



CALIFORNIA
HISTORICAL
SOCIETY since 1871

CALIFORNIA HISTORICAL SOCIETY

Financial Statements

June 30, 2016 and 2015

CALIFORNIA HISTORICAL SOCIETY

(A California Not-For-Profit Corporation)
June 30, 2016

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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, 2016 and 2015 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, 2016 and 2015, 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.

Other Matters

The financial statements of California Historical Society as of June 30, 2015 were audited by us and in our report dated November 12, 2015, we expressed an unmodified opinion on those financial statements. The prior year summarized comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Danville, California
January 12, 2017

CALIFORNIA HISTORICAL SOCIETY

Statement of Financial Position

June 30, 2016

(with Summarized Financial Information for the Year Ended June 30, 2015)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	2016 Total	2015 Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 13,474	\$ -	\$ -	\$ 13,474	\$ 139,064
Receivables	-	1,130,817	-	1,130,817	149,987
Prepaid expenses and other assets	62,180	-	-	62,180	27,977
Total current assets	75,654	1,130,817	-	1,206,471	317,028
Noncurrent assets:					
Investments and restricted cash	-	-	1,651,360	1,651,360	2,676,025
Interfund borrowings	(2,049,145)	455,600	1,593,545	-	-
Note receivable	803,051	-	-	803,051	803,051
Collections (Notes 2 and 10)	-	-	-	-	-
Property and equipment, net	1,829,864	-	-	1,829,864	1,980,623
Total noncurrent assets	583,770	455,600	3,244,905	4,284,275	5,459,699
Total assets	\$ 659,424	\$ 1,586,417	\$ 3,244,905	\$ 5,490,746	\$ 5,776,727
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued liabilities	\$ 175,994	\$ -	\$ -	\$ 175,994	\$ 202,661
Deferred revenue	803,551	-	-	803,551	803,551
Line of credit	144,848	-	-	144,848	150,000
Total liabilities	1,124,393	-	-	1,124,393	1,156,212
Net assets (deficit):					
Unrestricted	(464,969)	-	-	(464,969)	761,589
Temporarily restricted	-	1,586,417	-	1,586,417	614,021
Permanently restricted	-	-	3,244,905	3,244,905	3,244,905
Total net assets (deficit)	(464,969)	1,586,417	3,244,905	4,366,353	4,620,515
Total liabilities and net assets	\$ 659,424	\$ 1,586,417	\$ 3,244,905	\$ 5,490,746	\$ 5,776,727

CALIFORNIA HISTORICAL SOCIETY

**Statement of Activities and Changes in Net Assets
Year Ended June 30, 2016**

(with Summarized Financial Information for the Year Ended June 30, 2015)

<i>Changes in net assets:</i>	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	2016 Total	2015 Total
Revenue and support:					
Memberships and annual fund	\$ 205,281	\$ -	\$ -	\$ 205,281	\$ 223,600
Programs and activities	101,285	-	-	101,285	69,152
Contributions, grants and bequests	611,334	1,090,860	-	1,702,194	1,005,571
Endowment income appropriated	135,275	-	-	135,275	188,175
Merchandise sales	95,081	-	-	95,081	90,601
Collection sharing	200,000	-	-	200,000	200,000
Rentals, royalties, and other revenue	25,599	-	-	25,599	549,751
Total unrestricted revenue	1,373,855	1,090,860	-	2,464,715	2,326,850
Net assets released from restrictions and other transfers:					
Funds released for program activities	118,464	(118,464)	-	-	-
Total revenue and support	1,492,319	972,396	-	2,464,715	2,326,850
Expenses:					
Programs and activities	1,521,289	-	-	1,521,289	2,052,563
Management and general	633,910	-	-	633,910	865,841
Fundraising and development	210,835	-	-	210,835	414,038
Total expenses excluding depreciation	2,366,034	-	-	2,366,034	3,332,442
Increase (decrease) in net assets before endowment investment income and depreciation expense	(873,715)	972,396	-	98,681	(1,005,592)
Investment interest and dividends	-	-	74,717	74,717	93,010
Realized gain on investments	-	-	95,047	95,047	204,549
Unrealized gains (losses) on investments	(194,205)	-	(34,489)	(228,694)	(244,965)
Total investment return	(194,205)	-	135,275	(58,930)	52,594
Appropriation of endowment assets	-	-	(135,275)	(135,275)	(188,175)
Endowment investment income, net	(194,205)	-	-	(194,205)	(135,581)
Depreciation expense	(158,638)	-	-	(158,638)	(159,476)
Increase (decrease) in net assets	(1,226,558)	972,396	-	(254,162)	(1,300,649)
Net assets at beginning of year	761,589	614,021	3,244,905	4,620,515	5,921,164
Net assets (deficit) at end of year	\$ (464,969)	\$ 1,586,417	\$ 3,244,905	\$ 4,366,353	\$ 4,620,515

CALIFORNIA HISTORICAL SOCIETY

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
<i>Operating activities:</i>		
Decrease in net assets	\$ (254,162)	\$ (1,300,649)
Adjustments to reconcile to cash provided by (used for) operating activities:		
Unrealized losses on investments	228,694	244,965
Depreciation	158,638	159,476
Realized investment income and income reinvested	(169,764)	(297,559)
Changes in:		
Grants and accounts receivable	(980,830)	101,613
Prepaid expenses and other assets	(34,203)	6,971
Notes receivable	-	(803,051)
Accounts payable and accrued liabilities	(26,667)	(109,848)
Deferred revenue	-	793,739
Cash used for operating activities	<u>(1,078,294)</u>	<u>(1,204,343)</u>
<i>Investing activities:</i>		
Net funds received from disposition of investments	965,735	1,165,715
Funds used for acquisition of property and equipment	(7,879)	(3,260)
Cash provided by investing activities	<u>957,856</u>	<u>1,162,455</u>
<i>Financing activities:</i>		
Borrowings under line of credit	-	150,000
Principal repayments under line of credit	(5,152)	-
Cash provided by (used for) financing activities	<u>(5,152)</u>	<u>150,000</u>
Increase (decrease) in cash and cash equivalents	(125,590)	108,112
Cash and cash equivalents at beginning of year	139,064	30,952
Cash and cash equivalents at end of year	<u>\$ 13,474</u>	<u>\$ 139,064</u>
<i>Additional cash flow information:</i>		
Franchise taxes paid	<u>\$ 150</u>	<u>\$ 150</u>
Interest paid	<u>\$ 7,535</u>	<u>\$ 3,523</u>

CALIFORNIA HISTORICAL SOCIETY

**Statement of Functional Expenses
Year Ended June 30, 2016**

(with Summarized Financial Information for the Year Ended June 30, 2015)

	Programs and Activities	Manage- ment and General	Fund- raising and Dev- elopment	Totals Year Ended June 30 2016	Totals Year Ended June 30 2015
Advertising	\$ 25,429	\$ -	\$ 16,212	\$ 41,641	\$ 42,749
Accounting and audit	-	97,372	-	97,372	93,396
Bank and Financial Service Fees	15,439	14,017	-	29,456	35,176
Catering and Hospitality	12,896	3,902	2,627	19,425	134,804
Collections Conservation	30,995	-	-	30,995	2,749
Collections Management	4,959	-	-	4,959	34,122
Conferences and Meetings	3,684	1,837	-	5,521	11,825
Cost of Sales	49,037	-	-	49,037	45,015
Dues and Subscriptions	5,170	2,777	4,195	12,142	20,527
Equipment Rental	7,598	3,799	1,266	12,663	13,290
Insurance	21,432	24,565	-	45,997	49,497
Interest	-	7,535	-	7,535	3,523
Internet and Website	33,443	9,880	14,003	57,326	39,411
Legal Fees	-	26,315	-	26,315	3,725
Postage and Shipping	3,139	4,180	1,333	8,652	13,361
Printing	25,110	1,057	12,348	38,515	119,647
Production and Exhibition	73,667	5,779	25,551	104,997	589,527
Professional Fees - Other	126,178	28,878	19,720	174,776	219,717
Programs and Other	70,436	67,670	4,752	142,858	54,295
Repairs and Maintenance	5,769	9,040	-	14,809	31,601
Salaries and benefits	947,105	282,002	92,581	1,321,688	1,626,318
Supplies and overhead	3,055	20,959	152	24,166	35,694
Telephone	15,254	6,934	5,547	27,735	23,563
Travel	15,841	3,751	1,220	20,812	45,531
Utilities	25,653	11,661	9,328	46,642	43,379
Total expenses excluding depreciation	1,521,289	633,910	210,835	2,366,034	3,332,442
Depreciation	91,480	37,310	29,848	158,638	159,476
Total expenses	\$ 1,612,769	\$ 671,220	\$ 240,683	\$ 2,524,672	\$ 3,491,918

Notes to Financial Statements
June 30, 2016 and 2015

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, 2016.

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, 2016 and 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 2015 financial statements in order to conform to the presentation used in 2016.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on deposit in a noninterest-bearing checking account at a local bank along with certain petty cash funds. Cash and cash equivalents totaled \$13,474 and \$139,064 at June 30, 2016 and 2015, respectively.

4. Receivables

Receivables consist of the following at June 30, 2016 and 2015:

	2016	2015
Accounts receivable	\$ 28,987	\$ 300
Pledges receivable	60,970	99,312
Grants receivable	1,040,860	50,375
Grants and accounts receivable, net	\$ 1,130,817	\$ 149,987

Receivables represent amounts due within the next fiscal year from individuals, foundations, and other organizations. All receivables are classified as Level 2 assets under fair value hierarchy.

(continued)

Notes to Financial Statements

4. Receivables *(continued)*

The Society uses the direct write-off method with regards to receivables deemed uncollectible. There were no bad debts for the years ended June 30, 2016 and 2015. Management has evaluated the receivables as of June 30, 2016 and determined that such amounts are fully collectible based on a variety of factors, including an assessment of 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 as of June 30, 2016 and 2015.

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, 2016 and 2015:

	2016	2015
Land and buildings	\$ 4,625,130	\$ 4,625,130
Equipment and furnishings	784,437	776,558
Less: accumulated depreciation	(3,579,703)	(3,421,065)
Property and equipment, net	\$ 1,829,864	\$ 1,980,623

Depreciation expense amounted to \$158,638 and \$159,476 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 223,999	\$ 223,999	\$ 32,991	\$ 32,991
Mutual funds principally invested in bonds	503,949	502,404	756,153	741,809
Mutual funds principally invested in equity securities	359,608	425,445	821,127	991,946
Other mutual funds and exchange traded funds	376,355	499,512	649,290	909,279
Totals	\$ 1,463,911	\$ 1,651,360	\$ 2,259,561	\$ 2,676,025

During the years ended June 30, 2016 and 2015, proceeds from the sale of investments were reinvested into other investments. Investment income consists of interest and dividends and amounted to \$74,717 and \$93,010 for the years ended June 30, 2016 and 2015, respectively.

Realized gains amounted to \$95,047 and \$204,549 for the years ended June 30, 2016 and 2015, respectively. During the years ended June 30, 2016 and 2015, unrealized losses on investments amounted to (\$228,694) and (\$244,965), 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, 2016 is as follows:

	Unrestricted	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 223,999	\$ 223,999	\$ -	\$ -
Mutual funds principally invested in bonds	502,404	502,404	-	-
Mutual funds principally invested in equity securities	425,445	425,445	-	-
Other mutual funds and exchange traded funds	499,512	499,512	-	-
Totals	\$ 1,651,360	\$ 1,651,360	\$ -	\$ -

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, 2016.

(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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 3,244,905	\$ 3,244,905
Board-designated endowment funds	-	-	-	-
Interfund borrowings	(1,593,545)	-	-	(1,593,545)
Total funds	\$ (1,593,545)	\$ -	\$ 3,244,905	\$ 1,651,360

Changes in endowment net assets for the year ended June 30, 2016 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ (568,880)	\$ -	\$ 3,244,905	\$ 2,676,025
Investment return:				
Investment income	-	-	74,717	74,717
Investment realized gains, net	-	-	95,047	95,047
Investment unrealized gains, net	(194,205)	-	(34,489)	(228,694)
Total investment return	(194,205)	-	135,275	(58,930)
Contributions/transfers	(830,460)	-	-	(830,460)
Appropriation of endowment assets	-	-	(135,275)	(135,275)
Endowment net assets at end of year	\$ (1,593,545)	\$ -	\$ 3,244,905	\$ 1,651,360

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, deficiencies of this nature that were required to be reported in unrestricted net assets amounted to (\$1,593,545) and (\$568,880) as of June 30, 2016 and 2015, respectively. There is the possibility that continued 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 have been 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, 2016 and 2015:

	2016	2015
Available for acquisition of collections (see footnote 11)	\$ 462,601	\$ 462,601
Available for programs	1,007,956	10,932
Available under time restrictions	115,860	140,488
	\$ 1,586,417	\$ 614,021

Permanently restricted net assets consist of the following at June 30, 2016 and 2015:

	2016	2015
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, 2016 and 2015 was in excess of \$11.1 million and \$11 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, 2016 and 2015, the Society received \$103,183 and \$80,202, respectively, in distributions from the North Baker trusts.

10. Deferred Revenue

Deferred revenue of \$803,551 and \$803,551 at June 30, 2016 and 2015, 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 year ended June 30, 2015, the Society expended funds to expand its collections at a cost of \$1,998. In accordance with ASC 958.360.25-3, these expenditures have not been capitalized. There were no acquisitions during the year ended June 30, 2016.

Included in temporarily restricted net assets at June 30, 2016 and 2015 are \$462,601 and \$462,601, respectively, in funds received from prior sales of collection items (see footnote 8). During the year ended June 30, 2015, the Society utilized \$1,998 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 \$3,054 as of June 30, 2016. The office equipment lease requires a monthly payment totaling of \$621 as of June 30, 2016. Minimum annual payments on operating leases extending beyond one year are as follows at June 30, 2016: 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 \$54,183 and \$45,404 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, 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. Bank Loan

On October 28, 2014, the Society entered into an agreement for a \$150,000 revolving line of credit with Wells Fargo Bank. Advances under the agreement were available until October 10, 2015, with interest accruing on any unpaid outstanding principal balance at the greater of a floating rate equal to the bank's index plus 2.0% per annum or a floor rate of 5.0% per annum, payable monthly. The credit line had an original maturity date of October 10, 2015.

On March 8, 2016, the Society signed an agreement with Wells Fargo Bank to convert the line of credit to a term loan. Principal and interest payments commenced in April 2016 with a maturity date of March 2022. Interest accrues at the greater of a floating rate equal to the bank's index plus 2.5% per annum or a floor rate of 6.0% per annum. The outstanding balance amounted to \$144,848 and \$150,000 at June 30, 2016 and 2015, respectively. Estimated future principal payments under the terms of the bank loan are as follows at June 30, 2016: **Year ending June 30, 2017: \$21,808; Year ending June 30, 2018: \$23,153; Year ending June 30, 2019: \$24,582; Year ending June 30, 2020: \$26,098; and Year ending June 30, 2021 and thereafter: \$49,207.** Interest expense amounted to \$7,535 and \$3,523 for the years ended June 30, 2016 and 2015, respectively.

17. 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 \$65,975 and \$61,413 as of June 30, 2016 and 2015, respectively, and are included with accounts payable and accrued liabilities on the statement of financial position.

18. Subsequent Events

The Society has evaluated subsequent events through January 12, 2017, 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.