



Sonnenberg & Company, CPAs

A Professional Corporation

5190 Governor Drive, Suite 201, San Diego, California 92122

Phone: (858) 457-5252 • (800) 464-4HOA • Fax: (858) 457-2211 • (800) 303-4FAX



Leonard C. Sonnenberg, CPA

La Jolla Historical Society Audited Financial Statements June 30, 2017

Contents

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7-14



Sonnenberg & Company, CPAs

A Professional Corporation

5190 Governor Drive, Suite 201, San Diego, California 92122

Phone: (858) 457-5252 • (800) 464-4HOA • Fax: (858) 457-2211 • (800) 303-4FAX



Leonard C. Sonnenberg, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Members
La Jolla Historical Society

We have audited the accompanying statement of financial position of La Jolla Historical Society (Society) as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 U.S. generally accepted accounting principles; 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 audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 entities' 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 La Jolla Historical Society as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited La Jolla Historical Society's June 30, 2016 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 19, 2016. 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.

September 15, 2017



Sonnenberg & Company, CPAs

La Jolla Historical Society
Statement of Financial Position
June 30, 2017
(With Comparative Totals for June 30, 2016)

	2017	2016
ASSETS		
Cash and Cash Equivalents	\$ 141,231	\$ 162,216
Investments	312,257	281,905
Contract Receivable	25,842	32,718
Pledges Receivables, net allowance amount \$15,000	1,850	2,250
Other Receivables, net allowance amount \$11,428	38,412	20,820
Other Assets	29,974	13,710
Property and Equipment, net (Note 6)	4,272,455	4,314,594
Website (net of amortization of \$6,696)	13,394	18,416
	\$ 4,835,415	\$ 4,846,629
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 3,114	\$ 12,556
Accrued Payroll and Employee Benefits	9,918	13,822
Deferred Revenue - Membership Dues	12,578	15,965
Prepaid Event Income	13,400	20,300
Sales Tax Payable	98	34
	39,108	62,677
NET ASSETS		
Unrestricted - Undesignated	4,696,497	4,706,616
Temporarily Restricted	99,810	77,336
	4,796,307	4,783,952
	\$ 4,835,415	\$ 4,846,629

See Auditor's Report and Notes to Financial Statements

La Jolla Historical Society
Statement of Activities
For the Fiscal Year Ended June 30, 2017
(With Comparative Totals for the Fiscal Year Ended June 30, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Support				
Contributions	\$ 148,562	\$ 4,800	\$ 153,362	\$ 139,423
Contract Income	111,377	-	111,377	78,357
Grant Income	-	-	-	1,000
Membership	53,733	-	53,733	63,047
Special Events	710,598	-	710,598	664,604
Interest and Dividends	13,193	-	13,193	23,965
Realized Gains/(Losses)	8,167	-	8,167	(9,111)
Unrealized Gains and (Losses)	13,567	-	13,567	4,815
Other Income	10,831	-	10,831	9,846
Net Assets Released from Restrictions	12,326	(12,326)	-	-
Total Support	<u>1,082,354</u>	<u>(7,526)</u>	<u>1,074,828</u>	<u>975,946</u>
TOTAL SUPPORT AND REVENUE	<u>1,082,354</u>	<u>(7,526)</u>	<u>1,074,828</u>	<u>975,946</u>
EXPENSES				
Program Services	983,255	-	983,255	888,743
Supporting Activities				
Management and General	90,196	-	90,196	83,495
Fundraising	19,022	-	19,022	18,420
TOTAL EXPENSES	<u>1,092,473</u>	<u>-</u>	<u>1,092,473</u>	<u>990,658</u>
OTHER CHANGES				
Recovery from Uncollectible Pledges	-	30,000	30,000	20,000
CHANGE IN NET ASSETS	\$ (10,119)	\$ 22,474	\$ 12,355	\$ 5,288
Net Assets at Beginning of Fiscal Year	\$ <u>4,706,616</u>	\$ <u>77,336</u>	\$ <u>4,783,952</u>	\$ <u>4,778,664</u>
Net Assets at End of Fiscal Year	\$ <u><u>4,696,497</u></u>	\$ <u><u>99,810</u></u>	\$ <u><u>4,796,307</u></u>	\$ <u><u>4,783,952</u></u>

See Auditor's Report and Notes to Financial Statements

La Jolla Historical Society
Statement of Functional Expenses
For the Fiscal Year Ended June 30, 2017
(With Comparative Totals for the Fiscal Year Ended June 30, 2016)

	2017				2016
	Program Services	Management and General	Fundraising	Total	Total
Personnel Expenses:					
Salaries and Wages	\$ 117,909	\$ 42,111	\$ 8,422	\$ 168,442	\$ 162,539
Payroll Taxes	10,301	3,679	736	14,716	14,605
Employee Benefits	1,260	450	90	1,800	1,945
Total Personnel Expenses	<u>129,470</u>	<u>46,240</u>	<u>9,248</u>	<u>184,958</u>	<u>179,089</u>
Non-Personnel Expenses:					
Bad Debt Expense	11,428	-	-	11,428	-
Credit Card Processing and Bank Fee	4,560	-	-	4,560	4,209
Depreciation and Amortization	34,572	12,348	2,470	49,390	50,017
Development	4,491	-	236	4,727	6,093
Dues and Subscriptions	1,281	-	67	1,348	1,569
Equipment and Lease	5,790	1,943	39	7,772	7,383
Exhibitions	110,038	-	-	110,038	49,456
Insurance	13,816	4,935	987	19,738	16,416
Investment Fee	2,655	949	190	3,794	3,477
License and Filing Fee	294	105	21	420	470
Marketing	2,156	-	113	2,269	3,310
Miscellaneous	(123)	(44)	(9)	(176)	1,128
Newsletter/Magazines	14,612	-	769	15,381	17,513
Occupancy (storage, utilities, phone, landscap	20,697	7,392	1,478	29,567	25,261
Pass-thru Fundings	12,375	-	-	12,375	12,500
Payroll Service	1,187	424	85	1,696	1,677
Postage and Delivery	1,531	547	109	2,187	1,614
Printing and Reproduction	738	-	39	777	3,075
Professional Fees	31,787	11,353	2,271	45,411	29,362
Repairs and Maintenance	6,874	2,455	491	9,820	12,295
Security	2,555	912	182	3,649	1,703
Special Events Expenses	566,611	-	-	566,611	556,427
Supplies	1,784	637	127	2,548	3,566
Travel	2,076	-	109	2,185	2,848
Website	-	-	-	-	200
Total Non-Personnel Expenses	<u>853,785</u>	<u>43,956</u>	<u>9,774</u>	<u>907,515</u>	<u>811,569</u>
Total Functional Expenses for FY17	<u>\$ 983,255</u>	<u>\$ 90,196</u>	<u>\$ 19,022</u>	<u>\$ 1,092,473</u>	
Total Functional Expenses for FY16	<u>\$ 888,743</u>	<u>\$ 83,495</u>	<u>\$ 18,420</u>		<u>\$ 990,658</u>

See Auditor's Report and Notes to Financial Statements

La Jolla Historical Society
Statement of Cash Flow
For the Fiscal Year Ended June 30, 2017
(With Comparative Totals for the Fiscal Year Ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 12,355	\$ 5,288
Adjustments to Reconcile Change in Net Assets		
Depreciation	51,619	50,017
(Gains) Losses on Investments	(30,352)	17,030
(Increase) / Decrease in Current Assets:		
Pledges Receivables	400	6,000
Grant Receivable	-	8,500
Contract Receivable	6,876	(22,156)
Other Receivables, net allowance amount \$11,428	(17,592)	(18,030)
Other Assets	(16,264)	1,348
Increase / (Decrease) in Current Liabilities:		
Accounts Payable	(9,442)	5,030
Accrued Payroll and Employee Benefits	(3,904)	(1,296)
Sales Tax Payable	64	(50)
Prepaid Event Income	(6,900)	2,050
Deferred Revenue	(3,387)	(2,434)
Net Cash Provided (Used) by Operating Activities	(16,527)	51,297
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property & Equipment	(2,229)	(5,059)
Addition of Intangible Assets	-	(20,090)
Net Cash Provided (Used) by Investing Activities	(4,458)	(25,149)
Net Increase(Decrease) in Cash	(20,985)	26,148
Cash Balance at the Beginning of the Year	162,216	136,068
Cash Balance at the End of the Year	\$ 141,231	\$ 162,216

See Auditor's Report and Notes to Financial Statements

La Jolla Historical Society
Notes to Financial Statements
June 30, 2017

Note 1. Organization and Income Tax Status

Organization and Nature of Activities

The La Jolla Historical Society (the Society) is dedicated to the discovery, collection and preservation of La Jolla's heritage. Through our collections, programs and advocacy, we carry out our mission by discovering, recording and sharing La Jolla's history; preserving La Jolla's historical objects, sites and structures; increasing community awareness of the value of our heritage.

Income Tax Status

The Society is a California not-for-profit corporation exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California State Tax Code 23701(d). The Society currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The Society's financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles and the AICPA Accounting and Auditing Guide for Not-for-profit Entities.

The Society reports contributions received according to three classes: unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions are considered available for unrestricted use unless specifically restricted by the donors. It is the Society's policy to treat donor restricted contribution, whose restrictions are met in the same reporting period as unrestricted.

The Society is also 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.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of certificates of deposits and other securities with original maturities of 90 days or less. Securities with original maturities over 90 days are generally classified as short-term investments.

La Jolla Historical Society
Notes to Financial Statements
June 30, 2017

Note 2. Summary of Significant Accounting Policies (continued)

Unconditional Promises to Give/Pledge Receivables

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Investments

Investments consist primarily of assets invested in marketable equity and debt securities, and money - market accounts. The Society accounts for investments in accordance with FASB ASC 958-320 and subsections (formerly SFAS No. 124, *Accounting for Certain Investments Held by Non-for-Profit Organization* ["SFAS 124"]). This standard requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the statement of financial position. Fair value of marketable equity and debt securities is based on quoted market prices. The realized and unrealized gain or loss on investments is reflected in the statement of changes in net assets.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

The Society's investment policy intends for the Society to invest in assets that would produce results exceeding the investment's purchase price and incur a significant yield of return, while assuming a moderate level of investment risk. The Society expects its investment fund, over time, to provide a reasonable rate of return. To satisfy the long-term rate of return objective, the Society 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 Society targets a diversified asset allocation that places a greater emphasis on marketable equity and debt securities and money - market accounts to achieve its long-term objective within prudent risk constraints.

La Jolla Historical Society
Notes to Financial Statements
June 30, 2017

Note 2. Summary of Significant Accounting Policies (continued)

Donated Materials and Services

The estimated fair market value of donated goods, if any, is recorded in the financial statements. In conformance with U.S. generally accepted accounting principles, the Society accounts for donated services at fair market value in the financial statements when and if such services create or enhance nonfinancial assets or require specialized professional skills, and would need to be purchased if not donated.

Collections

Collection items acquired either through purchase or donation are not capitalized. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets. Contributions of collection items are not recognized in the Statement of Activities. Proceeds from deaccessions or insurance recoveries are reflected on the Statement of Activities based on the absence or existence and nature of donor-imposed restrictions.

Compensated Absences

Employees of the Society are entitled to compensate absences depending on the length of service and other factors. Such absences consist of unused vacation and time off, and any unused portion thereof is payable upon termination or retirement. As of June 30, 2017, the liability for accrued vacation is \$2,419. The Society's policy is to record sick leave as an operation expense when taken, since such benefits do not vest, and payment is not probable.

Impairment of Long-lived Assets

The Society evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down will be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

La Jolla Historical Society
Notes to Financial Statements
June 30, 2017

Note 2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value should be based on assumptions that market participants would use, including a consideration of non-performance risk. Management assesses the inputs used to measure fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs are quoted market prices for identical instruments in an active market that the entity has the ability to access and are the most observable. Level 2 inputs include quoted market prices for similar assets and observable inputs such as interest rates, currency exchange rates, commodity rates, and yield curves. Level 3 inputs are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability. The Society has determined that it has Level 1 inputs.

Functional Allocation of Expenses

Costs of providing the Society's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

Use of Estimates

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

La Jolla Historical Society
Notes to Financial Statements
June 30, 2017

Note 2. Summary of Significant Accounting Policies (continued)

Comparative Totals

The comparative information shown for the previous year is included to provide a basis for comparison and presents summarized totals only. Such information does not include sufficient detail to constitute a presentation in conformity with U. S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended June 30, 2016, from which the summarized information was derived. Some items may have been reclassified for purposes of overall comparability and consistency of presentation.

Subsequent Event

The Society has evaluated subsequent events through September 15, 2017, the date the financial statements were available to be issued. The Board and management are not aware of any subsequent events that would require adjustment to, or disclosures in, the financial statements.

Note 3. Concentration of Risk and Uncertainty:

The Society maintains bank accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Society's cash balance occasionally exceeded the FDIC limit during the fiscal year. The Society has not experienced any losses in such accounts. The Society maintains the vast majority of its investments at Merrill Lynch. Accounts at these institutions are not insured by the Federal Deposit Insurance Corporation. The Society's management deems its funds not to be at significant risk.

Note 4. Investments:

Investments at June 30, 2017 are comprised of the following:

	Fair Value	Cost Basis
Cash, Money Funds, and FDIC Deposits	\$ 12,527	\$ 12,527
Mutual Funds	299,730	273,312
Total	<u>\$ 312,257</u>	<u>\$ 285,839</u>

La Jolla Historical Society
Notes to Financial Statements
June 30, 2017

Note 4. Investments, continued:

The following schedule summarizes the investment return in its classification in the statement of activities for the year ended June 30, 2017.

	<u>Amount</u>
Interest and dividend income	\$ 13,193
Realized Gains (Losses)	8,167
Unrealized Gains (Losses)	13,567
Total Investment Income	<u>\$ 34,927</u>

Note 5. Pledges Receivable/Unconditional Promises to Give:

Pledges are recognized when the donor makes an unconditional pledge to the Society. Pledges that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year which the pledges are recognized. All other donor-restricted pledges are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Society has received some multi-year pledges. Management has recorded multi-year pledges at their stated values rather than at discounted value per U.S. GAAP because the difference in value is expected to be insignificant. An allowance for uncollectible accounts in the amount of \$15,000 has been recorded.

Note 6. Property and Equipment:

Property and equipment are capitalized at cost. It is the Society's policy to capitalize expenditures for these items in excess of \$2,000. Lesser amounts are expensed. Buildings are being depreciated over estimated useful lives of 40 years using a straight-line method, with a half year's depreciation recognized in the years of acquisition and disposal. All other capitalized property and equipment (with the exception of land), are being depreciated over estimated useful lives of 5 to 15 years using a straight-line method, with a half of year's depreciation recognized in the years of acquisition and disposal.

La Jolla Historical Society
Notes to Financial Statements
June 30, 2017

Note 6. Property and Equipment continued:

At June 30, 2017 Property and Equipment consisted of:

	Balance July 1, 2016	Additions	Balance June 30, 2017
Non-depreciated Fixed Assets			
Land	\$ 2,970,600	\$ -	\$ 2,970,600
Construction in Progress	-	2,229	2,229
Total Non-depreciated Fixed Assets	2,970,600	2,229	2,972,829
Depreciated Fixed Assets			
Buildings and Structures	1,424,594	-	1,424,594
Furniture and Equipment	122,193	-	122,193
Total Depreciated Fixed Assets	1,546,787	-	1,546,787
Less Accumulated Depreciation	(202,792)	(44,368)	(247,160)
Net Depreciated Fixed Assets	1,343,995	(44,368)	1,299,627
Net Fixed Assets	\$ 4,314,594	\$ (42,139)	\$ 4,272,455

Note 7. Temporarily Restricted Net Assets

As of June 30, 2017, the amounts of temporarily restricted net assets are as follows:

	Ending Balance
Capital Campaign Fund	\$ 53,600
Survey Fund	21,250
Oral History	21,774
Bench Fund	3,000
Archive Collection	186
Total Temp. Restricted NA	\$ 99,810

La Jolla Historical Society
Notes to Financial Statements
June 30, 2017

Note 8. IRA Retirement Plan:

The Society maintains an IRA retirement plan covering all employees who meet the plan's eligibility requirements. Under the plan, voluntary contributions may be made by participants. No contributions from the Society were made to the plan for the year ended June 30, 2017.

Note 9. Government Grants

In Fiscal year ending June 30, 2017, the Society received \$111,377 in City of San Diego Organizational Support Program (OSP) funding within the Arts, Culture and Community Festivals program category to enhance the economy and contribute to San Diego's reputation as a cultural destination. The pass-thru grants to its sub-recipients were totaling \$12,375 (part of the contracted amount \$111,377).

Note 10. Commitments and Contingencies:

The Society entered into service agreements with various vendors. Future minimum payments are totaling \$241,795.

In August 2016, the Society entered into an employment agreement with the Executive Director for the period from September 1, 2016 through August 31, 2020. According to the agreement, the Executive Director's base salary is totaling \$357,658 for four years plus a cellular phone allowance \$45 per month, dental and vision insurance, and other benefits. The Society is obligated to pay severance consisting of four (4) week's salary for each year of service or part thereof from Employees initial date of employment with the Society (September 1, 2012) in the event of early termination without cause. In the case of termination for cause, the employee is not entitled to any severance payments.