

PEPPERWOOD FOUNDATION



FINANCIAL STATEMENTS

JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pepperwood Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Pepperwood Foundation (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2017, and the related Statements of Activities, Functional Expenses, and Cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audit. We conducted our audit 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 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 Pepperwood Foundation as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter*Summarized Comparative Information*

We have previously audited Pepperwood Foundation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 2, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.



San Francisco, California
December 6, 2017

PEPPERWOOD FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2017

With comparative totals at June 30, 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 392,536	\$ 311,891
Accounts receivable	4,337	37,815
Grants receivable	69,270	-
Pledges receivable (Note 3)	69,012	179,553
Prepaid expenses	26,235	26,958
Investments (Note 4)	1,830,902	-
Property and equipment (Note 6)	19,991,908	20,311,304
TOTAL ASSETS	<u><u>\$ 22,384,200</u></u>	<u><u>\$ 20,867,521</u></u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 32,614	\$ 48,627
Accrued liabilities (Note 7)	101,976	84,097
TOTAL LIABILITIES	<u>134,590</u>	<u>132,724</u>
NET ASSETS		
Unrestricted	2,120,790	197,765
Unrestricted - property and equipment	19,991,908	20,311,304
Temporarily restricted (Note 8)	136,912	225,728
TOTAL NET ASSETS	<u>22,249,610</u>	<u>20,734,797</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 22,384,200</u></u>	<u><u>\$ 20,867,521</u></u>

The accompanying notes are an integral part of these financial statements.

PEPPERWOOD FOUNDATION

STATEMENT OF ACTIVITIES
For the year ended June 30, 2017
With comparative totals for the year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT				
Community Foundation Sonoma County grants (Note 10)	\$ 2,100,000	\$ -	\$ 2,100,000	\$ 516,815
Special event, net of expenses of \$100,673	325,602		325,602	223,087
Contributions	238,649	25,000	263,649	147,886
Foundation grants	131,350	105,500	236,850	190,500
Government grants	146,211	58,650	204,861	9,493
Unrealized gain on investments	196,270		196,270	-
In-kind contributions (Note 5)	138,999		138,999	174,969
User and program fees	75,944		75,944	140,026
Interest income	34,780		34,780	90
Rental income	28,200		28,200	28,300
Easement revenue	26,000		26,000	26,000
Miscellaneous	14,800	(681)	14,119	17,673
Net assets released from restrictions	277,285	(277,285)	-	-
TOTAL REVENUE AND SUPPORT	<u>3,734,090</u>	<u>(88,816)</u>	<u>3,645,274</u>	<u>1,474,839</u>
EXPENSES				
Program	1,472,821		1,472,821	1,457,177
General and administrative	180,476		180,476	144,816
Development	109,117		109,117	97,805
TOTAL EXPENSES	<u>1,762,414</u>	<u>-</u>	<u>1,762,414</u>	<u>1,699,798</u>
CHANGE IN NET ASSETS BEFORE DEPRECIATION EXPENSES	1,971,676	(88,816)	1,882,860	(224,959)
Depreciation expense	368,047		368,047	372,003
CHANGE IN NET ASSETS AFTER DEPRECIATION EXPENSES	1,603,629	(88,816)	1,514,813	(596,962)
NET ASSETS, BEGINNING OF YEAR	<u>20,509,069</u>	<u>225,728</u>	<u>20,734,797</u>	<u>21,331,759</u>
NET ASSETS, END OF YEAR	<u>\$ 22,112,698</u>	<u>\$ 136,912</u>	<u>\$ 22,249,610</u>	<u>\$ 20,734,797</u>

The accompanying notes are an integral part of these financial statements.

PEPPERWOOD FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2017

With comparative totals for the year ended June 30, 2016

	<u>Program</u>	<u>General and Administrative</u>	<u>Development</u>	<u>Total Expenses 2017</u>	<u>2016</u>
Salaries	\$ 751,044	\$ 78,201	\$ 65,520	\$ 894,765	\$ 816,732
Employee benefits	92,998	9,669	8,101	110,768	112,588
Payroll taxes and workers compensation	69,190	7,242	6,043	82,475	74,217
Total personnel costs	<u>913,232</u>	<u>95,112</u>	<u>79,664</u>	1,088,008	1,003,537
Professional fees	177,356	31,177	4,264	212,797	233,772
In-kind expenses	138,999			138,999	174,969
Site development and maintenance	33,457	38,836	712	73,005	51,551
Miscellaneous	48,018	5,764	2,876	56,658	45,321
Supplies and small equipment	35,110	2,557	3,130	40,797	40,989
Insurance	31,751	3,315	4,076	39,142	35,020
Occupancy	31,773	2,778	3,431	37,982	39,823
Printing and publications	22,320	70	3,350	25,740	26,515
Travel	15,292	194	930	16,416	13,962
Postage and delivery	9,255	92	2,677	12,024	10,648
Telephone	7,804	164	2,278	10,246	10,536
Real estate taxes	6,991			6,991	6,834
Staff development and training	1,463	417	1,729	3,609	5,925
Interest				-	396
TOTAL 2017 FUNCTIONAL EXPENSES	<u>\$ 1,472,821</u>	<u>\$ 180,476</u>	<u>\$ 109,117</u>	<u>\$ 1,762,414</u>	
TOTAL 2016 FUNCTIONAL EXPENSES	<u>\$ 1,457,177</u>	<u>\$ 144,816</u>	<u>\$ 97,805</u>		<u>\$ 1,699,798</u>

The accompanying notes are an integral part of these financial statements.

PEPPERWOOD FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended June 30, 2017

With comparative totals for the year ended June 30, 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,514,813	\$ (596,962)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	368,047	372,003
Reinvested dividends	(34,632)	-
Unrealized (gain) on investments	(196,270)	-
(Increase) decrease in operating assets:		
Accounts receivable	33,478	3,990
Grants receivable	(69,270)	-
Pledges receivable	110,541	199,093
Prepaid expenses	723	3,878
(Decrease) increase in operating liabilities:		
Accounts payable	(16,013)	(37,593)
Accrued liabilities	17,879	20,299
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,729,296	(35,292)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(48,651)	(1,233)
Purchase of investments	(1,600,000)	-
NET CASH (USED) BY INVESTING ACTIVITIES	(1,648,651)	(1,233)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	80,645	(36,525)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	311,891	348,416
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 392,536	\$ 311,891
SUPPLEMENTAL DISCLOSURE:		
Operating activities reflects interest paid of:	\$ -	\$ 396

The accompanying notes are an integral part of these financial statements.

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. Organization

Pepperwood Foundation was established in 2005 by Jane and Herb Dwight – designating the Pepperwood Preserve, a 3,117 acre nature preserve located in Sonoma County, California, as a permanently protected wild land. The foundation manages the property to promote natural history education, research, and preservation. Stewardship of the preserve was assumed from California Academy of Sciences, which managed the preserve from 1979-2005.

Pepperwood Foundation’s mission is to advance science-based conservation throughout our region and beyond. The organization is a leader in forging solutions to advance the health of Northern California’s land, water, and wildlife. Pepperwood Foundation’s Dwight Center for Conservation Science produces **cutting-edge research**, provides comprehensive **environmental education** for all ages, and facilitates an innovative **citizen science** initiative. Pepperwood Foundation uses its 3,117 acre nature preserve as a living laboratory to engage students, volunteers, and scientists in applied conservation. Pepperwood Foundation’s singular focus is applying science to safeguard the future of nature for generations to come.

During the year ended June 30, 2017, Pepperwood Foundation received approximately 35% of its funding from two board members via grants from Community Foundation Sonoma County (see Note 10).

2. Summary of Significant Accounting Policies

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

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Pepperwood Foundation are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Temporarily Restricted. Pepperwood Foundation reports gifts of cash and other assets as temporarily 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 the purpose of the 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 program or capital restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Pepperwood Foundation to expend all of the income (or other economic benefits) derived from the donated assets. Pepperwood Foundation has no permanently restricted net assets at June 30, 2017.

Cash and Cash Equivalents

Pepperwood Foundation has defined cash and cash equivalents as cash in banks and certificates of deposits with an original maturity of three months or less.

Accounts Receivable

Accounts receivable includes receivables from program services fees and other earned revenues. No allowance for doubtful accounts has been provided.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Pepperwood Foundation reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets.

Concentration of Credit Risks

Pepperwood Foundation places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Pepperwood Foundation has not incurred losses related to these investments.

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Investments

Pepperwood Foundation values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain on investments. Short-term highly liquid money market deposits that are not used for operations are treated as investments.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

Pepperwood Foundation is required to measure certain types of assets, contributed services, and current year pledged contributions at fair value. The specific technique used to measure fair value for these financial statements elements are described in the notes below that relate to each element.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of real property is greater than or equal to five thousand dollars or the cost of equipment is greater than or equal to one thousand dollars and the useful life is greater than one year.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

Functional Allocation of Expenses

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

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

Pepperwood Foundation is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. In addition, Pepperwood Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Pepperwood Foundation in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Pepperwood Foundation's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

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 that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Pepperwood Foundation's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

3. Pledges Receivable

Pledges receivable are recorded as support when pledged. Additionally, all pledges are valued at their estimated fair value and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2017. A discount rate between 1.24% and 1.89% has been used to calculate the present value of pledges receivable. Total amount of pledges receivable at June 30, 2017, of \$69,012, is expected to be collected as follows:

<u>Year ended June 30,</u>	
2018	\$45,100
2019	15,000
2020	5,000
2021	<u>5,000</u>
	70,100
Less: unamortized discount on pledges receivables	<u>(1,088)</u>
	<u>\$69,012</u>

continued

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

4. Investments

Investments at June 30, 2017 consist of mutual of funds in the amount of the \$1,830,902.

5. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2017 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds				
Vanguard total stock	<u>\$1,830,902</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,830,902</u>

The fair values of mutual funds have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The table below present transactions measured at fair value on a non-recurring basis during the year ended June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current year new pledges	<u>\$ -</u>	<u>\$ -</u>	<u>\$45,000</u>	<u>\$ 45,000</u>
Contributed services	<u>-</u>	<u>138,999</u>	<u>-</u>	<u>138,999</u>
	<u>\$ -</u>	<u>\$138,999</u>	<u>\$45,000</u>	<u>\$183,999</u>

The fair value of contributed services has been measured on a non-recurring basis using quoted prices for similar assets in inactive market (Level 2 inputs).

Pepperwood Foundation received donated services from individuals who support the mission of the organization. The established fair value of donated services received for the year ended June 30, 2017 amounted to \$138,999 and was based upon the number of hours contributed at appropriate volunteer rate and has been recorded as an in-kind contribution and expense. The volunteer rate is based on yearly earnings provided by the Bureau of Labor Statistics and increased by 12% to estimate for fringe benefits.

The fair value of current year new pledges is measured on a non-recurring basis by estimating future cash flows, based on pledge commitments and previous experience and discounting the carrying amount to present value (Level 3 inputs).

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

6. Property and Equipment

Property and equipment at June 30, 2017 consist of the following:

Land	\$ 9,697,744
Buildings and improvements	12,658,027
Furniture and equipment	338,746
Vehicles	<u>76,761</u>
	22,771,278
Less: accumulated depreciation	<u>(2,779,370)</u>
	<u>\$19,991,908</u>

Depreciation expense during the year ended June 30, 2017 was \$368,047.

The use of the preserve is restricted to education and research activities and low-impact recreation with the exception of two approximately twenty-five acre residential parcels which may be sold. In addition, the California Academy of Sciences was granted a perpetual easement to use the property as they have used it in the past in exchange for an annual payment of \$25,000.

7. Accrued Liabilities

Accrued liabilities at June 30, 2017 consist of the following:

Accrued vacation	\$ 58,195
Accrued payroll liability	42,206
Deposit	1,250
Other	<u>325</u>
	<u>\$101,976</u>

8. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2017 consist of the following:

Program restrictions	\$ 96,900
Support operations in future years	<u>40,012</u>
	<u>\$136,912</u>

For the year ended June 30, 2017, net assets released from restrictions were \$277,285, which consists of \$41,000 released for time restrictions and \$236,285 for program restrictions.

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

9. Employee Benefit Plan

All employees can participate in Pepperwood Foundation's 403(b) retirement plan, in accordance with the requirements of the plan, and may contribute toward this plan through pre-tax payroll withholding at any time from the date of employment. In accordance with the requirements of the plan, Pepperwood Foundation will contribute 3% of salary and match 50% of employee's contributions that are not in excess of 2% of their compensation on behalf of eligible employees after one full year of employment. Employer contributions under this plan for the year ended June 30, 2017 were \$28,749.

10. Related Party Transactions

A charitable lead annuity trust has been established with the Pepperwood Foundation Fund, a designated fund of Community Foundation Sonoma County, naming Pepperwood Foundation as a beneficiary. The trust requires annual distributions of approximately \$1.1 million to the fund for ten years beginning in 2010, combined. The intent of the donors of the trust is for \$500,000 to be distributed from the designated fund at Community Foundation Sonoma County to the Pepperwood Foundation each year and the remainder to be retained by the Community Foundation Sonoma County to create an endowment with the Pepperwood Foundation as the beneficiary.

Additionally, during the year the Community Foundation Sonoma approved a grant in the amount \$1,600,000 from the Pepperwood Foundation Fund to Pepperwood Foundation for general operating support.

11. Subsequent Event

Management has evaluated subsequent events through December 6, 2017, the date which the financial statements were available for issue.

Subsequent to year end, Pepperwood Foundation was impacted by the Tubbs Fire that burned through the preserve in early October 2017. While Pepperwood Foundation sustained some losses to structure and approximately 90% of the land has burned, the Dwight Center for Conservation Science remains operational and has allowed us to continue our science and educational programs. No adjustments related to this transaction has been made to the financial statements for the year ended June 30, 2017.