Sustainable Conservation

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

December 31, 2015 and 2014

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Sustainable Conservation

We have audited the accompanying financial statements of Sustainable Conservation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Sustainable Conservation as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

DZH Phillips LLP

San Francisco,
May 19, 2016

Sustainable Conservation

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$2,274,669	$1,636,314
Certificates of deposit	251,862	921,211
Contracts receivable	124,090	212,368
Pledges receivable	221,537	270,952
Grants receivable	1,325,000	1,365,000
Other receivables	1,188	914
Prepaid expenses	66,100	58,556
Total current assets	4,264,446	4,465,315
Other assets:		
Pledge receivable beyond one year - net	64,029	-
Grants receivable beyond one year - net	886,263	931,277
Investments restricted for long-term purposes	1,351,626	1,279,434
Deposits	19,394	19,394
Property and equipment - net	1,891	3,784
TOTAL ASSETS	$6,587,649	$6,699,204
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	$ 145,833	$ 238,681
Accrued compensated absences	157,249	119,835
Deferred support	1,109	139,609
Deferred rent liability	11,871	-
Total liabilities	316,062	498,125
COMMITMENTS	-	-
NET ASSETS		
Unrestricted		
Undesignated	1,746,033	1,459,400
Board-designated	90,517	209,008
Temporarily restricted	3,457,255	3,811,889
Permanently restricted	977,782	720,782
TOTAL NET ASSETS	6,271,587	6,201,079
TOTAL LIABILITIES AND NET ASSETS	$6,587,649	$6,699,204

The accompanying notes are an integral part of these statements.

Sustainable Conservation

STATEMENTS OF ACTIVITIES

Years ended December 31, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Government grants and contracts	$ 306,957	$ -	$ -	$ 306,957	$ 304,310	$ -	$ -	$ 304,310
Foundation and community grants	278,000	2,238,442	25,000	2,541,442	115,000	1,866,882	-	1,981,882
Contributions	1,448,853	236,283	232,000	1,917,136	1,474,479	115,604	1,000	1,591,083
In-kind contributions	19,262	-	-	19,262	73,389	-	-	73,389
Client services	30,610	-	-	30,610	37,685	-	-	37,685
Interest	5,155	-	-	5,155	5,198	-	-	5,198
Other income	6,100	-	-	6,100	4,025	-	-	4,025
Net assets released from restriction:								
Purpose was accomplished or time restriction expired	2,840,133	(2,840,133)	-	-	2,206,766	(2,206,766)	-	-
TOTAL SUPPORT AND REVENUE	4,935,070	(365,408)	257,000	4,826,662	4,220,852	(224,280)	1,000	3,997,572
EXPENSES								
Program services	3,415,577	-	-	3,415,577	3,240,039	-	-	3,240,039
Supporting services:								
Management and general	515,601	-	-	515,601	424,362	-	-	424,362
Fundraising	835,759	-	-	835,759	668,235	-	-	668,235
TOTAL EXPENSES	4,766,937	-	-	4,766,937	4,332,636	-	-	4,332,636
Change in net assets before income from long-term investments	168,133	(365,408)	257,000	59,725	(111,784)	(224,280)	1,000	(335,064)
Income from long-term investments	9	10,774	-	10,783	6,963	56,321	-	63,284
Change in net assets	168,142	(354,634)	257,000	70,508	(104,821)	(167,959)	1,000	(271,780)
Net Assets - beginning of year	1,668,408	3,811,889	720,782	6,201,079	1,773,229	3,979,848	719,782	6,472,859
Net Assets - end of year	$ 1,836,550	$ 3,457,255	$ 977,782	$ 6,271,587	$ 1,668,408	$ 3,811,889	$ 720,782	$ 6,201,079

The accompanying notes are an integral part of these statements.

Sustainable Conservation

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2015

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Common Costs	Total
Salaries	$ 1,538,648	$ 249,906	$ 468,147	$ 73,088	$ 2,329,789
Payroll taxes	113,988	18,936	38,732	6,591	178,247
Employee benefits	299,849	50,071	103,253	17,458	470,631
Professional fees	924,365	105,778	37,318	37,736	1,105,197
Occupancy	13,200	-	-	253,200	266,400
Travel	70,765	1,178	4,788	27	76,758
Conferences and meetings	37,626	5,743	27,255	-	70,624
Supplies	101,014	108	1,091	28,103	130,316
Printing and reproduction	9,425	9,115	15,917	5,323	39,780
Legal fees	11,737	-	-	-	11,737
Telephone and internet	6,099	308	48	14,054	20,509
Dues, subscriptions and publications	5,104	161	5,460	822	11,547
Insurance	-	7,175	-	6,118	13,293
Recruitment and staff development	11,478	1,005	5,346	63	17,892
Bank charges	-	4,879	3,022	-	7,901
Postage and delivery	446	363	1,910	417	3,136
Equipment rental and maintenance	177	1,344	-	8,966	10,487
Depreciation	-	-	-	1,893	1,893
Licenses, fees and miscellaneous	799	-	1	-	800
Common cost allocation	270,857	59,531	123,471	(453,859)	-
Total	$ 3,415,577	$ 515,601	$ 835,759	$ -	$ 4,766,937

The accompanying notes are an integral part of these statements.

Sustainable Conservation

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2014

		Supporting Services			
	Program Services	Management and General	Fundraising	Common Costs	Total
Salaries	$ 1,555,623	$ 229,181	$ 370,423	$ 58,504	$ 2,213,731
Payroll taxes	116,457	16,889	31,567	5,695	170,608
Employee benefits	277,115	40,321	75,385	13,415	406,236
Professional fees	617,814	65,917	57,975	34,450	776,156
Occupancy	13,200	-	-	157,292	170,492
Travel	70,087	589	5,968	-	76,644
Legal fees	74,490	2,292	-	-	76,782
Supplies	160,715	810	3,652	18,032	183,209
Conferences and meetings	42,091	6,095	27,050	43	75,279
Printing and reproduction	12,258	7,561	12,209	5,793	37,821
Telephone and internet	6,217	294	102	10,910	17,523
Insurance	-	6,323	-	6,094	12,417
Dues, subscriptions and publications	5,549	190	4,961	723	11,423
Recruitment and staff development	10,152	3,778	4,015	30	17,975
Postage and delivery	1,729	1,602	1,882	582	5,795
Bank charges	-	4,063	3,102	-	7,165
Equipment rental and maintenance	124	916	-	7,296	8,336
Depreciation	-	-	-	1,892	1,892
Licenses, fees and miscellaneous	63,152	-	-	-	63,152
Common cost allocation	213,266	37,541	69,944	(320,751)	-
Total	$ 3,240,039	$ 424,362	$ 668,235	$ -	$ 4,332,636

The accompanying notes are an integral part of these statements.

Sustainable Conservation

STATEMENTS OF CASH FLOWS

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ 70,508	$ (271,780)
Adjustments to reconcile change in net assets to net cash from (to) operating activities:		
Depreciation	1,893	1,892
Net losses from investments	37,940	316
Contributions restricted for long-term purposes	(118,500)	(500)
(Increase) decrease in operating assets:		
Receivables	158,404	327,552
Prepaids	(7,544)	(10,765)
Deposits	-	(7,339)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(55,434)	189,140
Deferred revenue	(126,629)	(500)
Net cash provided by (used in) operating activities	(39,362)	228,016
Cash flows from investing activities:		
Purchases of securities	(203,025)	(66,195)
Purchases of certificates of deposit	(956,862)	(921,210)
Proceeds from redemption of certificates of deposit	1,626,211	584,967
Sales and maturities of investments	92,893	2,095
Net cash provided by (used in) investing activities	559,217	(400,343)
Cash flows from financing activities:		
Contributions restricted for long term purposes	118,500	500
Net cash provided by financing activities	118,500	500
Net increase (decrease) in cash and cash equivalents	638,355	(171,827)
Cash and cash equivalents - beginning of the year	1,636,314	1,808,141
Cash and cash equivalents - end of the year	$2,274,669	$ 1,636,314

The accompanying notes are an integral part of these statements.

NOTE A – DESCRIPTION OF ORGANIZATION

Sustainable Conservation helps California thrive by uniting people to solve the toughest challenges facing our land, air, and water. Every day, we bring together businesses, landowners and the government to steward the resources that we all depend on in ways that make economic sense.

The Organization's work has spanned rural and urban environmental issues, ranging from improving water quality in dairy farming to promoting the growing and selling of non-invasive plants in the nursery industry. The Organization collaborates with farmers to identify ways that producers can protect the environment, improve their bottom lines, and keep their land in production. The Organization also partners with regulatory agencies to ensure a more sustainable water supply for agriculture and communities.

The Organization has offices in San Francisco and Modesto, California and supports its activities primarily through public and private grants and contributions.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows:

Method of Accounting

The financial statements of the Organization have been prepared using the accrual basis of accounting, which involves the recognition of revenues and gains when earned and expenses and losses when incurred.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts Receivable

Contracts receivable are uncollateralized customer obligations due under normal trade terms requiring payments per contracts. They are stated at the contractual amounts billed. The carrying amount of contracts receivable is reduced by an allowance for losses based on management's assessment of the customer's current creditworthiness. Receivables are written off and charged to an allowance if management considers them worthless.

Grants and Pledges Receivable

Grants and pledges receivable include unconditional commitments from foundations and individuals that are recorded at net realizable value. Grants and pledges that are expected to be received in future years are recorded at the present value of their estimated cash flows. Such promises are further discounted using a risk premium. The Organization provides an allowance for estimated uncollectible pledges. Pledges receivable that are restricted for investment in perpetuity are recorded as non-current assets.

Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values based on quoted prices in active markets in the Statement of Financial Position. Investment advisory fees are netted against the realized and unrealized gains and losses and are included in the change in the appropriate net asset class in the statement of activities.

Fair market value and measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Organization is required to consider the use of market-based information over entity-specific information in valuing its financial assets measured at fair value, using a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

-*Level 1* inputs to the valuation methodology include unadjusted quoted prices for identical assets or liabilities in active markets.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair market value and measurements (continued)

-*Level 2* inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

-*Level 3* inputs to the valuation methodology are unobservable and significant to the fair value measurement

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fixed Assets and Depreciation

The Organization records acquisitions of items with a cost of $5,000 or more as fixed assets. Fixed assets are recorded at cost when purchased and fair value when received as a donation. Depreciation is provided over the estimated useful lives of respective assets, primarily three to five years, using the straight- line method of depreciation.

Deferred Support

Deferred support includes conditional contributed support received with unmet conditions.

Income Tax Status

The Organization is recognized as a public charity exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, whereby only unrelated business income, as defined by Section 512(a)(1) of the Internal Revenue Code and similar code sections of the California Revenue and Taxation Code, is subject to income tax. Management believes that all of the Organization's activities were directly related to its exempt purpose, thus the accompanying financial statements do not include any provision for income taxes.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets represent net assets that are not subject to donor-imposed stipulations. Certain unrestricted net assets are designated for a board-designated endowment.

Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets are restricted by the donor for investment in perpetuity. The income from the invested assets is available to support the operations of the Organization. The Organization reports such income as temporarily restricted net assets until the Board of Directors appropriates amounts for use in the operations of the Organization.

Contributions

Contributions are recognized when the donor makes a promise to the Organization that is, in substance, unconditional. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gifts of fixed assets are recorded as unrestricted support unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when donated or acquired long-lived assets are placed in service.

In-Kind Support

The Organization records contributed professional services at the fair value of the services received, if the services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not received through donation. Donated materials are recorded at their fair market value.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allocation of Common Expenses

Common costs, primarily related to operation and maintenance of the Organization's office facility and certain other expenses that benefit all activities of the organization are allocated to supporting and program activities based on employees' effort as reported by employees.

Deferred rent

The Organization's lease agreements provide for rent escalations during the lease term. The Organization records rent expense on a straight-line basis over the terms of the respective leases. Accordingly, deferred rent is recorded to the extent that rent expense exceeds actual rent payments.

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. Significant accounting estimates reflected in the Organization's financial statements include collectability and valuation of receivables, valuation of investments and the functional allocation expenses. Actual results may differ from these estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements. Reclassifications had no effect on prior year net income.

Subsequent events

Management has evaluated subsequent events through May 19, 2016, the date on which the financial statements were available to be issued.

NOTE C – CONCENTRATIONS

Credit risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently $250,000 per depositor). The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Contributions

At December 31, 2015, the Organization had two major contributors that accounted for 28% of total revenue. Approximately, 92% of grants receivable at December 31, 2015 were from two private foundations.

NOTE D – PLEDGES RECEIVABLE

At December 31, 2015 and 2014 pledges receivable are expected to be received as follows:

	2015	2014
In one year or less	$ 221,537	$ 270,952
Between one year to five years	71,000	-
	292,537	270,952
Less: unamortized discount	(6,971)	-
Pledges receivable - net	$ 285,566	$ 270,952

Management expects to receive 100% of the pledge receivable and therefore the accompanying financial statements do not provide for an allowance for doubtful pledges. Pledges receivable expected to be received within two to five years were discounted using discount rates ranging from 5.39%-5.64% at December 31, 2015.

NOTE E – GRANTS RECEIVABLE

At December 31, 2015 and 2014, grants receivable are expected to be received as follows:

	2015	2014
In one year or less	$ 1,325,000	$ 1,365,000
Between one year and five years	1,000,000	1,050,000
	2,325,000	2,415,000
Less: unamortized discount	(113,737)	(118,723)
Grants receivable - net	$ 2,211,263	$ 2,296,277

Grants receivable expected to be received within two to five years were discounted using discount rates between 5.39% and 5.95% at December 31, 2015 and 2014, respectively.

NOTE F – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments are the only assets that are stated at fair value on recurring basis. All investments are presented at unadjusted quoted prices for identical assets in active markets and therefore are considered level 1 in the fair value measurements hierarchy. At December 31, 2015 and 2014, investments consisted of:

	2015	2014
Fixed income funds	$ 388,489	$ 354,651
Equity funds	912,133	924,275
Money market funds	51,004	508
Total investments	$ 1,351,626	$ 1,279,434

NOTE F – INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

The components of total investment return by net assets classification are reflected below:

	Unrestricted	Temporarily Restricted	Total
December 31, 2014			
Interest and dividends	$ 7,343	$ 59,954	$ 67,297
Net losses (realized and unrealized)	(31)	(285)	(316)
Investment fees	(349)	(3,348)	(3,697)
Net investment income	$ 6,963	$ 56,321	$ 63,284
December 31, 2015			
Interest and dividends	$ 42	$ 52,484	$ 52,526
Net losses (realized and unrealized)	(30)	(37,910)	(37,940)
Investment fees	(3)	(3,800)	(3,803)
Net investment income	$ 9	$ 10,774	$ 10,783

NOTE G – PROPERTY AND EQUIPMENT

At December 31, 2015 and 2014, property and equipment consisted of:

	2015	2014
Office equipment	$ 12,118	$ 12,118
Leasehold improvements	18,080	18,080
	30,198	30,198
Accumulated depreciation	(28,307)	(26,414)
Property and equipment, net	$ 1,891	$ 3,784

NOTE H – DEFERRED SUPPORT

In 2008, the Organization received conditional contributions towards its endowment fund in the amount of $500,000 that required matching funds. At December 31, 2015 and 2014, the unmet balance was $1,109 and $139,609, respectively.

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2015 and 2014, temporarily restricted net assets were available for the following purposes:

	2015	2014
Dairies	$ 1,146,832	$ 705,225
Accelerating restoration	424,269	17,390
Agriculture water management	341,489	536,576
PlantRight	25,000	-
Organization capacity	14,501	115,825
Support of future period expenses	1,221,837	2,087,229
Un-appropriated endowment earnings	283,327	349,644
	$ 3,457,255	$ 3,811,889

During the years ended December 31, 2015 and 2014, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by the donors as follows:

	2015	2014
Dairies	$ 638,392	$ 377,258
Accelerating restoration	346,121	303,136
Agriculture water management	650,641	241,752
PlantRight	150,050	8,620
Organization capacity	101,323	164,825
Support of future period expenses	856,515	1,013,000
Ecosystem services	20,000	98,175
Appropriated endowment earnings	77,091	-
	$ 2,840,133	$ 2,206,766

NOTE J – ENDOWMENT

The Organization's endowment (the Fund) consists of two funds established for the purpose of supporting the mission of the Organization. The endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance to UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies – The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of up to 7%, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

NOTE J – ENDOWMENT (continued)

Spending policy – The Organization has a policy of appropriating for distribution each year up to 7% of its endowment fund's average fair value of the prior twelve calendar quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. The Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effect of inflation.

The composition of the Organization's endowment by net asset class at the end of December 31, 2015 and 2014, in total and by type of endowment fund, follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated - December 31, 2015	$ 90,517	$ -	$ -	$ 90,517
Donor restricted - December 31, 2015	-	283,327	977,782	1,261,109
Total endowments - December 31, 2015	$ 90,517	$ 283,327	$ 977,782	$ 1,351,626
Board-designated - December 31, 2014	$ 209,008	$ -	$ -	$ 209,008
Donor restricted - December 31, 2014	-	349,644	720,782	1,070,426
Total endowments - December 31, 2014	$ 209,008	$ 349,644	$ 720,782	$ 1,279,434

NOTE J – ENDOWMENT (continued)

A rollforward of the Organization's endowment follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets - January 1, 2014	$ 202,045	$ 293,323	$ 719,782	$ 1,215,150
Investment return:				
Interest and dividends	7,343	59,954	-	67,297
Net loss (realized and unrealized)	(31)	(285)	-	(316)
Investment fees	(349)	(3,348)	-	(3,697)
Total investment return	6,963	56,321	-	63,284
Contributions	-	-	1,000	1,000
Endowment assets - December 31, 2014	$ 209,008	$ 349,644	$ 720,782	$ 1,279,434
Endowment assets - January 1, 2015	$ 209,008	$ 349,644	$ 720,782	$ 1,279,434
Investment return:				
Interest and dividends	42	52,484	-	52,526
Net loss (realized and unrealized)	(3)	(37,910)	-	(37,913)
Investment fees	(30)	(3,800)	-	(3,830)
Total investment return	9	10,774	-	10,783
Transfers to add assets to board-desingated endowment fund	20,000	-	-	20,000
Appropriation	-	(77,091)	-	(77,091)
Matching requirements met	(138,500)	-	138,500	-
Contributions	-	-	118,500	118,500
Endowment assets - December 31, 2015	$ 90,517	$ 283,327	$ 977,782	$ 1,351,626

At December 31, 2015 and 2014, board designated amounts includes $1,109 and $139,609, respectively, which represents and advance on a conditional grant received. As the condition is met (matching requirement fulfilled), the amount is recorded as permanently restricted contributions.

NOTE K – CONTRIBUTED SERVICES AND MATERIALS

The Organization recognizes certain voluntary services and donated materials (refer to Note A). The Organization recorded the following services and materials as income and expense on the statement of activities:

	2015	2014
Legal services - program services	$ 11,737	$ 72,390
Legal services - management and general	-	999
Donor event - fundraising	7,525	-
	$ 19,262	$ 73,389

NOTE L – RETIREMENT BENEFITS

The Organization has a 401(k) retirement plan for eligible employees. Under the plan, the Organization provides 100% match up to 5% of compensation. Employer contributions were $106,607 and $85,682 for the years ended December 31, 2015 and 2014, respectively.

NOTE M – COMMITMENTS UNDER OPERATING LEASES

The Organization leases its office space and certain equipment under non-cancelable lease arrangements. Total rent expense was $253,262 and $159,216 for the years ended December 31, 2015 and 2014, respectively.

The minimum future commitments under these arrangements are:

Year ending December 31,	
2016	$ 247,620
2017	252,919
2018	259,389
2019	262,727
2020	24,037
Thereafter	1,192
	$ 1,047,884

NOTE N – LINE OF CREDIT

The Organization has a secured line of credit in the amount of $250,000 with a financial institution, which is automatically renewed on an annual basis. The line is secured primarily by accounts receivable, equipment and fixtures, and bears interest at prime (3.50% at December 31, 2015) plus 2%. The Organization did not use the line of credit and there was no outstanding balance at December 31, 2015 and 2014, respectively.