

**SUSTAINABLE CONSERVATION**

**FINANCIAL STATEMENTS  
WITH  
AUDITOR'S REPORT**

**YEARS ENDED DECEMBER 31, 2012  
AND DECEMBER 31, 2011**

**GHAFFARI ACCOUNTANCY, INC.  
Certified Public Accountants**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Sustainable Conservation  
San Francisco, California

We have audited the accompanying financial statements of Sustainable Conservation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

The management of Sustainable Conservation 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 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 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 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, 2012 and 2011, 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.

**Ghaffari Accountancy, Inc.**

May 6, 2013  
Oakland, California

## SUSTAINABLE CONSERVATION

### Statements of Financial Position At December 31, 2012 and 2011

	<u>2012</u>	<u>Restated 2011</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 3)	\$1,340,873	\$1,050,631
Certificates of deposit	349,365	348,567
Contracts receivable, net of allowance of \$0	90,116	221,921
Pledge receivable, net (Notes 3 & 4)	162,000	-
Grants receivable, net (Notes 3 & 5)	349,000	350,000
Other receivables	7,026	25,284
Prepaid expenses	<u>45,703</u>	<u>29,776</u>
Total Current Assets	2,344,083	2,026,179
Long term pledge receivable (Note 4)	150,831	-
Long term grant receivable (Note 5)	129,174	-
Investments restricted for long-term purposes (Note 6)	1,032,538	993,839
Deposits	12,055	12,055
Property and equipment, net (Note 7)	<u>7,569</u>	<u>14,909</u>
Total Assets	<u><u>\$3,676,250</u></u>	<u><u>\$3,046,982</u></u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 86,226	\$ 115,562
Accrued compensated absences	94,513	65,131
Deferred support (Note 8)	<u>141,709</u>	<u>141,809</u>
Total Current Liabilities and Total Liabilities	<u>322,448</u>	<u>322,502</u>
<b>Net Assets</b>		
Unrestricted	1,275,754	897,046
Temporarily restricted (Note 9)	1,361,466	1,111,052
Permanently restricted (Note 10)	<u>716,582</u>	<u>716,382</u>
Total Net Assets	<u>3,353,802</u>	<u>2,724,480</u>
Total Liabilities and Net Assets	<u><u>\$3,676,250</u></u>	<u><u>\$3,046,982</u></u>

See notes to financial statements

## SUSTAINABLE CONSERVATION

### Statements of Activities Years Ended December 31, 2012 and 2011

	Year Ended December 31, 2012				Year Ended December 31, 2011 (Restated)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenue</b>								
Government grants and contracts	\$ 214,514	\$ -	\$ -	\$ 214,514	\$ 126,937	\$ -	\$ -	\$ 126,937
Foundation and community grants	66,148	1,698,873	-	1,765,021	73,925	1,735,930	-	1,809,855
Contributions	1,288,031	350,331	200	1,638,562	773,255	36,273	3,200	812,728
In-kind contributions (Note 11)	54,952	-	-	54,952	13,360	-	-	13,360
Client services	34,679	-	-	34,679	61,837	-	-	61,837
Interest	1,998	-	-	1,998	1,182	-	-	1,182
Other income	3,200	-	-	3,200	28,032	-	-	28,032
Net assets released from restriction:								
Purpose accomplished and time restriction expired	1,867,034	(1,867,034)	-	-	1,734,086	(1,734,086)	-	-
<b>Total Support and Revenue</b>	<b>3,530,556</b>	<b>182,170</b>	<b>200</b>	<b>3,712,926</b>	<b>2,812,614</b>	<b>38,117</b>	<b>3,200</b>	<b>2,853,931</b>
<b>Expenses</b>								
Program services	2,259,363	-	-	2,259,363	2,139,413	-	-	2,139,413
Supporting services:								
Management and general	378,392	-	-	378,392	317,559	-	-	317,559
Fundraising	554,722	-	-	554,722	342,260	-	-	342,260
<b>Total Expenses</b>	<b>3,192,477</b>	<b>-</b>	<b>-</b>	<b>3,192,477</b>	<b>2,799,232</b>	<b>-</b>	<b>-</b>	<b>2,799,232</b>
<b>Change in net assets before income from long-term investments</b>	<b>338,079</b>	<b>182,170</b>	<b>200</b>	<b>520,449</b>	<b>13,382</b>	<b>38,117</b>	<b>3,200</b>	<b>54,699</b>
Net income from long-term investments	40,629	68,244	-	108,873	-	11,357	-	11,357
<b>Change in net assets</b>	<b>378,708</b>	<b>250,414</b>	<b>200</b>	<b>629,322</b>	<b>13,382</b>	<b>49,474</b>	<b>3,200</b>	<b>66,056</b>
Net Assets at beginning of year, restated (Note 12)	897,046	1,111,052	716,382	2,724,480	883,664	1,061,578	713,182	2,658,424
<b>Net Assets at end of year</b>	<b>\$ 1,275,754</b>	<b>\$ 1,361,466</b>	<b>\$ 716,582</b>	<b>\$ 3,353,802</b>	<b>\$ 897,046</b>	<b>\$ 1,111,052</b>	<b>\$ 716,382</b>	<b>\$ 2,724,480</b>

See notes to financial statements

## SUSTAINABLE CONSERVATION

### Statements of Cash Flows Years Ended December 31, 2012 and 2011

	2012	Restated 2011
Cash flows from operating activities:		
Change in net assets	\$ 629,322	\$ 66,056
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,893	3,089
Loss from disposal of fixed assets	5,447	-
Net (gain) loss from investments	(83,653)	9,464
Contributions restricted for long-term purposes	(100)	(1,600)
(Increase) decrease in operating assets:		
Receivables	(290,942)	(436,961)
Prepays	(15,927)	30,478
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	46	12,001
Deferred revenue	(100)	(1,600)
Net cash provided (used) by operating activities	<u>245,986</u>	<u>(319,073)</u>
Cash flows from investing activities:		
Purchases of securities	(28,332)	(187,909)
Net change in certificates of deposit	(798)	(101,104)
Sales and maturities of investments	73,286	141,850
Purchase of equipment	<u>-</u>	<u>(9,463)</u>
Net cash provided (used) by investing activities	<u>44,156</u>	<u>(156,626)</u>
Cash flows from financing activities:		
Contributions restricted for long term purposes	<u>100</u>	<u>1,600</u>
Net cash provided by financing activities	<u>100</u>	<u>1,600</u>
Net increase (decrease) in cash and cash equivalents	290,242	(474,099)
Cash and cash equivalents at beginning of the year	<u>1,050,631</u>	<u>1,524,730</u>
Cash and cash equivalents at end of the year	<u><u>\$ 1,340,873</u></u>	<u><u>\$ 1,050,631</u></u>

See notes to financial statements

## SUSTAINABLE CONSERVATION

### Statement of Functional Expenses Year Ended December 31, 2012

	Program Services	Supporting Services		Common Costs	Total
		Management and General	Fundraising		
Salaries	\$ 1,186,165	\$ 200,756	\$ 296,777	\$ 17,568	\$ 1,701,266
Payroll taxes	89,415	15,074	23,883	1,661	130,033
Employee benefits (Note 13)	203,234	33,291	54,440	4,093	295,058
Professional fees	465,640	64,849	81,085	24,466	636,040
Occupancy	7,729	-	-	136,973	144,702
Travel	53,405	1,475	9,428	-	64,308
Legal fees (Note 11)	54,234	-	-	-	54,234
Supplies	7,445	7,960	5,757	15,840	37,002
Conference & meetings	13,819	6,713	15,171	-	35,703
Printing & reproduction	6,028	7,031	10,698	9,361	33,118
Telephone & internet	7,719	150	551	9,213	17,633
Insurance	-	3,637	-	5,313	8,950
Dues, subscriptions & publications	4,634	336	2,708	717	8,395
Recruitment & staff development	4,003	2,022	1,623	-	7,648
Postage & delivery	2,330	1,741	1,887	449	6,407
Bank charges	924	3,849	570	-	5,343
Equipment rental & maintenance	201	-	-	4,243	4,444
Depreciation	-	-	-	1,893	1,893
Licenses, fees & miscellaneous	300	-	-	-	300
Common cost allocation	152,138	29,508	50,144	(231,790)	-
<b>Total</b>	<b>\$ 2,259,363</b>	<b>\$ 378,392</b>	<b>\$ 554,722</b>	<b>\$ -</b>	<b>\$ 3,192,477</b>

See Notes to Financial Statements



## SUSTAINABLE CONSERVATION

### Statement of Functional Expenses Year Ended December 31, 2011

		Supporting Services			
	Program	Management		Common	
	Services	and General	Fundraising	Costs	Total
Salaries	\$ 1,099,605	\$ 181,184	\$ 196,832	\$ -	\$ 1,477,621
Payroll taxes	86,329	13,999	15,508	-	115,836
Employee benefits (Note 13)	163,928	26,626	29,505	-	220,059
Professional fees	472,195	40,960	33,491	-	546,646
Occupancy	6,635	-	-	122,184	128,819
Travel	48,141	504	5,985	-	54,630
Legal fees (Note 11)	35,229	-	-	-	35,229
Supplies	2,177	617	1,379	39,350	43,523
Conference & meetings	20,796	4,042	9,333	-	34,171
Printing & reproduction	15,563	7,944	10,219	7,770	41,496
Telephone & internet	6,533	94	563	9,110	16,300
Insurance	-	3,570	-	5,100	8,670
Dues, subscriptions & publications	3,347	142	2,671	649	6,809
Recruitment & staff development	8,835	3,629	276	-	12,740
Postage & delivery	2,883	1,270	2,160	568	6,881
Bank charges	-	2,235	1,413	-	3,648
Equipment rental & maintenance	418	-	-	41,111	41,529
Depreciation	-	-	-	3,089	3,089
Licenses, fees & miscellaneous	510	-	-	-	510
Common cost allocation	166,289	29,717	32,925	(228,931)	-
Temporary staff	-	1,026	-	-	1,026
Total	<u>\$ 2,139,413</u>	<u>\$ 317,559</u>	<u>\$ 342,260</u>	<u>\$ -</u>	<u>\$ 2,799,232</u>

See Notes to Financial Statements

## SUSTAINABLE CONSERVATION

Notes to Financial Statements  
Years Ended December 31, 2012 and 2011

### Note 1 – Organization

Sustainable Conservation (the Organization) partners with business, agriculture, and government leaders to find practical ways that the private sector can protect air and water, and ensure healthy ecosystems through collaborations and producing solutions to critical environmental problems. The Organization's work has spanned rural and urban environmental issues, ranging from dairy farming to automobile brake pads. The Organization works with farmers to identify ways that producers can protect the environment, improve their bottom lines, and keep land in production. The Organization also works with people to overcome the time, complexity, and costs associated with voluntary restoration projects on their lands and lastly, works with businesses and regulatory agencies to stop pollution at the source by instituting environmentally and economically sound practices.

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

### Note 2 – Summary of Significant Accounting Policies

Significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

- a. **Method of Accounting** – The financial statements of the Organization have been prepared using the accrual method of accounting, which involves the recognition of revenues and gains when earned and expenses and losses when incurred.
- b. **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.
- c. **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 allowance if management considers them worthless.
- d. **Grants and Pledges Receivable** – Grants and pledges receivable include unconditional commitments from foundations and individuals that are recorded at the net realizable value of the amount expected to be collected by Management if they are expected to be received within a year. Grants and pledges receivable expected to be received beyond one year and discounted and recorded as the present value of the expected future cash flows. Pledges receivable that are restricted for investment in perpetuity are recorded as non-current assets.

## SUSTAINABLE CONSERVATION

### Notes to Financial Statements Years Ended December 31, 2012 and 2011

- e. **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.
- f. **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.
- g. **Deferred Support** – Deferred support includes conditional contributed support received with unmet conditions.
- h. **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. The Organization’s annual informational returns are subject to examination by IRS, generally three years after they were filed.
- i. **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.

***Temporarily restricted net assets*** represent net assets subject to donor-imposed stipulations that may or will be met either by actions of the Program 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.

## SUSTAINABLE CONSERVATION

### Notes to Financial Statements Years Ended December 31, 2012 and 2011

- j. **Restricted Resources** – 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.
- k. **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.
- l. **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 employee effort as reported by employees.
- m. **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 those estimates.
- n. **Reclassification** – Certain 2011 balances have been reclassified to conform to the current year presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

## SUSTAINABLE CONSERVATION

### Notes to Financial Statements Years Ended December 31, 2012 and 2011

#### Note 3 – Concentration of Credit Risk

Financial instruments that are exposed to concentrations of credit risk consist of cash and receivables. The Organization places its cash and cash equivalents in high-quality financial institutions where cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to a certain level. The uninsured cash and cash equivalent balance was \$1,043,843 and \$743,179 as of December 31, 2012 and December 31, 2011, respectively.

As of January 31, 2013, the FDIC eliminated its unlimited coverage of non-interest bearing transaction accounts. This would have resulted in uninsured cash and cash equivalents balance at January 1, 2013 of \$1,111,965, had the program become effective on December 31, 2012.

Approximately, 95% of grants receivable and 91% pledges receivable at December 31, 2012 were from 2 private foundations and 3 individuals respectively. 100% of grants receivable at December 31, 2011 was from 2 private foundations.

#### Note 4 – Pledges Receivable

Pledge receivable consisted of:

	<u>12/31/12</u>	<u>12/31/11</u>
In one year or less	\$ 162,000	\$ 0
Between one year to five years	<u>168,000</u>	<u>0</u>
Total pledge receivable	330,000	0
Unamortized discount	<u>(17,169)</u>	<u>(0)</u>
Pledge receivable, net	<u>\$ 312,831</u>	<u>\$ 0</u>

Management expects to receive 100% of the pledge receivable and therefore the accompanying financial statements do not provide for allowance for doubtful pledges.

Pledges receivable expected to be received within two to five years were discounted using rates between 4.27% and 5.41% at December 31, 2012.

## SUSTAINABLE CONSERVATION

### Notes to Financial Statements Years Ended December 31, 2012 and 2011

#### **Note 5 – Grants Receivable**

Grants receivable consisted:

	<u>12/31/12</u>	<u>12/31/11</u>
In one year or less	\$ 349,000	\$ 350,000
Between one year to five years	<u>137,000</u>	<u>0</u>
Total grants receivable	486,000	350,000
Unamortized discount	<u>(7,826)</u>	<u>(0)</u>
Grants receivable, net	<u>\$ 478,174</u>	<u>\$ 350,000</u>

Management expects to receive 100% of the grants receivable and therefore the accompanying financial statements do not provide for allowance for doubtful grants.

Grants receivable expected to be received within two to five years were discounted using discount rate of 4.16% at December 31, 2012.

#### **Note 6 – Investments**

Investments are the only assets and liabilities that are stated at fair value on a recurring basis and consisted of:

##### **Level 1 – Unadjusted quoted prices for identical assets in active markets**

	<u>12/31/12</u>	<u>12/31/11</u>
Fixed income funds	\$ 304,280	\$ 322,968
Equity funds	728,157	670,869
Money market funds	<u>101</u>	<u>2</u>
Total investments	<u>\$ 1,032,538</u>	<u>\$ 993,839</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b><u>December 31, 2012</u></b>			
Interest	\$ 0	\$ 28,234	\$28,234
Net gain	40,629	43,024	83,653
Investment fees	<u>0</u>	<u>(3,014)</u>	<u>(3,014)</u>
Net investment income	<u>\$ 40,629</u>	<u>\$ 68,244</u>	<u>\$108,873</u>

## SUSTAINABLE CONSERVATION

### Notes to Financial Statements Years Ended December 31, 2012 and 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b><u>December 31, 2011</u></b>			
Interest	\$0	\$ 23,830	\$ 23,830
Net loss	0	(9,466)	(9,466)
Investment fees	<u>0</u>	<u>(3,007)</u>	<u>(3,007)</u>
Net investment income	<u>\$0</u>	<u>\$ 11,357</u>	<u>\$ 11,357</u>

#### **Note 7 – Property and equipment**

Property and equipment consisted of:

	<u>12/31/12</u>	<u>12/31/11</u>
Office equipment	\$ 12,118	\$ 26,240
Leasehold improvements	<u>18,080</u>	<u>18,080</u>
	30,198	44,320
Accumulated depreciation	<u>(22,629)</u>	<u>(29,411)</u>
Property and equipment, net	<u>\$ 7,569</u>	<u>\$ 14,909</u>

#### **Note 8 – Deferred Support**

In 2007, the Organization received conditional contributions in the amount of \$500,000 that required matching funds. A portion of these funds was received from the donors in 2008 in advance of the conditions being met. The unmet balance of funds received of \$141,709 and \$141,809 at December 31, 2012 and 2011, respectively, is recorded as deferred support and will be recognized as income when the Organization raises the required matching funds.

#### **Note 9 – Temporarily Restricted Net Assets**

Temporarily restricted net assets were available for the following purposes:

	<u>12/31/12</u>	<u>12/31/11</u>
Dairies	\$ 186,493	\$ 458,441
Statewide programmatic permitting	73,374	202,782
Agriculture water management	42,528	0
PlantRight	0	118,914
Ecosystem services	154,508	150,000
Organization capacity	441,704	74,373

## SUSTAINABLE CONSERVATION

### Notes to Financial Statements Years Ended December 31, 2012 and 2011

	<u>12/31/12</u>	<u>12/31/11</u>
Support of future period expenses	330,010	0
Un-appropriated endowment earnings	<u>132,849</u>	<u>106,542</u>
	<u>\$ 1,361,466</u>	<u>\$ 1,111,052</u>

#### **Note 10 – Permanently Restricted Net Assets**

Permanently restricted net assets consist of the Sustainable Conservation Endowment Fund (the Fund), whose purpose is to provide support in meeting the operating and program needs of the Organization.

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 SPMIFA. In accordance to SPMIFA, 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.



## SUSTAINABLE CONSERVATION

### Notes to Financial Statements Years Ended December 31, 2012 and 2011

*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. Until the Fund has been in existence for twelve calendar quarters, the annual amount shall be up to five percent of the average net fair value of the Fund's assets for as many complete calendar quarters as the Fund has been in existence. 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, 2012 and 2011, in total and by type of endowment fund, follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted 12/31/12	\$ 183,107	\$ 132,849	\$ 716,582	\$ 1,032,538
Donor restricted 12/31/11	\$ 170,915	\$ 106,542	\$ 716,382	\$ 993,839

A reconciliation of the beginning and ending balance of the Organization's endowment follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b><u>Year ended December 31, 2012:</u></b>				
Endowment net assets, beginning	\$ 170,915	\$ 106,542	\$ 716,382	\$ 993,839
Investment return:				
Investment income	0	28,234	0	28,234
Management fees	0	(3,014)	0	(3,014)
Net appreciation (realized & unrealized)	<u>40,629</u>	<u>43,024</u>	<u>0</u>	<u>83,653</u>
Total investment return	40,629	68,244	0	108,873
Contributions	0	0	200	200
Distribution	(70,374)	0	0	(70,374)
Appropriation of endowment for expenditures	<u>41,937</u>	<u>(41,937)</u>	<u>0</u>	<u>0</u>
Endowment net assets, ending	<u>\$ 183,107</u>	<u>\$ 132,849</u>	<u>\$ 716,582</u>	<u>\$ 1,032,538</u>

## SUSTAINABLE CONSERVATION

### Notes to Financial Statements Years Ended December 31, 2012 and 2011

#### **Year ended December 31, 2011:**

Endowment net assets, beginning	\$ 143,409	\$ 125,050	\$ 713,182	\$ 981,641
Investment return:				
Investment income	0	23,830	0	23,830
Management fees	0	(3,007)	0	(3,007)
Net depreciation (realized & unrealized)	<u>0</u>	<u>(9,466)</u>	<u>0</u>	<u>(9,466)</u>
Total investment return	0	11,357	0	11,357
Contributions	0	0	3,200	3,200
Distribution	(2,359)	0	0	(2,359)
Appropriation of endowment for expenditures	<u>29,865</u>	<u>(29,865)</u>	<u>0</u>	<u>0</u>
Endowment net assets, ending	<u>\$ 170,915</u>	<u>\$ 106,542</u>	<u>\$ 716,382</u>	<u>\$ 993,839</u>

The unrestricted portion of the endowment assets includes deferred support in the amount of \$141,709 and \$141,809 at December 31, 2012 and 2011, respectively, and its accumulated earnings.

#### **Note 11 – Contributed Services**

The Organization recognizes certain voluntary services as explained under note 2(k) above. The Organization recorded the following services as income and expense of program services on the statement of activities:

#### **Year Ended December 31, 2012**

Legal services	\$ 54,234
Data analysis	<u>718</u>
Total	<u>\$ 54,952</u>

#### **Year Ended December 31, 2011**

Legal services	\$ 10,862
Photography services	<u>2,498</u>
Total	<u>\$ 13,360</u>

## SUSTAINABLE CONSERVATION

### Notes to Financial Statements Years Ended December 31, 2012 and 2011

#### Note 12 – Correction of Prior Year’s Error

The temporarily restricted net assets at December 31, 2011 were increased by \$150,000 to record an unconditional grant committed during the year then ended. The effects of the correction were as follows:

	<u>As stated</u>	<u>Adjustment</u>	<u>As restated</u>
Grants receivable	\$200,000	\$150,000	\$350,000
Foundation and community grants	\$1,659,855	\$150,000	\$1,809,855
Change in temporarily restricted net assets	\$49,474	\$150,000	\$199,474
Temporarily restricted net assets	\$961,052	\$150,000	\$1,111,052

#### Note 13 – Retirement Benefits

The Organization has a 401(k) retirement plan for eligible employees. Under the plan, the Organization provides a 50% match to amounts contributed by each employee up to 10% of their compensation in 2011 and effective January 1, 2012 employer contribution changed to 100% match up to 5% of compensation. Employer contributions were \$57,680 and \$41,802 for the years ended December 31, 2012 and 2011, respectively.

#### Note 14 – Commitments under Operating Leases

The Organization leases its office space and certain equipment under non-cancelable lease arrangements. The San Francisco facility lease provides for scheduled rent increases. Generally Accepted Accounting Principles (GAAP) requires that rental expense under such arrangements be recorded on a straight line basis. Management believes that the current method of recording rental expense based on amounts paid approximates GAAP. The minimum future commitments under these arrangements are:

Year ending December 31, 2013	\$ 148,629
Year ending December 31, 2014	144,114
Year ending December 31, 2015	<u>12,055</u>
	<u>\$ 304,798</u>

Total rent expense was \$140,077 and \$134,579 for the years ended December 31, 2012 and 2011, respectively.

## **SUSTAINABLE CONSERVATION**

### **Notes to Financial Statements Years Ended December 31, 2012 and 2011**

#### **Note 15 – Other Concentrations**

The Organization received 54% of its support and revenue from four private sources during the year ended December 31, 2012.

#### **Note 16 – Line of Credit**

The Organization has a secured line of credit in the amount of \$250,000 with a financial institution. The line is secured primarily by accounts receivable, equipment and fixtures, and bears interest at prime plus 2%. The Organization did not use the line during the years ended December 31, 2012 or 2011 and there was no outstanding balance at December 31, 2012 or 2011.

#### **Note 17 – Subsequent Events**

Management has evaluated subsequent events through May 6, 2013, the date on which the financial statements were available to be issued.