

GOLDEN GATE
NATIONAL PARKS CONSERVANCY

SEPTEMBER 30, 2009

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Golden Gate National Park Conservancy

Independent Auditors' Report and Financial Statements

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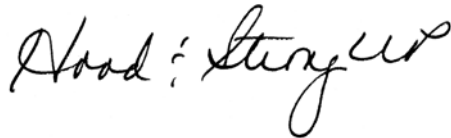
Independent Auditors' Report

THE BOARD OF TRUSTEES
GOLDEN GATE NATIONAL PARKS CONSERVANCY
San Francisco, California

We have audited the accompanying statement of financial position of **GOLDEN GATE NATIONAL PARKS CONSERVANCY (the Conservancy)** as of September 30, 2009, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Conservancy's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Conservancy's 2008 financial statements and in our report, dated March 27, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Golden Gate National Parks Conservancy as of September 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



February 22, 2010

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Golden Gate National Parks Conservancy

Statement of Financial Position

| <i>September 30,</i> | 2009 | 2008 |
|---|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 4,991,196 | \$ 3,374,599 |
| Accounts receivable | 4,265,468 | 5,181,266 |
| Contributions receivable, net | 1,517,495 | 1,638,148 |
| Investments | 22,371,347 | 20,311,198 |
| Inventories | 1,540,455 | 1,857,062 |
| Furniture, fixtures and equipment, net | 1,110,959 | 685,308 |
| Prepaid expenses and other assets | 315,670 | 543,644 |
| Total Assets | \$ 36,112,590 | \$ 33,591,225 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 4,111,873 | \$ 2,047,127 |
| Accrued payroll related expenses | 1,123,646 | 1,016,603 |
| Deferred revenue | 2,035,222 | 641,134 |
| Total liabilities | 7,270,741 | 3,704,864 |
| Net Assets: | | |
| Unrestricted: | | |
| Undesignated | 9,872,339 | 7,813,102 |
| Board-designated for park projects and programs | 5,893,995 | 6,047,584 |
| Total unrestricted net assets | 15,766,334 | 13,860,686 |
| Temporarily restricted | 8,406,238 | 11,356,398 |
| Permanently restricted | 4,669,277 | 4,669,277 |
| Total net assets | 28,841,849 | 29,886,361 |
| Total Liabilities and Net Assets | \$ 36,112,590 | \$ 33,591,225 |

Golden Gate National Parks Conservancy

Statement of Activities and Changes in Net Assets

Year Ended September 30, 2009 (with comparative totals for 2008)

| | 2009 | | | 2008 Total | |
|---|----------------------|---------------------------|---------------------------|----------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | Total |
| Support and Revenue: | | | | | |
| Gross program revenue | \$ 22,085,150 | | | \$ 22,085,150 | \$ 21,294,712 |
| Cost of goods and services | (5,206,394) | | | (5,206,394) | (5,202,766) |
| Program revenue, net | 16,878,756 | | | 16,878,756 | 16,091,946 |
| Contributed income | 1,481,773 | \$ 3,104,277 | | 4,586,050 | 8,680,165 |
| Investment income | 228,656 | 190,047 | | 418,703 | 519,580 |
| Net realized and unrealized (loss) gain on investments | 72,511 | 7,929 | | 80,440 | (1,764,199) |
| Underwater endowments | (146,082) | 146,082 | | | |
| Mitigation awards | 4,522 | | | 4,522 | 11,936 |
| State contract-relocation project | 2,606,671 | | | 2,606,671 | |
| Other income | 27,642 | | | 27,642 | 70,050 |
| Cooperative agreement reimbursements | 5,669,581 | | | 5,669,581 | 5,713,338 |
| Net assets released from restrictions | 6,398,495 | (6,398,495) | | | |
| Total support and revenue | 33,222,525 | (2,950,160) | | 30,272,365 | 29,322,816 |
| Expenses: | | | | | |
| Program services - aid to park projects and programs: | | | | | |
| Interpretation | 1,675,995 | | | 1,675,995 | 1,557,307 |
| Park enhancements | 11,180,866 | | | 11,180,866 | 13,364,184 |
| Community programs | 7,383,310 | | | 7,383,310 | 3,634,685 |
| Total aid to park projects and programs | 20,240,171 | | | 20,240,171 | 18,556,176 |
| Visitor program services | 5,406,345 | | | 5,406,345 | 4,990,671 |
| Total program services | 25,646,516 | | | 25,646,516 | 23,546,847 |
| Fundraising | 660,934 | | | 660,934 | 795,731 |
| Management and general | 5,009,427 | | | 5,009,427 | 4,011,505 |
| Total expenses | 31,316,877 | | | 31,316,877 | 28,354,083 |
| Change in Net Assets | 1,905,648 | (2,950,160) | | (1,044,512) | 968,733 |
| Net Assets, beginning of year | 13,860,686 | 11,356,398 | \$ 4,669,277 | 29,886,361 | 28,917,628 |
| Net Assets, end of year | \$ 15,766,334 | \$ 8,406,238 | \$ 4,669,277 | \$ 28,841,849 | \$ 29,886,361 |

Golden Gate National Parks Conservancy

Statement of Cash Flows

| <i>Years Ended September 30,</i> | 2009 | 2008 |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Change in net assets | \$ (1,044,512) | \$ 968,733 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Contributions of investment securities | | (49,537) |
| Contributions of donated property | 5,467 | |
| Depreciation and amortization | 373,294 | 259,319 |
| Loss on disposal of furniture, fixtures and equipment | (1,112) | (3,552) |
| Net realized and unrealized (gain) loss on investments | (80,440) | 1,764,199 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 915,798 | (1,680,966) |
| Contributions receivable | 120,653 | (644,768) |
| Inventories | 316,607 | (197,528) |
| Prepaid expenses and other assets | 227,974 | (185,789) |
| Accounts payable and accrued liabilities | 1,802,843 | 181,046 |
| Accrued payroll related expenses | 107,043 | (133,943) |
| Deferred revenue | 1,394,088 | 105,184 |
| Net cash provided by operating activities | 4,137,703 | 382,398 |
| Cash Flows from Investing Activities: | | |
| Purchases of investments | (60,311,245) | (73,344,784) |
| Proceeds from maturities or sales of investments | 58,331,536 | 68,974,809 |
| Purchases of furniture, fixtures and equipment | (517,351) | (516,866) |
| Net cash used by investing activities | (2,497,060) | (4,886,841) |
| Cash Flows from Financing Activities: | | |
| Payments under capital lease obligations | (24,046) | (3,251) |
| Net cash used by financing activities | (24,046) | (3,251) |
| Change in Cash and Cash Equivalents | 1,616,597 | (4,507,694) |
| Cash and Cash Equivalents, beginning of year | 3,374,599 | 7,882,293 |
| Cash and Cash Equivalents, end of year | \$ 4,991,196 | \$ 3,374,599 |
| Supplemental Data: | | |
| Interest paid | \$ 16,148 | \$ 620 |
| Non-Cash Investing and Financing Activities: | | |
| Capital lease forgiven | | \$ 39,160 |
| Capital lease obligations incurred for use of equipment | \$ 285,949 | |

Golden Gate National Parks Conservancy

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies:

a. Organization

The Golden Gate National Parks Conservancy (the Conservancy) is a not-for-profit organization whose mission is to support the preservation, enhancement and interpretation of the Golden Gate National Parks. The Conservancy is a cooperating association of the National Park Service and the Presidio Trust. The Conservancy is supported through contributions, income earned from interpretive tours on Alcatraz Island, and the sale of educational materials at various visitor centers throughout the Golden Gate National Parks.

b. Tax-Exempt Status

The Conservancy has been classified as a publicly supported, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the IRC), and is exempt from California franchise taxes under Revenue and Taxation Code Section 23701(d).

c. Basis of Presentation

The Conservancy's financial statements are presented on the accrual basis of accounting and have been presented showing unrestricted, temporarily restricted, and permanently restricted net assets and are prepared in accordance with accounting principles generally accepted in the United States of America.

d. Cash and Cash Equivalents

Cash and cash equivalents include cash and liquid investments with an initial maturity of three months or less and not held for investment purposes.

e. Investments

All debt and equity securities with readily determinable market values are carried at estimated fair value based on closing market prices. Investments received through gifts are recorded at estimated fair value at the date of donation. The fair value of alternative investments are recorded at values as determined by the individual fund managers. Due to the inherent uncertainty of valuation of non-marketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

Gains and losses that result from market fluctuations are recognized in the statement of activities in the period such fluctuations occur. Dividend and interest income are accrued when earned.

Golden Gate National Parks Conservancy

Notes to Financial Statements

f. Accounts Receivable

The Conservancy's accounts receivable consist primarily of amounts due from reimbursable grant agreements, Alcatraz audio tours and insurance claims.

g. Contributions Receivable

Contributions receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value based upon the present value of their estimated future cash flows. For 2009, the discounts are computed using estimated market rates. Prior to 2009, the discounts were computed using risk-free interest rates applicable in the years in which those promises were received. Amortization of the discounts is included in contributed income.

h. Allowance for Doubtful Accounts

The Conservancy uses the allowance method to account for uncollectible receivables and contributions. The allowance for doubtful accounts is based on historical experience and an evaluation of the outstanding receivables at the end of the year. The allowance for uncollectible receivables and contributions receivable was \$33,612 as of September 30, 2009.

i. Inventories

Inventories are stated at weighted average cost and generally consist of books and other merchandise held for retail sale.

j. Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are stated at cost. Depreciation is computed on the half-year convention method over the estimated useful lives of the assets, ranging from 3 to 7 years. Amortization of leasehold improvements is computed on the straight-line method over the estimated useful lives of the assets.

Contributed equipment is recorded at fair value at the date of donation. In the absence of donor stipulations restricting how the contributed assets are to be used, the asset is treated as unrestricted.

k. Beneficial Interest in Charitable Trust Assets

Beneficial interest in charitable trust assets includes the fair value of the Conservancy's interest in a charitable remainder trust. The fair value is measured by the estimated present value of the remainder interest using the RP-2000 combined healthy mortality table and a discount rate of 4.6%.

Golden Gate National Parks Conservancy

Notes to Financial Statements

The Conservancy recognizes its remainder interest in the assets received as temporarily restricted contribution revenue in the period in which the donor contributes the assets. Subsequent changes in the estimated fair value are recognized in the statement of activities.

l. Deferred Revenue

Deferred revenue consists primarily of mitigation advances and funds from government agencies received in advance. Mitigation advances generally result from court-ordered consent decrees, or settlements reached by parties involved in regulatory actions. Accordingly, support from mitigation advances is recognized as the terms of the specific mitigation awards are met.

m. Unrestricted Net Assets

Unrestricted net assets represent both unrestricted resources available to support the Conservancy's activities and temporarily restricted resources, which become available for use by the Conservancy in accordance with the intention of donors. Unrestricted net assets designated by the Board of Trustees for park projects and programs are reported as board-designated.

n. Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions whose use is limited by donor-imposed stipulations that can be fulfilled and removed by actions of the Conservancy pursuant to those stipulations or by the passage of time.

o. Permanently Restricted Net Assets

Permanently restricted net assets have been donor-restricted for investment in perpetuity, the earnings from which are available for Crissy Field center-related programs, Presidio restoration efforts, and general operations.

p. Revenue Recognition

Contributions are recognized as revenue at their fair value when the donor makes an unconditional promise to give to the Conservancy. Contributions that are restricted by the donor are recorded as restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Temporarily restricted contributions are reported as temporarily restricted support and net assets released from restrictions when the restriction is met in the same period as the contribution is received.

Conditional promises to give are not included as support until the conditions are substantially met. As of September 30, 2009, conditional promises totaled approximately \$9,541,000.

Golden Gate National Parks Conservancy

Notes to Financial Statements

Program revenue consists of audio tour rental fees, interpretive tours, public programs, and sales of educational publications at various book store locations. Program revenue is recognized when the related service has been rendered or when the publication has been shipped. Program revenue is deferred when cash is received in advance of providing the service or publication.

Cooperative reimbursement agreements consist of federal and non-federal reimbursable grant agreements. Under the terms of the agreements, the grantor reimburses the Conservancy for allowable expenses incurred for the specific program funded. Accordingly, revenue is recognized as the related expenses are incurred.

q. Donated Services

Contributions of services are recognized when received if such services (a) enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. A substantial number of volunteers have donated significant amounts of time in the Conservancy's program services and fundraising activities. The value of donated volunteer services has not been recognized in the accompanying financial statements because such volunteer services do not meet the above-mentioned criteria.

r. National Park Service Land and Facilities

Improvements

The Conservancy operates its programs on and offers assistance in the preservation of Golden Gate National Parks land, which is owned by the National Park Service. From time to time, the Conservancy makes improvements to Park property. These improvements are expensed as incurred and have been included in Park Enhancements in the statement of activities.

Facilities

The Conservancy receives office space at no charge from the National Park Service as part of its agreement as a cooperating association. The space is provided for the mutual benefit of both parties and no value is recorded.

s. Functional Expense Allocations

Expenses, such as depreciation and amortization, supplies, travel, personnel, and occupancy costs, are allocated among program services, management and general expense, and fundraising based on the program benefited and on estimates made by the Conservancy's management.

Golden Gate National Parks Conservancy

Notes to Financial Statements

t. Advertising Costs

The Conservancy expenses advertising costs as they are incurred. Advertising costs are incurred for the purpose of providing the visitor with information about park interpretive experiences and programs. Advertising costs were approximately \$176,000 and \$162,000 for 2009 and 2008, respectively.

u. 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. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

v. Comparative Information and Reclassifications

The consolidated financial statements include certain comparative information for which the prior year information is summarized in total but not by net asset class. Accordingly, such information should be read in conjunction with the Conservancy's financial statements for the year ended September 30, 2008, from which the summarized information is derived.

Certain reclassifications have been made to the prior year financial statements in order for them to conform to current year presentation. These reclassifications had no effect on net assets or change in net assets.

Note 2 - Contributions Receivable:

Contributions receivable at September 30, 2009 are scheduled to be received as follows:

| | |
|--|--------------|
| Year Ending September 30, | |
| 2010 | \$ 1,023,078 |
| 2011 | 451,500 |
| 2013 | 50,000 |
| | <hr/> |
| | 1,524,578 |
| Less discount on multi-year contributions receivable | (7,083) |
| | <hr/> |
| Contributions receivable, net | \$ 1,517,495 |

Golden Gate National Parks Conservancy

Notes to Financial Statements

Note 3 - Investments:

Investments at September 30 consisted of the following:

| | 2009 | 2008 |
|---------------------------|----------------------|----------------------|
| Commercial paper | | \$ 5,960,636 |
| Mutual funds - equity | \$ 6,006,140 | 5,149,317 |
| Mutual funds - bond | 4,517,651 | 2,158,439 |
| Government securities | | 6,873,336 |
| Alternative investments | 2,715,966 | |
| Fixed income | 7,366,147 | |
| Cash and cash equivalents | 1,765,443 | 169,470 |
| Total | \$ 22,371,347 | \$ 20,311,198 |

Subsequent to year-end, the Conservancy entered into a limited partnership agreement with an initial investment of \$500,000.

Note 4 - Fair Value Measurements:

The Conservancy adopted the FASB ASC 820, *Fair Value Measurements and Disclosures*. It requires the Conservancy to classify its financial assets and liabilities based on a valuation method using three levels. 1) Level 1 values are based on quoted prices unadjusted in active markets for identical securities that the organization has the ability to access as of the measurement date. 2) Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. 3) Level 3 values are based on significant unobservable inputs when little or no market data is available and that reflect the Conservancy's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investments.

Golden Gate National Parks Conservancy

Notes to Financial Statements

The table below presents the level hierarchy of assets measured at fair value on a recurring basis as of September 30, 2009:

| | Total | Level 1 | Level 2 | Level 3 |
|-------------------------------|----------------------|----------------------|---------------------|---------------------|
| Investments: | | | | |
| Mutual funds – equity | \$ 6,006,140 | \$ 1,680,452 | \$ 4,325,688 | |
| Mutual funds – bond | 4,517,651 | 4,517,651 | | |
| Alternative investments | 2,715,966 | | | \$ 2,715,966 |
| Fixed income | 7,366,147 | 5,154,737 | 1,519,178 | 692,232 |
| Cash and cash equivalents | 1,765,443 | 1,765,443 | | |
| <hr/> | | | | |
| Subtotal | 22,371,347 | 13,118,283 | 5,844,866 | 3,408,198 |
| Charitable remainder unitrust | 114,706 | | | 114,706 |
| <hr/> | | | | |
| Total | \$ 22,486,053 | \$ 13,118,283 | \$ 5,844,866 | \$ 3,522,904 |

Changes in assets classified as level 3 for the year ended September 30, 2009 are as follows:

| | |
|-----------------------------|--------------|
| Balance, September 30, 2008 | \$ 112,051 |
| Purchases | 3,350,000 |
| Income | 2,097 |
| Unrealized gains | 58,756 |
| <hr/> | |
| Balance, September 30, 2009 | \$ 3,522,904 |

The methods for determining fair value of the above assets are discussed in Note 1. There were no changes in the methods of valuation during the year.

Golden Gate National Parks Conservancy

Notes to Financial Statements

Note 5 - Furniture, Fixtures and Equipment:

Furniture, fixtures and equipment as of September 30, consisted of the following:

| | 2009 | 2008 |
|--|--------------|--------------|
| Equipment | \$ 2,267,669 | \$ 1,511,833 |
| Leasehold improvements | 245,764 | 223,882 |
| Automobiles | 30,928 | 54,022 |
| <hr/> | | |
| Total | 2,544,361 | 1,789,737 |
| Less accumulated depreciation and amortization | (1,433,402) | (1,104,429) |
| <hr/> | | |
| | \$ 1,110,959 | \$ 685,308 |

In 2009, equipment included leased point of sale software and equipment of \$307,047 and accumulated depreciation and amortization on equipment under capital leases of \$51,175. There were no capital leases in 2008.

Note 6- Deferred Revenue:

Deferred revenue as of September 30 consisted of the following:

| | 2009 | 2008 |
|---|--------------|------------|
| Revenue received in advance from state agency | \$ 1,393,329 | |
| Mitigation advances | 553,242 | \$ 557,764 |
| Other | 88,651 | 83,370 |
| <hr/> | | |
| | \$ 2,035,222 | \$ 641,134 |

Golden Gate National Parks Conservancy

Notes to Financial Statements

Note 7 - Lease Obligations:

The Conservancy leases certain office equipment, a warehouse facility and a retail store under operating leases. The aggregate future minimum annual rental payments under noncancelable leases in effect at September 30, 2009, are as follows:

| Years Ending September 30 | Operating Leases |
|------------------------------|---------------------|
| 2010 | \$ 210,000 |
| 2011 | 215,000 |
| 2012 | 216,000 |
| 2013 | 163,000 |
| 2014 | 168,000 |
| Thereafter | 702,000 |
| Total | \$ 1,674,000 |

Rent expense for the year ended September 30, 2009 was approximately \$183,000.

Note 8 - Temporarily Restricted Net Assets and Net Assets Released From Restrictions:

Temporarily restricted net assets as of September 30 are available for the following specific program services:

| | 2009 | 2008 |
|--------------------------------|--------------|---------------|
| Crissy Field Center Support | \$ 2,457,808 | \$ 2,488,378 |
| Crissy Field Capital Assets | 235,317 | 235,217 |
| Campaign for the Presidio | 2,143,754 | 5,578,025 |
| Robert D. Haas Fund | 658,483 | 600,716 |
| Presidio Visitor Center | 233,277 | 229,323 |
| Trails Forever Initiative | 1,651,513 | 1,308,915 |
| Fort Baker | 52,762 | 134,199 |
| Education Outreach Program | 176,105 | 199,002 |
| Charitable Remainder Trust | 114,706 | 112,051 |
| National Park Service projects | 71,511 | 74,115 |
| Other | 611,002 | 396,457 |
| Total | \$ 8,406,238 | \$ 11,356,398 |

Golden Gate National Parks Conservancy

Notes to Financial Statements

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the year ended September 30 as follows:

| | 2009 | 2008 |
|--|---------------------|---------------------|
| Crissy Field Center Support | \$ 618,518 | \$ 1,134,925 |
| Crissy Field Capital Assets | | 16,922 |
| Campaign for the Golden Gate | 4,121,818 | 4,516,966 |
| Robert D. Haas Fund | 25,807 | 882 |
| Trails Forever Initiative | 789,530 | 2,020,574 |
| Fort Baker | 593,512 | |
| Education Outreach Program | 44,398 | 35,540 |
| National Park Service projects | 45,061 | 48,651 |
| Other | 159,851 | 72,123 |
| Total net assets released from restrictions | \$ 6,398,495 | \$ 7,846,583 |

Note 9 - Endowment:

The Conservancy's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The Conservancy's endowment consists of five individual funds established for a variety of purposes, as follows:

| | |
|-----------------------|---------------------|
| Donor restricted: | |
| James R. Harvey fund | \$ 2,387,869 |
| Crissy Field - Osher | 2,152,752 |
| Ted Chong fund | 25,768 |
| Kincaid memorial fund | 102,888 |
| | \$ 4,669,277 |

| | |
|------------------------|--------------|
| Board designated: | |
| Crissy quasi endowment | \$ 2,373,903 |

The James R. Harvey Restoration Fund was established as an endowment to benefit the ongoing preservation and restoration of the Presidio. The Osher gift was established for environmental education at Crissy Field. The Ted Chong Endowment fund was established to benefit the Conservancy's native plant nursery programs. The DeSha family created an endowment fund in memory of Anne Kincaid to restore, protect and conserve the natural assets and features of the Golden Gate National Parks.

Golden Gate National Parks Conservancy

Notes to Financial Statements

The Conservancy's Board of Trustees approved the establishment of a quasi-endowment for the annual support of the Crissy Center.

a. Interpretation of relevant law

The Board of Trustees of the Conservancy has interpreted California's enacted version of the Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the fair value of the original gift as of the date of the gift absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conservancy classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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 portion of the donor-restricted endowment assets that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until appropriated by the Board for expenditure. In accordance with the Act, the Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

b. Endowment net asset composition by type of fund

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Donor-restricted endowment funds | \$ (146,082) | | \$ 4,669,277 | \$ 4,523,195 |
| Board-designated endowment funds | 2,373,903 | | | 2,373,903 |
| Total | \$ 2,227,821 | | \$ 4,669,277 | \$ 6,897,098 |

Golden Gate National Parks Conservancy

Notes to Financial Statements

c. Changes in endowment net assets

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|--------------|
| Endowment net assets, beginning of year | \$ 2,315,492 | | \$ 4,669,277 | \$ 6,984,769 |
| Investment return: | | | | |
| Investment income | 65,697 | \$ 121,379 | | 187,076 |
| Net decline (realized and unrealized) | 2,802 | (3,055) | | (253) |
| Total Investment return | 68,499 | 118,324 | | 186,823 |
| Appropriations of endowment assets for expenditure | (10,088) | (264,406) | | (274,494) |
| Subtotal before other changes | 2,373,903 | (146,082) | 4,669,277 | 6,897,098 |
| Other Changes: | | | | |
| Underwater endowments | (146,082) | 146,082 | | |
| Endowment net assets, end of year | \$ 2,227,821 | \$ - | \$ 4,669,277 | \$ 6,897,098 |

d. 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 the Act requires the Conservancy to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$146,082 as of September 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred during a period of downturn in the global markets and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

Golden Gate National Parks Conservancy

Notes to Financial Statements

e. Return objectives and risk parameters

The Conservancy 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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield while assuming a moderate level of investment risk. The Conservancy expects its endowment funds, over time, to provide an average rate of return of approximately 4.5 percent annually. Actual returns in any given year may vary from this amount.

f. Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Conservancy relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The organization targets a diversified asset allocation that places a greater emphasis on mutual equity and bond fund investments to achieve its long-term return objectives within prudent risk constraints.

g. Spending policy and how the investment objectives relate to spending policy

The Conservancy has had a general policy of appropriating for distribution each year the endowment earnings. The Conservancy is currently reviewing its policy in light of the Act. In establishing the new policy, the organization will consider the long-term expected return on its endowment. This is consistent with the organization'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.

Note 10 - Board Designated Net Assets:

At September 30, the board had designated net assets for the following projects and programs:

| | 2009 | 2008 |
|---------------------------------|---------------------|---------------------|
| Operating Reserves and Projects | \$ 3,324,554 | \$ 3,536,554 |
| Crissy Quasi-Endowment | 2,373,903 | 2,315,492 |
| New Ventures | 120,241 | 120,241 |
| Presidio Interpretation | 75,297 | 75,297 |
| | <u>\$ 5,893,995</u> | <u>\$ 6,047,584</u> |

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Note 11 - Retirement Plan:

The Conservancy operates a Tax Deferred Annuity Plan (the "Plan") under Section 403(b) of the IRC. All employees are eligible to participate in the Plan upon completing one year of service with at least 1,000 hours completed in that year. Participants may contribute any percentage of their annual compensation, not to exceed IRC limitations. The Conservancy matches the amount contributed by each participant up to a maximum of 5% of the participant's annual salary and makes an additional contribution of 2% of the participant's annual salary. Contributions made by the Conservancy for the year ended September 30, 2009 were \$546,473.

Note 12 - Contingencies:

The Conservancy is contingently liable in connection with claims and contracts arising in the normal course of its activities. In addition, the Conservancy receives funds from various federal and state government funded programs, which are subject to audit by cognizant governmental agencies. The Conservancy's management believes that the outcome of such matters will not have a significant effect on the Conservancy's financial position.

Note 13 - Concentrations:

Concentration of Credit Risk

Financial instruments, which potentially subject the Conservancy to credit risk, consist primarily of cash and cash equivalents, accounts and contributions receivable, and investments. The Conservancy maintains cash and cash equivalents with various financial institutions. At times, such amounts might exceed Federal Deposit Insurance Corporation limits. The Conservancy manages credit risk by establishing minimum credit standards for financial institutions and limiting the amount of credit exposure with any one institution. Accounts and contributions receivable are due from various individuals, companies and governmental agencies. The Conservancy's investments have been placed with major financial institutions and counterparties. The Conservancy closely monitors these financial instruments.

Revenues

Revenues from programs on Alcatraz Island, including audio tour rental fees, interpretive fees for the after hours program and educational publications, totaled approximately 80% of gross program revenue for fiscal 2009.

Contributions

Approximately 11% of contributed income for the year ended September 30, 2009 was attributable to various Board Trustees.

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Note 14 - Commitments:

The Conservancy has entered into various construction contracts for Lands End Trailhead and other trail enhancement projects totaling approximately \$5.5 million. As of September 30, 2009, the remaining costs on these contracts, for work to be completed were approximately \$2.2 million.

Note 15 - Subsequent Events:

The Conservancy has reviewed the results of operations for the period from its fiscal year ended September 30, 2009 through February 22, 2010 and has determined that no adjustments are necessary to the amounts reported in the accompanying consolidated financial statements.

Note 16 - Recent Accounting Pronouncements:

The FASB has published an update to the topic *Fair Value Measurements and Disclosures—Overall*, to permit a reporting entity to measure the fair value of certain investments based on the net asset value per share of the investment (or its equivalent). This Update also requires new disclosures, by major category of investments, about the attributes includes of investments within the scope of this amendment to the Codification. The guidance in this update is effective for interim and annual periods ending after December 15, 2009.

The FASB has also published an update to the topic of *Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*. This clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and provides guidance on the recognition, de-recognition and measurement of benefits related to an entity's uncertain tax position. In December 2008, a FASB Staff Position deferred the effective date for exempt organizations, permitting adoption for years beginning after December 15, 2008. The Conservancy has elected to defer the application. The Conservancy presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred.

The Conservancy is currently evaluating what effect, if any, the adoption of these updates will have on its financial statements.