



CALIFORNIA
HISTORICAL
SOCIETY since 1871

CALIFORNIA HISTORICAL SOCIETY

Financial Statements

June 30, 2017 and 2016

CALIFORNIA HISTORICAL SOCIETY

(A California Not-For-Profit Corporation)
June 30, 2017

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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, 2017 and 2016 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, 2017 and 2016, 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, 2016 were audited by us and in our report dated January 12, 2017, 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, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Danville, California
November 3, 2017*

CALIFORNIA HISTORICAL SOCIETY

Statement of Financial Position

June 30, 2017

(with Summarized Financial Information for the Year Ended June 30, 2016)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	2017 Total	2016 Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 712,246	\$ -	\$ -	\$ 712,246	\$ 13,474
Receivables	-	5,080,074	-	5,080,074	1,130,817
Inventory	33,012	-	-	33,012	7,239
Prepaid expenses and other assets	55,830	-	-	55,830	54,941
Total current assets	801,088	5,080,074	-	5,881,162	1,206,471
Noncurrent assets:					
Investments and restricted cash	-	-	1,600,813	1,600,813	1,651,360
Interfund borrowings	(2,803,425)	1,159,333	1,644,092	-	-
Note receivable	-	-	-	-	803,051
Property and equipment, net	1,685,222	-	-	1,685,222	1,829,864
Total noncurrent assets	(1,118,203)	1,159,333	3,244,905	3,286,035	4,284,275
Total assets	\$ (317,115)	\$ 6,239,407	\$ 3,244,905	\$ 9,167,197	\$ 5,490,746
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued liabilities	\$ 196,945	\$ -	\$ -	\$ 196,945	\$ 175,994
Deferred revenue	5,000	-	-	5,000	803,551
Bank loan	123,339	-	-	123,339	144,848
Total liabilities	325,284	-	-	325,284	1,124,393
Net assets (deficit):					
Unrestricted	(642,399)	-	-	(642,399)	(464,969)
Temporarily restricted	-	6,239,407	-	6,239,407	1,586,417
Permanently restricted	-	-	3,244,905	3,244,905	3,244,905
Total net assets (deficit)	(642,399)	6,239,407	3,244,905	8,841,913	4,366,353
Total liabilities and net assets	\$ (317,115)	\$ 6,239,407	\$ 3,244,905	\$ 9,167,197	\$ 5,490,746

CALIFORNIA HISTORICAL SOCIETY

**Statement of Activities and Changes in Net Assets
Year Ended June 30, 2017**

(with Summarized Financial Information for the Year Ended June 30, 2016)

<i>Changes in net assets:</i>	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	2017 Total	2016 Total
Revenue and support:					
Memberships and annual fund	\$ 184,614	\$ -	\$ -	\$ 184,614	\$ 205,281
Programs and activities	72,925	-	-	72,925	101,285
Contributions, grants and bequests	430,018	5,051,050	-	5,481,068	1,702,194
Investment income	17,659	-	-	17,659	-
Endowment income appropriated	98,803	-	-	98,803	135,275
Merchandise sales	125,400	-	-	125,400	95,081
Collection sharing	200,000	-	-	200,000	200,000
Rentals, royalties, and other revenue	854,817	-	-	854,817	25,599
Total unrestricted revenue	1,984,236	5,051,050	-	7,035,286	2,464,715
Net assets released from restrictions and other transfers:					
Funds released for program activities	398,060	(398,060)	-	-	-
Total revenue and support	2,382,296	4,652,990	-	7,035,286	2,464,715
Expenses:					
Programs and activities	1,786,351	-	-	1,786,351	1,521,289
Management and general	501,436	-	-	501,436	633,910
Fundraising and development	212,435	-	-	212,435	210,835
Total expenses excluding depreciation	2,500,222	-	-	2,500,222	2,366,034
Increase (decrease) in net assets before endowment investment income and depreciation expense	(117,926)	4,652,990	-	4,535,064	98,681
Investment interest and dividends	-	-	40,376	40,376	74,717
Realized gain (loss) on investments	-	-	(1,110)	(1,110)	95,047
Unrealized gains (losses) on investments	89,212	-	59,537	148,749	(228,694)
Total investment return	89,212	-	98,803	188,015	(58,930)
Appropriation of endowment assets	-	-	(98,803)	(98,803)	(135,275)
Endowment investment income, net	89,212	-	-	89,212	(194,205)
Depreciation expense	(148,716)	-	-	(148,716)	(158,638)
Increase (decrease) in net assets	(177,430)	4,652,990	-	4,475,560	(254,162)
Net assets at beginning of year	(464,969)	1,586,417	3,244,905	4,366,353	4,620,515
Net assets (deficit) at end of year	\$ (642,399)	\$ 6,239,407	\$ 3,244,905	\$ 8,841,913	\$ 4,366,353

CALIFORNIA HISTORICAL SOCIETY

**Statements of Cash Flows
Years Ended June 30, 2017 and 2016**

	2017	2016
<i>Operating activities:</i>		
Increase (decrease) in net assets	\$ 4,475,560	\$ (254,162)
Adjustments to reconcile to cash provided by (used for) operating activities:		
Unrealized losses on investments	(148,749)	228,694
Depreciation	148,716	158,638
Realized investment income and income reinvested	(39,266)	(169,764)
Changes in:		
Grants and accounts receivable	(3,949,257)	(980,830)
Inventory	(25,773)	1,116
Prepaid expenses and other assets	(889)	(35,319)
Notes receivable	803,051	-
Accounts payable and accrued liabilities	20,951	(26,667)
Deferred revenue	(798,551)	-
Cash provided by (used for) operating activities	485,793	(1,078,294)
<i>Investing activities:</i>		
Net funds received from disposition of investments	238,562	965,735
Funds used for acquisition of property and equipment	(4,074)	(7,879)
Cash provided by investing activities	234,488	957,856
<i>Financing activities:</i>		
Principal repayments under line of credit	(21,509)	(5,152)
Cash used for financing activities	(21,509)	(5,152)
Increase (decrease) in cash and cash equivalents	698,772	(125,590)
Cash and cash equivalents at beginning of year	13,474	139,064
Cash and cash equivalents at end of year	\$ 712,246	\$ 13,474
<i>Additional cash flow information:</i>		
Franchise taxes paid	\$ 150	\$ 150
Interest paid	\$ 8,449	\$ 7,535

CALIFORNIA HISTORICAL SOCIETY

Statement of Functional Expenses

Year Ended June 30, 2017

(with Summarized Financial Information for the Year Ended June 30, 2016)

	Programs and Activities	Manage- ment and General	Fund- raising and Dev- elopment	Totals Year Ended June 30 2017	Totals Year Ended June 30 2016
Advertising	\$ 31,983	\$ -	\$ -	\$ 31,983	\$ 41,641
Accounting and audit	-	117,451	-	117,451	97,372
Bad debt expense	-	-	2,500	2,500	-
Bank and Financial Service Fees	9,673	13,810	-	23,483	29,456
Catering and Hospitality	21,818	2,092	4,556	28,466	19,425
Collections Conservation	20,221	-	-	20,221	30,995
Collections Management	6,220	-	-	6,220	4,959
Conferences and Meetings	5,891	4,038	177	10,106	5,521
Cost of Sales	59,860	-	-	59,860	49,037
Dues and Subscriptions	59,568	11,929	4,837	76,334	12,142
Equipment Rental	8,970	5,226	-	14,196	12,663
Insurance	56,958	16,552	-	73,510	45,997
Interest	-	8,449	-	8,449	7,535
Internet and Website	44,189	10,221	19,550	73,960	57,326
Legal Fees	-	14,377	-	14,377	26,315
Postage and Shipping	11,471	2,898	6,351	20,720	8,652
Printing	10,661	1,202	6,468	18,331	38,515
Production and Exhibition	65,340	-	-	65,340	104,997
Professional Fees - Other	236,440	40,543	43,515	320,498	174,776
Programs and Other	51,556	8,212	-	59,768	142,858
Repairs and Maintenance	8,950	14,239	-	23,189	14,809
Salaries and benefits	979,534	202,948	111,997	1,294,479	1,321,688
Supplies and overhead	24,162	7,770	6,943	38,875	24,166
Telephone	21,235	4,337	-	25,572	27,735
Travel	16,431	5,080	510	22,021	20,812
Utilities	35,220	10,062	5,031	50,313	46,642
Total expenses excluding depreciation	1,786,351	501,436	212,435	2,500,222	2,366,034
Depreciation	84,768	37,179	26,769	148,716	158,638
Total expenses	\$ 1,871,119	\$ 538,615	\$ 239,204	\$ 2,648,938	\$ 2,524,672

Notes to Financial Statements
June 30, 2017 and 2016

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, 2017.

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, 2017 and 2016, 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 2016 financial statements in order to conform to the presentation used in 2017.

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 \$712,246 and \$13,474 at June 30, 2017 and 2016, respectively.

4. Receivables

Receivables consist of the following at June 30, 2017 and 2016:

	2017	2016
Accounts receivable	\$ 22,111	\$ 28,987
Pledges receivable	6,913	60,970
Grants receivable	5,051,050	1,040,860
Grants and accounts receivable, net	\$ 5,080,074	\$ 1,130,817

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. Of the receivables at June 30, 2017, \$5.0 million is comprised of a grant appropriated from California's Assembly Bill 99, Section 82.

(continued)

Notes to Financial Statements

4. Receivables *(continued)*

This authorizing legislation appropriated the sum of \$5.0 million dollars to the Superintendent of Public Instruction to allocate to the San Francisco Unified School District, which is thereby contracting with the Society, in partnership with the California History-Social Science Project, to create a free online open K-12 curriculum for History-Social Science.

The Society uses the direct write-off method with regards to receivables deemed uncollectible. Bad debt expense amounted to \$2,500 for the year ended June 30, 2017. There was no bad debt expense for the year ended June 30, 2016. Management has evaluated the receivables as of June 30, 2017 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. 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 bore interest at the fixed rate of 1.0% per annum.

The note receivable was 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.

Principal payments due under the note receivable were scheduled to be collected in installments through the year ending June 30, 2021. During the year ended June 30, 2017, TMA remitted payment of the note in full, plus accrued interest. Revenues of \$803,051 and \$16,039 for the promissory note and accrued interest, respectively, are reflected under "Rentals, royalties, and other revenue" and "Investment 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, 2017 and 2016:

	2017	2016
Land and buildings	\$ 4,625,130	\$ 4,625,130
Equipment and furnishings	215,419	784,437
Less: accumulated depreciation	<u>(3,155,327)</u>	<u>(3,579,703)</u>
Property and equipment, net	<u>\$ 1,685,222</u>	<u>\$ 1,829,864</u>

Depreciation expense amounted to \$148,716 and \$159,476 for the years ended June 30, 2017 and 2016, respectively. During the year ended June 30, 2017, the Society disposed of fully depreciated equipment and furnishings assets in the amount of \$573,092. *(continued)*

CALIFORNIA HISTORICAL SOCIETY

Notes to Financial Statements

6. Property and Equipment *(continued)*

During the year ended June 30, 2017, the Society disposed of fully depreciated equipment and furnishings assets in the amount of \$573,092. There were no disposals during the year ended June 30, 2016. 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.

7. Investments, Restricted Cash and Endowment

Investments and restricted cash consist of the following at June 30, 2017 and 2016:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 21,956	\$ 21,956	\$ 223,999	\$ 223,999
Mutual funds principally invested in bonds	497,474	491,271	503,949	502,404
Mutual funds principally invested in equity securities	368,182	502,739	359,608	425,445
Other mutual funds and exchange traded funds	376,195	584,847	376,355	499,512
Totals	\$ 1,263,807	\$ 1,600,813	\$ 1,463,911	\$ 1,651,360

During the years ended June 30, 2017 and 2016, proceeds from the sale of investments were reinvested into other investments. Investment income consists of interest and dividends and amounted to \$40,376 and \$74,717 for the years ended June 30, 2017 and 2016, respectively.

Realized (losses) and gains amounted to (\$1,110) and \$95,047 for the years ended June 30, 2017 and 2016, respectively. During the year ended June 30, 2017, unrealized gains on investments amounted to \$148,749. Unrealized losses on investments amounted to (\$228,694) during the year ended June 30, 2016. 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, 2017 is as follows:

	Unrestricted	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 21,956	\$ 21,956	\$ -	\$ -
Mutual funds principally invested in bonds	491,271	491,271	-	-
Mutual funds principally invested in equity securities	502,739	502,739	-	-
Other mutual funds and exchange traded funds	584,847	584,847	-	-
Totals	\$ 1,600,813	\$ 1,600,813	\$ -	\$ -

Fair value measurements establish a fair value hierarchy that prioritizes the input used to measure fair value.

(continued)

CALIFORNIA HISTORICAL SOCIETY

Notes to Financial Statements

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

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, 2017.

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, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 3,244,905	\$ 3,244,905
Board-designated endowment funds	-	-	-	-
Interfund borrowings	(1,644,092)	-	-	(1,644,092)
Total funds	\$ (1,644,092)	\$ -	\$ 3,244,905	\$ 1,600,813

Changes in endowment net assets for the year ended June 30, 2017 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ (1,593,545)	\$ -	\$ 3,244,905	\$ 1,651,360
Investment return:				
Investment income	-	-	40,376	40,376
Investment realized gains, net	-	-	(1,110)	(1,110)
Investment unrealized gains, net	89,212	-	59,537	148,749
Total investment return	89,212	-	98,803	188,015
Contributions/transfers	(139,759)	-	-	(139,759)
Appropriation of endowment assets	-	-	(98,803)	(98,803)
Endowment net assets at end of year	\$ (1,644,092)	\$ -	\$ 3,244,905	\$ 1,600,813

(continued)

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 (\$1,644,092) and (\$1,593,545) as of June 30, 2017 and 2016, 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 5.0 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, 2017 and 2016:

	2017	2016
Available for acquisition of collections (<i>see footnote 12</i>)	\$ 462,483	\$ 462,601
Available for programs	5,725,874	1,007,956
Available under time restrictions	51,050	115,860
	\$ 6,239,407	\$ 1,586,417

Permanently restricted net assets consist of the following at June 30, 2017 and 2016:

	2017	2016
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, 2017 and 2016 was in excess of \$11 million, in both years. 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, 2017 and 2016, the Society received \$90,359 and \$103,183, respectively, in distributions from the North Baker trusts.

10. Deferred Revenue

Deferred revenue of \$5,000 and \$803,551 at June 30, 2016 and 2015, respectively, represented revenue from transactions for which the earnings process had 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. 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 \$3,073 as of June 30, 2017.

The office equipment lease requires a monthly payment totaling of \$695 as of June 30, 2017. Minimum annual payments on operating leases extending beyond one year at June 30, 2017 are as follows: **Year ending June 30, 2018: \$8,340** and **Year ending June 30, 2019: \$3,121**. Rent expense relating to office and equipment amounted to \$53,079 and \$54,183 for the years ended June 30, 2017 and 2016, respectively.

12. Collections

Collections include books, artwork, paintings, sculptures, original documents and other physical property related to the history of California.

Included in temporarily restricted net assets at June 30, 2017 and 2016 are \$462,483 and \$462,601, respectively, in funds received from prior sales of collection items (**see footnote 8**). During the year ended June 30, 2017, the Society utilized \$118 in temporarily restricted fund for the purchase of collection items (as permitted under ASC 958.360.25-3). There were no acquisitions during the year ended June 30, 2016. For insurance purposes, the Society has estimated the fair value of all collection items to be approximately \$16 million (**see footnote 6**).

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, 2017 and 2016, 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

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.

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, 2016, 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, 2016.

On March 8, 2017, 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 2017 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 \$123,339 and \$144,848 at June 30, 2017 and 2016, respectively. Estimated future principal payments under the terms of the bank loan at June 30, 2017 are as follows: **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 \$8,449 and \$7,535 for the years ended June 30, 2017 and 2016, 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 \$66,243 and \$65,975 as of June 30, 2017 and 2016, 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 November 3, 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.