Executive Summary

Sustainable Conservation ended the second quarter (Q2) in strong financial health. Although support and revenue lagged relative to the total 2016 budget and Q2 2015 performance, timing differences and pass-through grants made up most of the difference. We’re still on track to meet the budget by year-end.

Significant Accounting Policies

The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) for nonprofits, including the accrual method of accounting and the segregation of net assets based on donor-imposed restrictions. Management keeps non-GAAP reporting to a minimum to avoid confusion and additional costs.

Statement of Financial Position

At June 30, cash and equivalents were $2,215K, including $855K of certificates of deposit (CDs) with maturities of three months or less. Other CDs were $252K. Together cash and CDs totaled $2,467K, representing six months of budgeted 2016 expenses and indicating strong liquidity. The total was $231K more than Q2 2015. Cash only, excluding all CDs, was $1,360K or 3.3 months of expense.

Total assets were down 8% from Q2 2015 related to the planned spend down of Making Big Ideas Work (MBIW) and decreases in current receivables from government contracts, foundation grants, and pledges. Two noteworthy foundation receipts were $450K from Packard and $350K from Bechtel. Non-current pledges (those receivable beyond 12 months) were $64K. Although this amount is not very large, it represented a 6303% increase over Q2 2015.

The balance of the endowment was $1,339K, or 7% higher than Q2 2015, including additional contributions that came in the final two quarters of last year, the January 2016 distribution of $61K, and changes in the value of the investments due to dividends and market fluctuations.
Current liabilities were up by 32% from Q2 last year. Accounts payable were higher primarily due to a $90K bill for strategic planning, which is funded by Bechtel. Accrued compensation was higher due to increased staffing levels (mostly filling of open positions) and timing of vacations. The non-current liability related to the matching gift for the endowment was mostly fulfilled. About $1K of matching funds remains.

At the end of Q2, net assets, the nonprofit version of retained earnings, indicated Sustainable Conservation’s continuing solvency. The total was $4,998K, 8% less than the same point last year, with $978K in permanently restricted. Unrestricted net assets were $1,498K, or 3.6 months of 2016 budgeted expenses. Temporarily restricted net assets were $2,522K, or 6.1 months. The Statement of Activities provides more information about how these balances have changed since 2015.

Statement of Activities

Support and revenue totaled $1,266K, 26% less than 2015 year-to-date. However, last year’s foundation support included pass-through grants of $653K, mostly for the California Association of Resource Conservation Districts (CARCD). Excluding those funds, we were actually ahead of last year with new grants of $236K from The Battery, $100K from Bank of America and a $100K increase in giving from the Bonneville Environmental Foundation. And, while last year’s contributions were higher for Q1-Q2 by $360K, the difference was from $185K of MBIW gifts, $25K in matching funds for the endowment, and the timing of several other major gifts totaling $150K. This year corporate grants were higher with $100K from General Mills, an increase from $25K last year, and $30K from Coca Cola.

Support and revenue was 36% of the budget because contributions are typically back loaded toward the end of the year. Although it’s not yet apparent from Q2 results, support and revenue is on track to meet the $3.5 million budget.

As of Q2, expenses totaled $2,588K, or 52% of the 2016 budget and 5% higher than the same point last year. Program expenses were 72% of the total, excluding
Management Discussion & Analysis

costs that will be capitalized at year-end. Program expenses were running above budget due mainly to strategic planning costs, which were budgeted at $100K but are funded at $250K by a grant from Bechtel. Fundraising costs were on track with budget, but were higher than Q2 2015 due to gaps in development staffing last year.

As a result of these activities, unrestricted net assets decreased by $338K and temporarily restricted net assets decreased by $984K, before investment income of $49K. The total decrease in net assets before investments was $1,322K, or 93% of the 2016 budget. However, due to the timing of individual gifts, we expect the year-end decrease to be within the budget, which includes the planned spend-down of MBIW.

Unrestricted Budget Comparison
Drilling down into the unrestricted portion of the Statement of Activities, the $338K decrease in net assets was made up of -$451K from Core and +$113K from MBIW. Timing of contributions was the main driver of the decrease in Core, and we expect a rebound to the budgeted level by year-end. Total unrestricted support and revenue was $2,250K or 51% of budget, including net assets released from restriction. Expenses were on track in both Core and MBIW.

Statement of Functional Expenses
With a few exceptions, expenses were at or below 50% of budget. Professional services were higher due to timing of the CARCD payments as well as timing and additional costs of Bechtel-funded strategic planning. Otherwise, the differences from budget and last year were not significant.

Conclusion
As usual, foundation grants and individual contributions are the biggest sources of uncertainty in Sustainable Conservation’s financial picture. While Q2 revenue showed a drop from this same period last year, those decreases were explained by timing and pass-through grants. Given recent progress with foundations and
the fact that contributions are typically back loaded in the year we’re cautiously optimistic about year-end results.