

Sustainable Conservation

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

December 31, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*DZH Phillips LLP*

San Francisco, California  
June 7, 2017

Sustainable Conservation

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$2,300,359	\$2,274,669
Certificates of deposit	435,657	251,862
Contracts receivable	186,600	124,090
Pledges receivable	71,000	221,537
Grants receivable	1,232,360	1,325,000
Other receivables	2,742	1,188
Prepaid expenses	<u>64,968</u>	<u>66,100</u>
Total current assets	4,293,686	4,264,446
Other assets:		
Pledge receivable beyond one year - net	-	64,029
Grants receivable beyond one year - net	223,391	886,263
Investments restricted for long-term purposes	1,381,431	1,351,626
Deposits	19,394	19,394
Property and equipment - net	<u>29,142</u>	<u>1,891</u>
TOTAL ASSETS	<u>\$5,947,044</u>	<u>\$6,587,649</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 318,177	\$ 145,833
Accrued compensated absences	154,688	157,249
Deferred support	-	1,109
Deferred rent liability	<u>18,885</u>	<u>11,871</u>
Total liabilities	<u>491,750</u>	<u>316,062</u>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	1,296,409	1,746,033
Board-designated	<u>95,270</u>	<u>90,517</u>
	1,391,679	1,836,550
Temporarily restricted	3,083,615	3,457,255
Permanently restricted	<u>980,000</u>	<u>977,782</u>
TOTAL NET ASSETS	<u>5,455,294</u>	<u>6,271,587</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$5,947,044</u>	<u>\$6,587,649</u>

The accompanying notes are an integral part of these statements.

Sustainable Conservation

STATEMENTS OF ACTIVITIES

Years ended December 31, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>								
Government grants and contracts	\$ 319,875	\$ -	\$ -	\$ 319,875	\$ 306,957	\$ -	\$ -	\$ 306,957
Foundation and community grants	101,076	2,550,492	-	2,651,568	278,000	2,238,442	25,000	2,541,442
Contributions	1,119,992	67,971	2,218	1,190,181	1,448,853	236,283	232,000	1,917,136
In-kind contributions	65,610	-	-	65,610	19,262	-	-	19,262
Client services	6,742	-	-	6,742	30,610	-	-	30,610
Interest	3,732	-	-	3,732	5,155	-	-	5,155
Other income	3,017	-	-	3,017	6,100	-	-	6,100
Net assets released from restriction:								
Purpose accomplished or time restriction expired	3,075,721	(3,075,721)	-	-	2,840,133	(2,840,133)	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>4,695,765</b>	<b>(457,258)</b>	<b>2,218</b>	<b>4,240,725</b>	<b>4,935,070</b>	<b>(365,408)</b>	<b>257,000</b>	<b>4,826,662</b>
<b>EXPENSES</b>								
Program services	3,698,602	-	-	3,698,602	3,415,577	-	-	3,415,577
Supporting services:								
Management and general	515,284	-	-	515,284	515,601	-	-	515,601
Fundraising	932,612	-	-	932,612	835,759	-	-	835,759
<b>TOTAL EXPENSES</b>	<b>5,146,498</b>	<b>-</b>	<b>-</b>	<b>5,146,498</b>	<b>4,766,937</b>	<b>-</b>	<b>-</b>	<b>4,766,937</b>
Change in net assets before income from long-term investments	(450,733)	(457,258)	2,218	(905,773)	168,133	(365,408)	257,000	59,725
Income from long-term investments	5,862	83,618	-	89,480	9	10,774	-	10,783
Change in net assets	(444,871)	(373,640)	2,218	(816,293)	168,142	(354,634)	257,000	70,508
Net Assets - beginning of year	1,836,550	3,457,255	977,782	6,271,587	1,668,408	3,811,889	720,782	6,201,079
Net Assets - end of year	<u>\$ 1,391,679</u>	<u>\$ 3,083,615</u>	<u>\$ 980,000</u>	<u>\$ 5,455,294</u>	<u>\$ 1,836,550</u>	<u>\$ 3,457,255</u>	<u>\$ 977,782</u>	<u>\$ 6,271,587</u>

The accompanying notes are an integral part of these statements.

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STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2016

	Program Services	Supporting Services		Common Costs	Total
		Management and General	Fundraising		
Salaries	\$ 1,592,178	\$ 271,090	\$ 518,777	\$ 74,122	\$ 2,456,167
Professional fees	1,242,534	58,311	75,628	37,462	1,413,935
Employee benefits	284,611	49,651	101,729	15,866	451,857
Occupancy	13,200	-	-	248,827	262,027
Payroll taxes	117,411	20,424	42,407	6,581	186,823
Legal fees	51,054	32,997	-	-	84,051
Conferences and meetings	34,872	7,196	32,623	650	75,341
Travel	67,015	2,107	5,399	523	75,044
Printing and reproduction	4,505	32	19,075	3,296	26,908
Recruitment and staff development	7,900	882	2,991	5,249	17,022
Supplies	6,435	520	440	16,995	24,390
Telephone and internet	6,159	266	85	16,307	22,817
Insurance	-	7,241	-	6,219	13,460
Dues, subscriptions and publications	5,879	528	4,106	407	10,920
Bank charges	-	5,137	3,898	-	9,035
Equipment rental and maintenance	295	1,221	-	7,510	9,026
Postage and delivery	594	64	2,386	379	3,423
Depreciation and amortization	-	-	-	2,725	2,725
Licenses, fees and miscellaneous	1,363	-	164	-	1,527
Common cost allocation	262,597	57,617	122,904	(443,118)	-
Total	<u>\$ 3,698,602</u>	<u>\$ 515,284</u>	<u>\$ 932,612</u>	<u>\$ -</u>	<u>\$ 5,146,498</u>

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

The accompanying notes are an integral part of these statements.

## Sustainable Conservation

## STATEMENTS OF CASH FLOWS

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (816,293)	\$ 70,508
Adjustments to reconcile change in net assets to net cash from (to) operating activities:		
Depreciation and amortization	2,725	1,893
Net (gains) losses from investments	(48,124)	37,940
Contributions restricted for long-term purposes	(1,109)	(118,500)
(Increase) decrease in operating assets:		
Receivables	906,014	158,404
Prepaid expenses	1,132	(7,544)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	172,344	(92,848)
Accrued compensated absences	(2,561)	37,414
Deferred support	(1,109)	(138,500)
Deferred rent liability	7,014	11,871
Net cash provided by (used in) operating activities	<u>220,033</u>	<u>(39,362)</u>
Cash flows from investing activities:		
Purchases of securities	(45,469)	(203,025)
Purchases of certificates of deposit	(435,657)	(956,862)
Proceeds from redemption of certificates of deposit	251,862	1,626,211
Purchase of website development costs	(29,976)	-
Proceeds from sales and maturities of investments	63,788	92,893
Net cash provided by (used in) investing activities	<u>(195,452)</u>	<u>559,217</u>
Cash flows from financing activities:		
Contributions restricted for long term purposes	<u>1,109</u>	<u>118,500</u>
Net cash provided by financing activities	<u>1,109</u>	<u>118,500</u>
Net increase in cash and cash equivalents	25,690	638,355
Cash and cash equivalents - beginning of the year	<u>2,274,669</u>	<u>1,636,314</u>
Cash and cash equivalents - end of the year	<u><u>\$2,300,359</u></u>	<u><u>\$ 2,274,669</u></u>

The accompanying notes are an integral part of these statements.



## Sustainable Conservation

### NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

#### 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.

##### Certificates of Deposit

Certificates of deposit are carried at cost plus reinvested interest, which approximates fair value, and are classified as cash equivalents or short-term assets, depending on the initial maturity date.

## Sustainable Conservation

### NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

#### 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. At December 31, 2016 and 2015, the Organization believed all of its contracts receivable to be collectible.

##### 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.

The Organization considers income from long-term investments to be available to support future operations.

##### 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.

Sustainable Conservation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Market Value and Measurements (continued)

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.

*-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.

Property, Equipment and Depreciation

Property and equipment in excess of \$5,000 purchased with estimated useful lives in excess of one year are capitalized at cost. Donated assets are capitalized at the fair market value on the date of receipt. Major renewals are charged to the property accounts, while expenditures for replacements and maintenance and repairs, which do not improve or extend the respective lives of the assets, are charged to operations as incurred. The cost of leasehold improvements is depreciated over the lesser of the length of the related lease or the estimated useful lives of the assets. Website development costs related to developing applications and infrastructure are capitalized and amortized over their estimated useful life. Depreciation is provided over the estimated useful lives of respective assets, ranging from three to five years, using the straight-line method of depreciation.

Deferred Support

Deferred support includes conditional contributed support received with unmet conditions.

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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Each year, management considers whether any material tax position the Organization has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Organization has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

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.

## Sustainable Conservation

### NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

#### NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 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 property and equipment 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.

##### 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' efforts 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.

## Sustainable Conservation

### NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

#### NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 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 of expenses. Actual results may differ from these estimates.

##### Subsequent events

Management has evaluated subsequent events through June 7, 2017, 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, 2016 and 2015, the Organization had approximately 68% and 92% of grants receivable from two private foundations, respectively. During the year ended December 31, 2015, the Organization had two major contributors that accounted for 28% of total revenue.

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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE D – PLEDGES RECEIVABLE

At December 31, 2016 and 2015 pledges receivable are expected to be received as follows:

	<u>2016</u>	<u>2015</u>
In one year or less	\$ 71,000	\$ 221,537
Between one year to five years	-	71,000
	<u>71,000</u>	<u>292,537</u>
Less: unamortized discount	-	(6,971)
	<u>71,000</u>	<u>(6,971)</u>
Pledges receivable - net	<u>\$ 71,000</u>	<u>\$ 285,566</u>

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, 2016 and 2015, grants receivable are expected to be received as follows:

	<u>2016</u>	<u>2015</u>
In one year or less	\$ 1,232,360	\$ 1,325,000
Between one year and five years	250,000	1,000,000
	<u>1,482,360</u>	<u>2,325,000</u>
Less: unamortized discount	(26,609)	(113,737)
	<u>(26,609)</u>	<u>(113,737)</u>
Grants receivable - net	<u>\$ 1,455,751</u>	<u>\$ 2,211,263</u>

Grants receivable expected to be received within two to five years were discounted using a discount rate of 5.64% for the year ended December 31, 2016 and discount rates between 5.39% and 5.95% for the year ended December 31, 2015.

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NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE F – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments are stated at fair value on a recurring basis. All investments are valued using unadjusted quoted prices for identical assets in active markets and therefore are considered level 1 in the fair value measurements hierarchy. At December 31, 2016 and 2015 investments consisted of:

	<u>2016</u>	<u>2015</u>
Fixed income funds	\$ 386,653	\$ 388,489
Equity funds:		
Large cap value	257,619	239,925
Large cap growth	542,430	493,687
Large cap growth international	121,857	115,666
Small cap international	71,794	62,855
Money market funds	<u>1,078</u>	<u>51,004</u>
Total investments	<u>\$ 1,381,431</u>	<u>\$ 1,351,626</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, 2015</u></b>			
Interest and dividends	\$ 42	\$ 52,484	\$ 52,526
Net losses (realized and unrealized)	(30)	(37,910)	(37,940)
Investment fees	<u>(3)</u>	<u>(3,800)</u>	<u>(3,803)</u>
Net investment income	<u>\$ 9</u>	<u>\$ 10,774</u>	<u>\$ 10,783</u>
<b><u>December 31, 2016</u></b>			
Interest and dividends	\$ 2,974	\$ 42,420	\$ 45,394
Net gains (realized and unrealized)	3,153	44,971	48,124
Investment fees	<u>(265)</u>	<u>(3,773)</u>	<u>(4,038)</u>
Net investment income	<u>\$ 5,862</u>	<u>\$ 83,618</u>	<u>\$ 89,480</u>



Sustainable Conservation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE G – PROPERTY AND EQUIPMENT

At December 31, 2016 and 2015, property and equipment consisted of:

	<u>2016</u>	<u>2015</u>
Office equipment	\$ 12,118	\$ 12,118
Website development costs	29,976	-
Leasehold improvements	18,080	18,080
	<u>60,174</u>	<u>30,198</u>
Accumulated depreciation and amortization	<u>(31,032)</u>	<u>(28,307)</u>
Property and equipment - net	<u><u>\$ 29,142</u></u>	<u><u>\$ 1,891</u></u>

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, the unmet balance was \$1,109, which were fulfilled during the year ended December 31, 2016.

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016 and 2015, temporarily restricted net assets were available for the following purposes:

	<u>2016</u>	<u>2015</u>
Dairies	\$ 799,943	\$ 1,146,832
Accelerating restoration	154,355	424,269
Agriculture water management	1,267,030	341,489
PlantRight	1,000	25,000
Organization capacity	10,735	14,501
Support of future period expenses	544,391	1,221,837
Unappropriated endowment earnings	306,161	283,327
	<u><u>\$ 3,083,615</u></u>	<u><u>\$ 3,457,255</u></u>

Sustainable Conservation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE I – TEMPORARILY RESTRICTED NET ASSETS (continued)

During the years ended December 31, 2016 and 2015, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by the donors as follows:

	<u>2016</u>	<u>2015</u>
Dairies	\$ 696,889	\$ 638,392
Accelerating restoration	424,914	346,121
Agriculture water management	751,818	650,641
PlantRight	50,550	150,050
Organization capacity	319,766	101,323
Support of future period expenses	771,000	856,515
Ecosystem services	-	20,000
Appropriated endowment earnings	<u>60,784</u>	<u>77,091</u>
	<u>\$ 3,075,721</u>	<u>\$ 2,840,133</u>

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.

Sustainable Conservation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE J – ENDOWMENT (continued)

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 with 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.

Sustainable Conservation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

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, 2016 and 2015, in total and by type of endowment fund, follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated - December 31, 2016	\$ 95,270	\$ -	\$ -	\$ 95,270
Donor restricted - December 31, 2016	-	306,161	980,000	1,286,161
Total endowments - December 31, 2016	<u>\$ 95,270</u>	<u>\$ 306,161</u>	<u>\$ 980,000</u>	<u>\$ 1,381,431</u>
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	<u>\$ 90,517</u>	<u>\$ 283,327</u>	<u>\$ 977,782</u>	<u>\$ 1,351,626</u>

Sustainable Conservation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE J – ENDOWMENT (continued)

A rollforward of the Organization’s endowment follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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)	(30)	(37,910)	-	(37,940)
Investment fees	(3)	(3,800)	-	(3,803)
Total investment return	<u>9</u>	<u>10,774</u>	<u>-</u>	<u>10,783</u>
Transfers to add assets to board-designated endowment fund	20,000	-	-	20,000
Appropriations	-	(77,091)	-	(77,091)
Matching requirements met	(138,500)	-	138,500	-
Contributions	<u>-</u>	<u>-</u>	<u>118,500</u>	<u>118,500</u>
Endowment assets - December 31, 2015	<u>\$ 90,517</u>	<u>\$ 283,327</u>	<u>\$ 977,782</u>	<u>\$ 1,351,626</u>
Endowment assets - January 1, 2016	\$ 90,517	\$ 283,327	\$ 977,782	\$ 1,351,626
Investment return:				
Interest and dividends	2,974	42,420	-	45,394
Net loss (realized and unrealized)	3,153	44,971	-	48,124
Investment fees	(265)	(3,773)	-	(4,038)
Total investment return	<u>5,862</u>	<u>83,618</u>	<u>-</u>	<u>89,480</u>
Appropriations	-	(60,784)	-	(60,784)
Matching requirements met	(1,109)	-	1,109	-
Contributions	<u>-</u>	<u>-</u>	<u>1,109</u>	<u>1,109</u>
Endowment assets - December 31, 2016	<u>\$ 95,270</u>	<u>\$ 306,161</u>	<u>\$ 980,000</u>	<u>\$ 1,381,431</u>

At December 31, 2015, board designated amounts included \$1,109, which represents an advance on a conditional grant received. As the condition is met (matching requirement fulfilled), the amount is recorded as permanently restricted contributions. As of December 31, 2016, all conditions had been met.

Sustainable Conservation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE K – IN-KIND CONTRIBUTIONS

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

	<u>2016</u>	<u>2015</u>
Legal services - program services	\$ 54,147	\$ 11,737
Legal services - management and general	6,081	-
Donor event - fundraising	<u>5,382</u>	<u>7,525</u>
	<u>\$ 65,610</u>	<u>\$ 19,262</u>

NOTE L – RETIREMENT BENEFITS

The Organization has a 401(k) retirement plan for eligible employees. Under the plan, the Organization provides a 100% match up to 5% of compensation. Employer contributions were \$117,994 and \$106,607 for the years ended December 31, 2016 and 2015, 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 \$260,076 and \$253,262 for the years ended December 31, 2016 and 2015, respectively.

The minimum future commitments under these arrangements are:

<u>Year ending December 31,</u>	
2017	\$ 252,908
2018	259,383
2019	262,718
2020	24,036
2021	<u>1,192</u>
	<u>\$ 800,237</u>

Sustainable Conservation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

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 equipment and fixtures, and bears interest at prime (3.75% at December 31, 2016) plus 2%. The Organization did not use the line of credit during both years and there was no outstanding balance at December 31, 2016 and 2015.

NOTE O – RELATED PARTY TRANSACTIONS

A board member of the Organization serves as Chief Executive Officer of a nonprofit organization (the “Affiliate”) for which the Organization entered into a cost reimbursement award agreement during the year ended December 31, 2016. During the year ended December 31, 2016, the Affiliate billed the Organization \$137,874 for expenses incurred under the agreement, of which \$36,083 is included in accounts payable and accrued expenses on the statements of financial position.

NOTE P – CHANGE IN NET ASSETS

The Organization’s changes in net assets for the last five years ended December 31 were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Unrestricted	\$ 378,708	\$ 497,475	\$ (104,821)	\$ 168,142	\$ (444,871)
Temporarily restricted	250,414	2,618,382	(167,959)	(354,634)	(373,640)
Permanently restricted	<u>200</u>	<u>3,200</u>	<u>1,000</u>	<u>257,000</u>	<u>2,218</u>
Total	<u>\$ 629,322</u>	<u>\$ 3,119,057</u>	<u>\$ (271,780)</u>	<u>\$ 70,508</u>	<u>\$ (816,293)</u>

At the end of the year ended December 31, 2012, the Organization launched the Making Big Ideas Work (MBIW) campaign in order to increase revenue and deepen programmatic impacts. This campaign was the main driver of increases in net assets of \$629,322 and \$3,119,057 during the years ended December 31, 2012 and 2013, respectively.

Sustainable Conservation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

NOTE P – CHANGE IN NET ASSETS (continued)

Beginning during the year ended December 31, 2013, the Organization has been supporting new initiatives using assets accumulated during the MBIW campaign. The spend down of campaign funds was the main driver of decreases in net assets of \$271,780 in 2014 and \$816,293 during the year ended December 31, 2016. During the year ended December 31, 2015, net assets would have also decreased but for gifts of \$257,000 to the Organization's permanently restricted endowment. Management projects that this trend of decreasing net assets will continue through the year ended December 31, 2017 as the Organization spends MBIW campaign funds as planned.