program and transferred to unrestricted net assets through an appropriation process under UPMIFA guidelines. Such transfers may be used for general operating purposes in accordance with ASC 958.320. Such transfers may be used for general operating purposes in accordance with ASC 958.320 as detailed in footnote 7.

**9. North Baker Estate**

In August 1991, the Society was the beneficiary of a significant bequest from the estate of North Baker, former president of the Board of Trustees. During the year ended June 30, 1993, certain assets of the North Baker Estate were sold and the Society received \$1,829,730 in funds restricted for endowment. In addition, the Society is entitled to 25% of the earnings from two trusts which have been established from the residual of the estate housed at The San Francisco Foundation. The approximate, combined value of these trusts at June 30, 2015 and 2014 was in excess of \$11 million and \$10.8 million, respectively. The Society has no equitable ownership interests in the core principal balances and the combined value of these trusts is provided for informational purposes only. These trusts are subject to community foundation fund agreements which, according to United States Treasury Regulations, grant The San Francisco Foundation's Board of Directors authority to modify restrictions and conditions of the fund agreement. As a result of this authority, referred to as variance power, all component funds are considered to be part of a single public charity, in this case The San Francisco Foundation. During the years ended June 30, 2015 and 2014, the Society received \$80,202 and \$75,352, respectively, in distributions from the North Baker trusts.

**10. Deferred Revenue**

Deferred revenue of \$803,551 and \$9,812 at June 30, 2015 and 2014, respectively, represents revenue transactions for which the earnings process has not been completed. The balances have been reflected as liabilities and will be recognized as revenue on the statement of activities and changes in net assets during the subsequent fiscal years (see related information in footnote 5).

## Notes to Financial Statements

**11. Collections**

Collections include books, artwork, paintings, sculptures, original documents and other physical property related to the history of California. During the years ended June 30, 2015 and 2014, the Society expended funds to expand its collections at a cost of \$1,998 and \$5,837, respectively. In accordance with ASC 958.360.25-3, these expenditures have not been capitalized.

Included in temporarily restricted net assets at June 30, 2015 and 2014 are \$462,601 and \$464,600, respectively, in funds received from prior sales of collection items ([see footnote 8](#)). During the years ended June 30, 2015 and 2014, the Society utilized \$1,998 and \$5,837, respectively, in temporarily restricted fund for the purchase of collection items (as permitted under ASC 958.360.25-3). For insurance purposes, the Society has estimated the fair value of all collection items to be approximately \$16 million ([see footnote 6](#)).

**12. Lease Commitments**

The Society leases office space, storage space, and office equipment under certain short and long-term operating lease agreements expiring at various dates through 2018. The office and storage space leases require monthly remittances totaling \$2,436 as of June 30, 2015. The office equipment lease requires a monthly payment totaling of \$621 as of June 30, 2015. Minimum annual payments on operating leases extending beyond one year are as follows at June 30, 2015: [Year ending June 30, 2016: \\$17,452](#); [Year ending June 30, 2017: \\$7,452](#); [Year ending June 30, 2018: \\$7,452](#); and [Year ending June 30, 2019: \\$2,795](#). Rental expense relating to office and equipment amounted to \$34,485 and \$30,117 for the years ended June 30, 2015 and 2014, respectively.

**13. Collection Sharing Agreement**

During the year ended June 30, 2007, the Society and the Autry National Center (“Autry”) entered into a Non-Profit Joint Venture and Collection Sharing Agreement (the “Agreement”). This collection sharing arrangement inaugurated a long-term presence of the Society and its collection into Southern California and enhances the long-term plans of the Society to improve its facility and operations in Northern California while permitting Autry to display historic pieces of the Society’s collection. The initial collection sharing involves 68 “paintings” and the California Historic Costume Collection. The term of the Agreement is 60 years, with the option of two additional consecutive 20 year periods. Autry has agreed to pay an aggregate sum of \$3,500,000 to the Society through a series of period payments over 15 years. During each of the years ended June 30, 2015 and 2014, the Society received \$200,000 under the agreement, and these amounts are reflected as collection sharing revenue on the statement of activities and changes in net assets. The Society will continue to receive payments of \$200,000 per year under the agreement through March 31, 2020.

**14. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.



## Notes to Financial Statements

## 15. Commitments and Contingencies

General

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future concerts, which are not reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate the Society to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond the Society's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management personnel, and (d) Financial risks associated with funds on deposit at bank and investment brokerage accounts.

Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements. Certain of the grants and contracts (including current and prior costs) are subject to audit and final acceptance by the granting organizations.

Other Matters

During the year ended June 30, 2014, the Society negotiated an Amended and Restated Agreement for Amendment of the Lease and Reduction of Leased Premises. The Amendment was effective as of August 5, 2014. This transaction was finalized and closed during the year ended June 30, 2015 and required Third and Mission Associates, LLC ("TMA") to remit a surrender price of \$2,250,000, of which \$500,000 was paid to the Society in cash in January 2015, and \$1,750,000 in the form of two promissory notes:

- One note for \$946,949 payable to the Office of Community Investment and Infrastructure, as the successor agency to the RDA (properly bypassing the Society), and
- One note for \$803,051 payable to the Society.

The notes accrue interest at 1% per annum and are due in equal annual installments.

In addition to the reduction of leased premises referenced in **footnotes 5 and 6**, the first amendment to lease, signed on January 29, 2015, also changed the tenant's share of expenses - waiving any accrued but unpaid amounts of Tenant's share of expenses prior to the execution of the this agreement. The new Tenants share is \$600 per month (a fixed sum) payable on the first day of each calendar month commencing the first full calendar month following the closing date (January 29th, 2015) and increasing 3% per calendar year thereafter, except that where expenses consist of expenses related solely to the premises Tenant's share shall mean 100%. The tenant shall have right of reversion if the landlord defaults in its payment obligations under the note. The right of reversion shall terminate upon payment in full of the note.

The Society has recorded the \$803,051 note receivable on the statement of financial position but has not accrued any amount in the financial statements for any possible expense or liability related to the above-noted transactions.

Notes to Financial Statements

**16. Compensated Absences (Accrued Payroll and Related Benefits)**

Financial statement presentation follows the recommendations of ASC 710.25, *Compensated Absences*. Under ASC 710.25, the Society is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded in the financial statements as an accrued liability on the statement of financial position based on hourly rates in effect at the end of the fiscal year. Accrued payroll liabilities amounted to \$61,413 and \$64,393 as of June 30, 2015 and 2014, respectively, and are included with accounts payable and accrued liabilities on the statement of financial position.

**17. Subsequent Events**

The Society has evaluated subsequent events through November 12, 2015, the date the financial statements were available to be issued and, in the opinion of management, there are no subsequent events which need to be disclosed.