

NATIONAL PARK FOUNDATION

FINANCIAL STATEMENTS

**Years Ended September 30, 2016 and 2015
AND
INDEPENDENT AUDITORS' REPORT**

TABLE OF CONTENTS

| Description | Pages |
|---|--------------|
| Independent Auditors' Report | 1 – 2 |
| Statements of Financial Position | 3 |
| Statement of Activities for the Year Ended September 30, 2016 | 4 |
| Statement of Activities for the Year Ended September 30, 2015 | 5 |
| Statements of Cash Flows | 6 |
| Notes to Financial Statements | 7 – 24 |

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
National Park Foundation

We have audited the accompanying financial statements of the National Park Foundation (the Foundation), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities and cash flows 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.

Auditors' 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Park Foundation as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Rubins & Company". The signature is written in a cursive, flowing style. The word "Rubins" is written in a large, rounded script, followed by an ampersand "&" and the word "Company" in a similar but slightly smaller script.

February 6, 2017
Bethesda, Maryland

NATIONAL PARK FOUNDATION
STATEMENTS OF FINANCIAL POSITION
September 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|---------------------------|---------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 29,382,410 | \$ 10,203,045 |
| Accounts and other receivables | 18,609 | 16,980 |
| Prepaid and deferred expenses | 1,055,196 | 421,246 |
| Pledges receivable, net | 57,835,650 | 52,851,158 |
| Investments, at market | 72,317,801 | 66,093,020 |
| Furniture and equipment, net | 788,971 | 234,381 |
| Conservation property | 37,777 | 6,887,777 |
| Funds managed as agent for others | <u>30,764,450</u> | <u>26,205,014</u> |
| Total assets | <u>\$ 192,200,864</u> | <u>\$ 162,912,621</u> |
| LIABILITIES AND NET ASSETS | | |
| Accounts and other payables | \$ 3,277,916 | \$ 2,956,038 |
| Grants payable, net | 715,010 | 2,286,519 |
| Notes payable | 1,000,000 | - |
| Deferred rent | 189,033 | 168,905 |
| Funds managed as agent for others | <u>30,764,450</u> | <u>26,205,014</u> |
| Total liabilities | <u>35,946,409</u> | <u>31,616,476</u> |
| Net assets | | |
| Unrestricted | 32,710,159 | 30,818,648 |
| Temporarily restricted | 92,783,986 | 90,014,107 |
| Permanently restricted | <u>30,760,310</u> | <u>10,463,390</u> |
| Total net assets | <u>156,254,455</u> | <u>131,296,145</u> |
| Total liabilities and net assets | <u>\$ 192,200,864</u> | <u>\$ 162,912,621</u> |

The accompanying notes are an integral part of these financial statements.

**NATIONAL PARK FOUNDATION
STATEMENT OF ACTIVITIES
Year Ended September 30, 2016**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|----------------------|-----------------------------------|-----------------------------------|-----------------------|
| Revenue and support | | | | |
| Contributions and gifts | \$ 18,114,659 | \$ 38,348,337 | \$ 20,296,920 | \$ 76,759,916 |
| Contributed property, goods and services | 480,000 | 81,344,144 | - | 81,824,144 |
| Litigation settlement contributions | - | 37,767 | - | 37,767 |
| Management and other income | 1,886,592 | 361,470 | - | 2,248,062 |
| Net assets released from restrictions - satisfaction of program and time restrictions | <u>121,784,472</u> | <u>(121,784,472)</u> | <u>-</u> | <u>-</u> |
| Total revenue and support | <u>142,265,723</u> | <u>(1,692,754)</u> | <u>20,296,920</u> | <u>160,869,889</u> |
| Expenses | | | | |
| Program services | | | | |
| Program grants | 20,686,908 | - | - | 20,686,908 |
| Program grants (land) | 80,246,500 | - | - | 80,246,500 |
| Program support | <u>25,094,255</u> | <u>-</u> | <u>-</u> | <u>25,094,255</u> |
| Total program expenses | 126,027,663 | - | - | 126,027,663 |
| Supporting services | | | | |
| General and administrative | 6,387,553 | - | - | 6,387,553 |
| Fundraising | <u>10,320,311</u> | <u>-</u> | <u>-</u> | <u>10,320,311</u> |
| Total expenses | <u>142,735,527</u> | <u>-</u> | <u>-</u> | <u>142,735,527</u> |
| Changes in net assets from operations | (469,804) | (1,692,754) | 20,296,920 | 18,134,362 |
| Non-operating activity | | | | |
| Investment income (loss) | <u>2,361,315</u> | <u>4,462,633</u> | <u>-</u> | <u>6,823,948</u> |
| Changes in net assets | 1,891,511 | 2,769,879 | 20,296,920 | 24,958,310 |
| Net assets, beginning of year | <u>30,818,648</u> | <u>90,014,107</u> | <u>10,463,390</u> | <u>131,296,145</u> |
| Net assets, end of year | <u>\$ 32,710,159</u> | <u>\$ 92,783,986</u> | <u>\$ 30,760,310</u> | <u>\$ 156,254,455</u> |

The accompanying notes are an integral part of these financial statements.

**NATIONAL PARK FOUNDATION
STATEMENT OF ACTIVITIES
Year Ended September 30, 2015**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|----------------------|-----------------------------------|-----------------------------------|-----------------------|
| Revenue and support | | | | |
| Contributions and gifts | \$ 15,825,417 | \$ 47,427,994 | \$ - | \$ 63,253,411 |
| Contributed property, goods and services | 849,303 | 9,415,849 | - | 10,265,152 |
| Litigation settlement contributions | - | 134,613 | - | 134,613 |
| Management and other income | 1,881,407 | 225,174 | - | 2,106,581 |
| Net assets released from restrictions - satisfaction of program and time restrictions | <u>30,292,540</u> | <u>(30,292,540)</u> | <u>-</u> | <u>-</u> |
| Total revenue and support | <u>48,848,667</u> | <u>26,911,090</u> | <u>-</u> | <u>75,759,757</u> |
| Expenses | | | | |
| Program services | | | | |
| Program grants | 16,922,034 | - | - | 16,922,034 |
| Program support | <u>14,616,253</u> | <u>-</u> | <u>-</u> | <u>14,616,253</u> |
| Total program expenses | 31,538,287 | - | - | 31,538,287 |
| Supporting services | | | | |
| General and administrative | 6,669,127 | - | - | 6,669,127 |
| Fundraising | <u>9,606,839</u> | <u>-</u> | <u>-</u> | <u>9,606,839</u> |
| Total expenses | <u>47,814,253</u> | <u>-</u> | <u>-</u> | <u>47,814,253</u> |
| Changes in net assets from operations | 1,034,414 | 26,911,090 | - | 27,945,504 |
| Non-operating activity | | | | |
| Investment income (loss) | (218,616) | (410,024) | - | (628,640) |
| Gain on disposal of equipment | 2,903 | - | - | 2,903 |
| Bad debt expense | <u>(96,564)</u> | <u>-</u> | <u>-</u> | <u>(96,564)</u> |
| Total non-operating activity | <u>(312,277)</u> | <u>(410,024)</u> | <u>-</u> | <u>(722,301)</u> |
| Changes in net assets | 722,137 | 26,501,066 | - | 27,223,203 |
| Net assets, beginning of year | <u>30,096,511</u> | <u>63,513,041</u> | <u>10,463,390</u> | <u>104,072,942</u> |
| Net assets, end of year | <u>\$ 30,818,648</u> | <u>\$ 90,014,107</u> | <u>\$ 10,463,390</u> | <u>\$ 131,296,145</u> |

The accompanying notes are an integral part of these financial statements.

**NATIONAL PARK FOUNDATION
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2016 and 2015**

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 24,958,310 | \$ 27,223,203 |
| Reconciling adjustments: | | |
| Net realized and unrealized (gains) losses on marketable securities | (4,517,460) | 3,205,621 |
| Depreciation and amortization | 207,106 | 73,717 |
| Distribution (contribution) of conservation property | 6,850,000 | (6,850,000) |
| Loss on disposal of property and equipment | - | (2,903) |
| Allowance for present value of pledges receivable | 703,748 | 378,892 |
| Allowance for doubtful pledges | (8,000) | (1,570) |
| Bad debt expense, pledges receivable | - | 96,564 |
| Changes in operating assets and liabilities: | | |
| Pledges receivable | (5,680,240) | (27,065,520) |
| Accounts and other receivables | (1,629) | 47,589 |
| Prepaid and deferred expenses | (633,950) | (179,181) |
| Accounts and other payables | 341,432 | 1,400,083 |
| Deferred rent | 20,128 | 168,905 |
| Grants payable | <u>(1,571,509)</u> | <u>(742,407)</u> |
| Net cash provided (used) by operating activities | <u>20,667,936</u> | <u>(2,247,007)</u> |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (761,696) | (101,227) |
| Purchases of marketable securities | (10,943,520) | (6,014,921) |
| Sales of marketable securities | <u>9,236,199</u> | <u>9,236,195</u> |
| Net cash (used) provided by investing activities | <u>(2,469,017)</u> | <u>3,120,047</u> |
| Cash flows from financing activities: | | |
| Proceeds from notes payable | 1,000,000 | - |
| Principal payments on capital lease obligation | <u>(19,554)</u> | <u>(16,444)</u> |
| Net cash provided (used) by financing activities | <u>980,446</u> | <u>(16,444)</u> |
| Net increase in cash and cash equivalents | 19,179,365 | 856,596 |
| Cash and cash equivalents, beginning of year | <u>10,203,045</u> | <u>9,346,449</u> |
| Cash and cash equivalents, end of year | <u>\$ 29,382,410</u> | <u>\$ 10,203,045</u> |
| Interest paid | <u>\$ 5,396</u> | <u>\$ 4,357</u> |
| Property additions financed through lease obligations | <u>\$ -</u> | <u>\$ 61,796</u> |

The accompanying notes are an integral part of these financial statements.

NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015

1. Organization

The National Park Foundation (the Foundation), a not-for-profit, charitable corporation located in Washington, D.C., was established in 1967 by an Act of the U.S. Congress (Public Law 90-209). The purpose of the Foundation is to provide a means for citizen participation in, and support of, the National Park System. The Foundation receives contributions and raises funds to help conserve, preserve, and enhance the national parks in the United States.

Public Law 90-209 provides that the Foundation will consist of a Board of Directors (the Board) having as members the Secretary of the Interior, who will be Chairman of the Board; the Director of the National Park Service (NPS), who will be Secretary; and not less than six private citizens appointed by the Secretary of the Interior. All Directors serve without compensation.

The Foundation is exempt from federal income taxes under Public Law 90-209, as described in Section 501(c)(1)(a)(i) of the Internal Revenue Code (IRC). In addition, in 1981, the Foundation received a determination that it is also exempt from federal income taxes under Section 501(c)(3) of the IRC and it qualifies as a public charity under Section 509(a)(1) of the IRC. The Foundation received a determination letter in 2000 that specifically states it is exempt from filing the Return of Organizations Exempt from Income Tax, Form 990, unless the Foundation has unrelated business income. Effective fiscal year 2012, the Board of Directors elected to file Form 990 on an annual basis.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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 these estimates.

Basis of Accounting

The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

**NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015**

2. Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash includes interest and non-interest bearing operating accounts with insured financial institutions. Deposits often exceed federally insured limits. Management, however, does not consider this a significant concentration of credit risk. Cash equivalents at September 30, 2016 and 2015, include money market accounts. Cash and cash equivalents exclude such amounts included with the investment pool as those funds are part of the investment strategy and portfolio.

Investments

Investments are recorded at estimated fair value based on quoted market prices provided by the investment managers. Realized and unrealized holding gains and losses are included as non-operating investment income in the statement of activities. Net investment income is reported as an increase in unrestricted net assets, unless restricted by donor or law.

Funds Managed as Agent for Other Entities

Funds managed as agent for other entities are excluded from net assets. The Foundation acts as the custodial agent of these funds so the related revenues and expenses are not recognized in the accompanying statements of activities.

Furniture and Equipment

The Foundation capitalizes all property and equipment purchased with non-Federal funds with a cost of \$5,000 or more. Furniture and equipment is recorded at cost and depreciated on the straight-line basis over estimated useful lives of 3 to 8 years. Leasehold improvements are also recorded at cost and are amortized over their estimated useful lives or terms of the lease, whichever is shorter.

Maintenance and repair costs are charged to expense as incurred. Replacements and betterments are capitalized. At the time properties are retired or otherwise disposed of, the property and related accumulated depreciation or amortization accounts are relieved of the applicable amounts and any gain or loss is credited or charged to income.

**NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015**

2. Significant Accounting Policies (continued)

Conservation Property

The Foundation acquires conservation property through donations or purchases for subsequent sale or donation to or for the benefit of the NPS. Real property donated is valued at its estimated fair market value at the time of donation. The carrying value is reduced if the estimated market value decreases below the original recorded value. Covenants on the properties restrict their future use to conservation activities.

Grant Expenses and Grants Payable

The Foundation is both a grantee and grantor organization. As a grantor, the Foundation recognizes grant expense when the Board has awarded a grant and the grant becomes an enforceable liability (i.e., when substantially all conditions placed on the grantee are met). Grants payable represent grants awarded but not yet disbursed.

Program grants consist of expenditures and the value of in-kind contributions that directly benefit the individual or groups of specific national parks. Program support includes all direct program costs that generally benefit the National Park System.

Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, pledges, accounts receivable, investments and accounts and grants payable. Management estimates that the respective fair values of the financial instruments, other than investments, approximate their recorded values in the consolidated balance sheets due to the relative short-term nature of those instruments. Investments are recorded at fair value in the statements of financial position as discussed in Notes 3 and 16.

Revenue Recognition

Grant Revenue and Support

Revenue and support from government contracts and grants that provide for cost reimbursement are recognized when the related direct and allocated indirect expenses are incurred, deliverables are met, or per-diem services are provided. Revenue recognized in excess of cash received is reported as grants receivable. Cash received in excess of revenue recognized is reported as deferred revenue.

**NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015**

2. Significant Accounting Policies (continued)

Contributions

Contributions and unconditional promises to give are recorded as support, at fair value, when received as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restriction, including inherent time restrictions. Contributions that are restricted by the donor as to time or purpose are reported as an increase in temporarily restricted net assets. When a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. If donors stipulate how the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Unconditional promises to give are reported at their net realizable value as pledges receivable in the accompanying statements of financial position. Unconditional promises to give that are expected to be collected in future years are discounted to present values using a blended rate that contemplates the donor's estimated borrowing rate, and a risk-free rate of return, at the date the contribution is made. The collectability of the pledges receivable is evaluated by management periodically throughout the year, and an allowance for uncollectible amounts, is recorded in the period such a determination is made. Conditional promises to give are not recorded as receivables until the conditions are satisfied. Contributions and grants received by the Foundation consist of support provided primarily by corporations and foundations.

Endowment Funds

Endowment gifts are recognized as support when received. The principal amount of the gift is maintained intact. Investment income on endowments is recognized as an increase in unrestricted net assets, unless the income is restricted by donor or law and such restrictions have not been met in the same fiscal year. The Foundation follows the enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) reporting. The required expanded disclosures are included in Note 8.

**NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015**

2. Significant Accounting Policies (continued)

Expense Allocations

The costs of providing various programs and other activities of the Foundation have been summarized on a functional basis in the statement of activities. Expenses are allocated among the programs and supporting services based on management's estimates of the proportion of the expenses applicable to each function.

Subsequent Events

Management has evaluated subsequent events through February 6, 2017, which is the date the financial statements were available to be issued. The accompanying financial statements recognize the effects of subsequent events that provide evidence about conditions that existed at the statement of position date, including the estimates inherent in the process of preparing financial statements. The accompanying financial statements do not recognize the effect of subsequent events that did not exist at the statement of position date, but disclosures of such events, if any, are included in the accompanying notes.

3. Investments

Investments consist of the following at September 30, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|-----------------------------|----------------------|----------------------|
| Money market funds | \$ 24,244 | \$ 5,200 |
| Mutual funds - fixed income | | |
| Intermediate-term | 7,945,411 | 7,733,806 |
| Short-term | 4,618,899 | 4,469,676 |
| Total bond index market | 10,782,582 | 10,443,595 |
| Other | 380,788 | 55,531 |
| | <u>23,727,680</u> | <u>22,702,608</u> |
| Mutual funds - equity | | |
| Domestic | 27,399,371 | 24,880,617 |
| International | 16,907,355 | 15,132,175 |
| Real estate | 4,259,151 | 3,372,420 |
| | <u>48,565,877</u> | <u>43,385,212</u> |
| Total investments | <u>\$ 72,317,801</u> | <u>\$ 66,093,020</u> |

**NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015**

3. Investments (continued)

Investment return is comprised of the following for the years ended September 30, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Interest and dividend income | \$ 2,306,488 | \$ 2,576,981 |
| Net realized and unrealized gains (losses) | <u>4,517,460</u> | <u>(3,205,621)</u> |
| Net investment return | <u>\$ 6,823,948</u> | <u>\$ (628,640)</u> |

Investments are reported at fair values at year-end. See Note 16 for a discussion of fair value measurements. The investments are subject to market risks, and their values fluctuate daily. Due to the level of risk associated with investment securities, changes in the values of investment securities will occur in the near term, and such changes could materially affect the Foundation's financial position.

4. Furniture and Equipment

A summary of furniture and equipment at September 30, 2016 and 2015, is as follows:

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Computer software and hardware | \$ 1,118,134 | \$ 356,438 |
| Furniture and equipment | <u>181,274</u> | <u>181,274</u> |
| | 1,299,408 | 537,712 |
| Less: accumulated depreciation and amortization | <u>(510,437)</u> | <u>(303,331)</u> |
| Furniture and equipment, net | <u>\$ 788,971</u> | <u>\$ 234,381</u> |

Depreciation and amortization expense totaled \$207,106 and \$73,717 for the years ended September 30, 2016 and 2015, respectively. The net book value of capital lease equipment was \$63,994 and \$85,455 at September 30, 2016 and 2015, respectively.

NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015

5. Pledges Receivable

Pledges receivable that are expected to be collected in future years are discounted to present values using a blended rate that contemplates the donor's estimated borrowing rate, and a risk free rate of return, at the time the unconditional promises are made. For each current year layer, this is a Level 3 input of fair value as discussed in Note 16. The discount rates for 2016 and 2015 range from 1.79% to 1.98%. The discount is amortized to support from contributions over the pledge collection period. Beginning in fiscal year 2013, an allowance for uncollectible pledges was established using the percentage of accounts receivable based on a four-year average of actual uncollectible amounts. At September 30, 2016 and 2015, the allowance for uncollectible pledges totaled \$423,699 and \$431,699, respectively.

Pledges receivable are expected to be collected as follows in 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|----------------------|----------------------|
| Due in less than one year | \$ 33,580,639 | \$ 29,491,334 |
| Due in two to five years | 23,148,433 | 24,382,498 |
| Due after five years | <u>2,955,000</u> | <u>130,000</u> |
| Total pledge receivable | 59,684,072 | 54,003,832 |
| Less: | | |
| Discount for present value | (1,424,723) | (720,975) |
| Allowance for doubtful pledges | <u>(423,699)</u> | <u>(431,699)</u> |
| Pledges receivable, net | <u>\$ 57,835,650</u> | <u>\$ 52,851,158</u> |

**NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015**

6. Grants Payable

Grants payable after one year are discounted using the Treasury bill rate at the time the commitments are made. At September 30, 2016, all grant outstanding were due in less than one year. The discount rates for 2015 ranged from 1.76% to 2.07%.

Grants payable are expected to be paid as follows in 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|----------------------------------|-----------------------|-------------------------|
| Due in less than one year | \$ 715,010 | \$ 2,117,110 |
| Due in two to five years | <u>-</u> | <u>182,500</u> |
| Total grant payable | 715,010 | 2,299,610 |
| Less: Discount for present value | <u>-</u> | <u>(13,091)</u> |
| Grants payable, net | <u>\$ 715,010</u> | <u>\$ 2,286,519</u> |

7. Net Assets

To ensure observance of the limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are internally maintained in accordance with the principles of project or fund accounting. Separate accounts are maintained for each fund. However, in the accompanying financial statements, funds are classified as unrestricted, temporarily restricted, and permanently restricted based on donor-imposed restrictions.

Unrestricted net assets include funds designated by the board for grants, general operations, and other projects.

Temporarily restricted net assets at September 30, 2016 and 2015, some of which are time restricted, are primarily available to support program grant and program support activities.

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support program activities.

NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015

8. Endowment Funds

The Foundation's endowment consists of multiple individual funds established to support program activities. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as an endowment. Net assets associated with endowment funds, including funds designated by the Board of Directors, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the fair value of the original gift as the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. 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 Foundation in a manner consistent with the standard of prudence described by the Act.

In accordance with the Act, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Foundation's 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 the investments;
- (6) Other resources of the Foundation; and
- (7) The investment policies of the Foundation.

**NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015**

8. Endowment Funds (continued)

Return Objectives and Risk Parameters

The Foundation 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 the donor-restricted funds that the Foundation 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 Directors, the endowment assets are invested in a manner that is intended to provide growth and to preserve or increase the real value of the endowment to meet the future needs of the national parks, always with the objective of selecting investment vehicles that are at an appropriate level of risk for a non-profit organization. Actual returns in any given year may vary.

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 Foundation to retain as a fund of perpetual duration. Deficiencies of this nature reported in unrestricted net assets were approximately \$15,000 and \$27,000 as of September 30, 2016 and 2015, respectively. These deficiencies result generally from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs.

Spending Policy

The Foundation currently appropriates funds for the distribution of program support activities based upon the demand for these purposes and on the availability of funds during the particular year. The Foundation has a board policy that permits as part of its annual budget process a transfer from the unrestricted Board-designated net assets to the unrestricted undesignated net assets of up to 5% of the average market value of the unrestricted board-designated net assets as of March 31 for the three preceding years. Additional transfers are permitted by Board action. Transfers during the year ended September 30, 2016 and 2015, were approximately \$2,000,000 and \$1,130,000, respectively.

NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015

8. Endowment Funds (continued)

The changes in endowment net assets for the years ended September 30, 2016 and 2015 are as follows:

| | Board Designated & Deficient Funds (Unrestricted) | Endowment Earnings (Temporarily Restricted) | Endowed Funds (Permanently Restricted) | Total |
|---|--|--|--|----------------------|
| Endowment net assets September 30, 2014 | <u>\$ 22,738,204</u> | <u>\$ 10,795,484</u> | <u>\$ 10,463,390</u> | <u>\$ 43,997,078</u> |
| Investment return: | | | | |
| Investment income | 946,407 | 967,335 | - | 1,913,742 |
| Net appreciation (realized and unrealized) | <u>(1,176,465)</u> | <u>(1,258,150)</u> | <u>-</u> | <u>(2,434,615)</u> |
| Total investment return | <u>(230,058)</u> | <u>(290,815)</u> | <u>-</u> | <u>(520,873)</u> |
| Contributions | <u>-</u> | <u>38,765</u> | <u>-</u> | <u>38,765</u> |
| Appropriation of endowment assets for expenditure | <u>(1,134,228)</u> | <u>(845,782)</u> | <u>-</u> | <u>(1,980,010)</u> |
| Reclassifications, net | <u>(2,285)</u> | <u>-</u> | <u>-</u> | <u>(2,285)</u> |
| Endowment net assets, September 30, 2015 | <u>21,371,633</u> | <u>9,697,652</u> | <u>10,463,390</u> | <u>41,532,675</u> |
| Investment return: | | | | |
| Investment income | 827,038 | 806,199 | - | 1,633,237 |
| Net appreciation (realized and unrealized) | <u>1,478,156</u> | <u>1,419,094</u> | <u>-</u> | <u>2,897,250</u> |
| Total investment return | <u>2,305,194</u> | <u>2,225,293</u> | <u>-</u> | <u>4,530,487</u> |
| Contributions | <u>-</u> | <u>48,913</u> | <u>20,296,920</u> | <u>20,345,833</u> |
| Appropriation of endowment assets for expenditure | <u>(2,000,000)</u> | <u>(551,986)</u> | <u>-</u> | <u>(2,551,986)</u> |
| Reclassifications, net | <u>11,923</u> | <u>-</u> | <u>-</u> | <u>11,923</u> |
| Endowment net assets, September 30, 2016 | <u>\$ 21,688,750</u> | <u>\$ 11,419,872</u> | <u>\$ 30,760,310</u> | <u>\$ 63,868,932</u> |

**NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015**

8. Endowment Funds (continued)

The net asset composition of the endowment funds as of September 30, 2016 and 2015, is as follows:

| | Board Designated & Deficient Funds (Unrestricted) | Endowment Earnings (Temporarily Restricted) | Endowed Funds (Permanently Restricted) | Total |
|------------------|--|--|--|----------------------|
| <u>2016</u> | | | | |
| Donor-restricted | \$ (15,466) | \$ 11,419,872 | \$ 30,760,310 | \$ 42,164,716 |
| Board-designated | <u>21,704,216</u> | <u>-</u> | <u>-</u> | <u>21,704,216</u> |
| Total funds | <u>\$ 21,688,750</u> | <u>\$ 11,419,872</u> | <u>\$ 30,760,310</u> | <u>\$ 63,868,932</u> |
| <u>2015</u> | | | | |
| Donor-restricted | \$ (27,389) | \$ 9,697,652 | \$ 10,463,390 | \$ 20,133,653 |
| Board-designated | <u>21,399,022</u> | <u>-</u> | <u>-</u> | <u>21,399,022</u> |
| Total funds | <u>\$ 21,371,633</u> | <u>\$ 9,697,652</u> | <u>\$ 10,463,390</u> | <u>\$ 41,532,675</u> |

9. Commitments

Operating Lease Commitments

The Foundation has entered into a lease agreement ending in May 2020 for subleased premises at 1110 Vermont Avenue. Rent payments are recognized as expense on a straight line-basis over the term of the lease. The deferred rent liability balance as of September 30, 2016 and 2015 was \$189,033 and \$168,905, respectively. Rental expense as of September 30, 2016 and 2015 totaled \$867,340 and \$581,675, respectively.

The minimum annual commitment under this lease is as follows:

| | |
|--------------------------------|---------------------|
| Year ending September 30, 2017 | \$ 877,000 |
| 2018 | 908,000 |
| 2019 | 939,000 |
| 2020 | <u>645,000</u> |
| | <u>\$ 3,369,000</u> |

**NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015**

9. Commitments (continued)

Capital Equipment Leases

The Foundation entered into lease agreements to finance certain equipment that expires July 2020. The lease agreements have been classified as capital leases which is generally accounted for as additions to property and equipment using lease financing. The capital lease liability is reported as part of accounts and other payables in the financial statements. The following is a schedule of future minimum payments under capital leases:

| | | | |
|------------------------------------|------|----|------------------|
| Year ending September 30, | 2017 | \$ | 23,632 |
| | 2018 | | 19,680 |
| | 2019 | | 19,680 |
| | 2020 | | <u>16,400</u> |
| Total minimum lease payments | | | 79,392 |
| Less: amount representing interest | | | <u>(9,338)</u> |
| Total principal obligation | | | <u>\$ 70,054</u> |

10. Line of Credit

The Foundation has an unsecured line of credit. The total amount available under the line of credit as of September 30, 2016 and 2015 is \$3,000,000. Borrowings bear interest at the one-month London Interbank Offered Rate (LIBOR) as quoted by the bank, two business days prior to the date of the draw. Such rate is to be effective and adjusted for Federal Reserve board reserve requirements and FDIC Insurance, plus 1.5%. The effective interest rate at September 30, 2016 and 2015 was 2%. There was no balance outstanding at September 30, 2016 and 2015. The line has not been drawn for the last ten years.

11. Notes Payable

During July 2016, the Foundation entered into a three-year loan agreement for \$1,000,000 with an unrelated nonprofit public benefit corporation. Interest on the unpaid principal is due monthly at rate of 1%. Principal payments of \$500,000 are due July 2018 and July 2019.

NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015

12. Donated Property, Goods and Services

On August 14, 2015, NPF Schoodic Woods LLC, a limited liability company organized under the laws of the District of Columbia, accepted the transfer and title of property valued at \$6,850,000 adjacent to Acadia National Park in Winter Harbor Maine. The owner/donor wishes to remain forever anonymous. During the year ended September 30, 2016, the LLC transferred the title of the property to the National Park Service.

During 2016, the Foundation received a gift of land in Maine valued at \$69,130,000. The Foundation transferred the title of the property to the National Park Service in August 2016. Other land transfers totaling \$4,266,500 were also made during 2016.

During 2016, the Foundation received donated goods and services valued at \$12,694,144 and \$10,265,152, respectively. These include recycled lumber for trails, travel- related support, and media support to specific Parks as well as various communication and outreach about philanthropy to the National Park System as a whole.

13. Litigation Settlement Contributions (Community Service Payments)

Since 1999, the Foundation has received over \$20 million from several litigation settlements. These funds represent voluntary community service payments from corporations that have entered into a plea agreement related to charges by the Department of Justice for violations of certain environment regulations such as polluting and the mistreatment of hazardous waste materials. The plea agreements specify the parks or areas to which the funds are to be allocated by the Foundation. The Foundation received \$37,767 and \$134,613, respectively, under these agreements for the years ended September 30, 2016 and 2015. The Foundation believes that these plea agreements represent voluntary non-reciprocal payments to the Foundation and has, therefore, classified them as temporarily restricted support.

14. Employee 403b Retirement Plan

Since September 1992, all employees over 21 years of age with at least one year of service to the Foundation (consisting of at least 1,000 hours of service in a 12-months period) are eligible to receive an employer matching contribution to the Plan.

The Foundation matches 100% of employees' contributions, up to 3% of salary, and 50% of the next 2% of employees' contribution, with a maximum contribution by the Foundation of 4%. Participants are eligible to participate after one year of service and are fully vested in all contributions of the Plan. The Foundation's contributions were \$124,155 and \$77,893, respectively, for the years ended September 30, 2016 and 2015.

**NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015**

15. Funds Managed as Agent for Other Entities

The Foundation acts as a fiscal agent of funds from other entities, for the benefit of or in connection with the National Park Service, its activities, or its services. At September 30, 2016 and 2015, the funds managed as an agent for other entities were invested in the following:

| | <u>2016</u> | <u>2015</u> |
|-----------------------------|----------------------|----------------------|
| Mutual funds - fixed income | | |
| Intermediate-term | \$ 4,605,753 | \$ 4,053,339 |
| Short-term | 3,067,156 | 2,686,160 |
| Total bond index market | <u>7,395,140</u> | <u>6,590,939</u> |
| | <u>15,068,049</u> | <u>13,330,438</u> |
| Mutual funds - equity | | |
| Domestic | 9,392,545 | 7,735,890 |
| International | <u>6,303,856</u> | <u>5,138,686</u> |
| | <u>15,696,401</u> | <u>12,874,576</u> |
| Total investments | <u>\$ 30,764,450</u> | <u>\$ 26,205,014</u> |

The funds are held for the following purposes as of September 30, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Washington Metropolitan Area Transit Authority (WATA) - park land | \$ 1,961,439 | \$ 1,856,376 |
| WMATA - tree and shrub replacement | 1,315,965 | 1,249,158 |
| Wetland mitigation - Everglades National Park | 26,986,337 | 22,365,803 |
| Other | <u>500,709</u> | <u>733,677</u> |
| Total funds managed as agent for other entities | <u>\$ 30,764,450</u> | <u>\$ 26,205,014</u> |

**NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015**

15. Funds Managed as Agent for Other Entities (continued)

The fund activity during the years ended September 30, 2016 and 2015 is as follows:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|----------------------|----------------------|
| Balance, beginning of the year | \$ 26,205,014 | \$ 21,953,973 |
| Receipts | 3,076,738 | 6,191,795 |
| Disbursements | (1,124,220) | (1,711,705) |
| Investment income, net | <u>2,606,918</u> | <u>(229,049)</u> |
| | | |
| Balance, end of the year | <u>\$ 30,764,450</u> | <u>\$ 26,205,014</u> |

16. Fair Value Measurements

The Foundation records its investments based on fair value on a recurring basis. Financial accounting and reporting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. The standards emphasize that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

As a basis for considering market participant assumptions in fair value measurements, the new standards established a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent from the reporting entity (observable inputs that are classified within level 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within level 3 of the hierarchy).

The fair value levels are as follows:

Level 1: Inputs that utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

**NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015**

16. Fair Value Measurements (continued)

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the assets or liabilities (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

Level 3: Inputs that are unobservable for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The determination of the fair value level within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Foundation's assessment of the significance of the particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the assets or liabilities.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported as of the end of the reporting period. For the years ended September 30, 2016 and 2015 there were no significant transfers in or out of levels 1, 2 or 3.

Investments in *money market and mutual funds* (Note 3 and Note 15) are valued at the net asset value of shares held by the Foundation at year-end reported in the listing of the applicable major exchanges.

The following summarizes information about the fair value measurements used as of September 30, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> | <u>Input Level</u> |
|---|---------------|---------------|--------------------|
| Investments (Notes 2 and 3) | \$ 72,317,801 | \$ 66,093,020 | 1 |
| Funds managed as agent for other entities - Investments (Note 15) | \$ 30,764,450 | \$ 26,205,014 | 1 |

**NATIONAL PARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2016 and 2015**

17. Concentrations

As of September 30, 2016, pledges receivable from two donors represented approximately 50% of total pledges receivable. The Foundation's support from those two donors for the year ended September 30, 2016 represented approximately 23% of total revenue and support.

As of September 30, 2015, pledges receivable from four donors represented approximately 57% of total pledges receivable. The Foundation's support from those four donors for the year ended September 30, 2015 represented approximately 20% of total revenue and support.