

PEPPERWOOD FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2020

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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, 2020, 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, 2020, 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.

INDEPENDENT AUDITORS' REPORT

continued

Other Matter

Report on Summarized Comparative Information

We have previously audited Pepperwood Foundation's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 8, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

Pasadena, California
November 19, 2020

PEPPERWOOD FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2020

With comparative totals at June 30, 2019

	2020	2019
ASSETS		
Cash and cash equivalents (Note 2)	\$ 1,842,657	\$ 974,054
Accounts receivable	38,018	3,985
Grants receivable	64,937	29,901
Pledges receivable (Note 4)	235,332	277,566
Prepaid expenses	29,134	35,633
Investments (Note 5)	5,422,255	3,425,451
Property and equipment (Note 7)	21,761,202	19,522,080
	\$ 29,393,535	\$ 24,268,670
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 40,351	\$ 86,493
Accrued liabilities (Note 8)	120,308	110,050
Paycheck protection program (Note 9)	209,300	-
	369,959	196,543
NET ASSETS		
Without donor restrictions		
Undesignated	8,792,771	3,431,310
Invested in property and equipment	19,672,658	19,991,908
With donor restrictions (Note 10)	558,147	648,909
	29,023,576	24,072,127
	\$ 29,393,535	\$ 24,268,670

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

PEPPERWOOD FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended June 30, 2020

With comparative totals for the year ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020</u>	<u>2019</u>
REVENUE AND SUPPORT				
Foundation grants	\$ 391,007	\$ 1,861,468	\$ 2,252,475	\$ 740,250
Community Foundation Sonoma County grants (Note 12)	2,100,000		2,100,000	500,000
Contributions	567,009	610,271	1,177,280	638,394
Unrealized gain on investments	225,814		225,814	214,526
Government grants	130,517		130,517	43,051
User and program fees	126,098		126,098	103,291
In-kind contributions (Note 6)	104,637		104,637	119,244
Interest income	91,906		91,906	64,043
Special event	34,100		34,100	274,598
Easement revenue	31,600		31,600	30,400
Miscellaneous	19,017	12,500	31,517	15,935
Rental income	15,026		15,026	14,593
Gain on disposal of fixed assets			-	-
Net assets released from restrictions (Note 10)	2,575,001	(2,575,001)	-	-
TOTAL REVENUE AND SUPPORT	<u>6,411,732</u>	<u>(90,762)</u>	<u>6,320,970</u>	<u>2,758,325</u>
EXPENSES				
Program services	2,064,117		2,064,117	2,360,547
General and administrative	199,303		199,303	332,140
Development	267,644		267,644	265,361
TOTAL EXPENSES	<u>2,531,064</u>	<u>-</u>	<u>2,531,064</u>	<u>2,958,048</u>
CHANGE IN NET ASSETS BEFORE DEPRECIATION EXPENSE	3,880,668	(90,762)	3,789,906	(199,723)
Depreciation expense	371,775		371,775	355,868
CHANGE IN NET ASSETS AFTER DEPRECIATION EXPENSE	3,508,893	(90,762)	3,418,131	(555,591)
OTHER CHANGE				
Gain from insurance claim (Note 13)	1,533,318		1,533,318	-
NET ASSETS, BEGINNING OF YEAR	<u>23,423,218</u>	<u>648,909</u>	<u>24,072,127</u>	<u>24,627,718</u>
NET ASSETS, END OF YEAR	<u>\$ 28,465,429</u>	<u>\$ 558,147</u>	<u>\$ 29,023,576</u>	<u>\$ 24,072,127</u>

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

PEPPERWOOD FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2020

With comparative totals for the year ended June 30, 2019

	Program Services			General and Administrative	Development	Total Expenses	
	Research and Conservation	Environmental Education and Outreach	Total Program Services			2020	2019
Salaries	\$ 590,517	\$ 461,410	\$ 1,051,927	\$ 103,748	\$ 161,439	\$ 1,317,114	\$ 1,243,892
Employee benefits	99,372	63,618	162,990	10,404	12,078	185,472	170,740
Payroll taxes and workers compensation	52,582	40,345	92,927	10,694	14,455	118,076	114,902
Total personnel costs	742,471	565,373	1,307,844	124,846	187,972	1,620,662	1,529,534
Professional fees	168,317	62,123	230,440	41,718	37,573	309,731	765,688
Insurance	106,281	26,027	132,308	5,865	8,840	147,013	56,431
In-kind expenses	88,385	16,252	104,637			104,637	119,244
Miscellaneous	57,716	28,678	86,394	10,791	4,153	101,338	251,605
Site development and maintenance	58,009	14,446	72,455	3,070	5,621	81,146	61,568
Supplies and small equipment	28,435	11,872	40,307	8,016	9,078	57,401	53,259
Printing and publications	19	28,351	28,370	3	5,249	33,622	28,865
Occupancy	18,956	7,538	26,494	1,495	2,070	30,059	39,553
Telephone	7,330	4,235	11,565	2,703	777	15,045	14,405
Postage and delivery	381	6,737	7,118	61	4,919	12,098	14,128
Real estate taxes	11,127		11,127			11,127	7,591
Travel	2,766	310	3,076	482	95	3,653	8,217
Staff development and training	1,267	715	1,982	75	1,297	3,354	7,960
Interest			-	178		178	-
TOTAL 2020 FUNCTIONAL EXPENSES	\$ 1,291,282	\$ 772,835	\$ 2,064,117	\$ 199,303	\$ 267,644	\$ 2,531,064	
TOTAL 2019 FUNCTIONAL EXPENSES			\$ 2,360,547	\$ 332,140	\$ 265,361		\$ 2,958,048

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

PEPPERWOOD FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended June 30, 2020

With comparative totals for the year ended June 30, 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 3,418,131	\$ (555,591)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	371,775	355,868
Reinvested dividends	(72,021)	(60,049)
Unrealized (gain) on investments	(225,814)	(214,526)
(Increase) decrease in operating assets:		
Accounts receivable	(34,033)	4,705
Grants receivable	(35,036)	(39,201)
Pledges receivable	42,234	(182,815)
Prepaid expenses	6,499	(3,727)
(Increase) decrease in operating liabilities:		
Accounts payable	(46,142)	35,802
Accrued liabilities	209,300	926
	3,634,893	(658,608)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,605,515)	(205,290)
Insurance proceeds	1,533,318	-
Sales of investments	-	-
Purchase of investments	(1,903,395)	(51,075)
	(2,975,592)	(256,365)
NET CASH (USED) BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from paycheck protection program	209,300	-
	209,300	-
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	868,601	(914,973)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	974,054	1,889,027
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,842,655	\$ 974,054

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

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. Organization

Founded in 2005 by philanthropists Jane and Herb Dwight, the Pepperwood Foundation owns and operates a 3,200-acre nature refuge and research station based in Northeastern Sonoma County with the Dwight Center for Conservation Science serving as an on-site administrative headquarters. The California Academy of Sciences owned and managed the preserve from 1978-2005 through a legacy gift from the Kenneth Bechtel family, and the Academy continues to utilize the preserve for program development and delivery.

Pepperwood Foundation's mission is to inspire conservation through science. We bring science and community together to craft resilience solutions for the land, water and wildlife Californians rely upon for their wellbeing. Located in the heart of Sonoma County—a globally recognized biodiversity “hotspot”—Pepperwood Foundation's 3,200-acres is an important refuge for more than 900 species of native plants and wildlife. The property serves as a living laboratory hosting local students and researchers from around the world. The Dwight Center has become a hub for ecological education and a conservation think tank for the region spanning Monterey to Mendocino Counties.

Programs are focused on the following activities:

- Engaging researchers and decision-makers in measuring and mapping the processes driving ecosystem change
- Developing science-based solutions to reduce wildfire hazards, manage floods and droughts, advance regenerative agriculture, and prevent the extinction of our precious wildlife
- Mobilizing a network of partners to craft and implement strategies that promote human well-being, environmental health, and biodiversity
- Empower the next generation to become more inclusive and effective conservation leaders
- Maximize the return—both environmental and economic—of financial investments in conservation
- Convening and partnering with global experts to inform and amplify our work

Pepperwood Foundation's operations are supported by individual gifts, foundation and government grants, and fee-for-service revenue. Our calling is to create scientific guidance on how to ensure that human life and our natural world continue to thrive together for generations to come.

In 2017, the Tubbs Fire burned 90 percent of the reserve and destroyed six mission-critical facilities. Pepperwood Foundation's first capital campaign, *Rising from the Ashes*, was completed in 2018, raising \$6 million (combined with insurance benefits) to replace buildings lost in the fire. In 2019, fires returned again when the Kincade Fire claimed 60 percent of the preserve, though thanks to a combination of land management, our fire camera network, and close coordination with first responders, no facilities were destroyed. The organization's third five-year strategic plan, *Science Solutions for Resilience*, was funded by the National Science Foundation and released in 2020.

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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.

Net Assets

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

Without Donor Restrictions. Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

With Donor Restrictions. Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

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 techniques used to measure fair value for these financial statement elements are described in the notes below that relates 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.

continued

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

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.

Recently Adopted Accounting Pronouncement

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expanded disclosures about revenue. Pepperwood Foundation has implemented Topic 606 and have adjusted the presentation in these financial statements accordingly. The amendments have been applied retrospectively to all periods presented, with no effect on the net assets.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assist entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. Pepperwood Foundation has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

continued

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2019, from which the summarized information was derived.

Management has evaluated subsequent events through November 19, 2020, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

3. Liquidity and Availability of Resources

Pepperwood Foundation regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Pepperwood Foundation has various sources of liquidity at its disposal, including cash and cash equivalents, investments and various receivables. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Pepperwood Foundation considers all expenditures related to its ongoing activities of providing program related activities as well as the conduct of services undertaken to support those activities to be general expenditures. Pepperwood Foundation strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. The following table reflects Pepperwood Foundation's financial assets as of June 30, 2020, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date.

Investments	\$5,422,255
Cash and cash equivalents	1,842,657
Pledges receivable	235,332
Grants receivable	64,937
Accounts receivable	<u>38,018</u>
Total financial assets at year-end	<u>\$7,603,199</u>

Financial assets available to meet expenditures over the next 12 months.

Total financial assets	\$7,603,199
Less: with donor restrictions	<u>(823,694)</u>
Assets available to meet expenditures in the next 12 months	<u>\$6,779,505</u>

continued

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

4. 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, 2020. A discount rate between 1.11% and 2.54% has been used to calculate the present value of pledges receivable. Total amount of pledges receivable at June 30, 2020, of \$235,332, is expected to be collected as follows:

<u>Year ending June 30,</u>	
2021	\$207,500
2022	10,000
2023	10,000
2024	<u>10,000</u>
	237,500
Less: unamortized discount on pledges receivables	<u>(2,168)</u>
	<u>\$235,332</u>

5. Investments

Investments at June 30, 2020 consist of the following:

Mutual funds	\$4,877,367
Money market	<u>544,888</u>
	<u>\$5,422,255</u>

6. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2020 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>\$4,877,367</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,877,367</u>

The fair value of mutual funds has 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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current year new pledges	\$ -	\$ -	\$285,000	\$285,000
Contributed services	<u>-</u>	<u>104,637</u>	<u>-</u>	<u>104,637</u>
	<u>\$ -</u>	<u>\$104,637</u>	<u>\$285,000</u>	<u>\$389,637</u>

continued

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

6. Fair Value Measurements, continued

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, 2020 amounted to \$104,637 and was based upon the number of hours contributed at an appropriate volunteer rate and has been recorded as an in-kind contributions 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).

7. Property and Equipment

Property and equipment at June 30, 2020 consist of the following:

Buildings and improvements	\$12,722,756
Land	9,697,744
Construction in progress - buildings	2,431,217
Furniture and equipment	452,827
Vehicles	<u>151,163</u>
	25,455,707
Less: accumulated depreciation	<u>(3,694,505)</u>
	<u>\$21,761,202</u>

Depreciation expense during the year ended June 30, 2020 was \$371,775.

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.

8. Accrued Liabilities

Accrued liabilities at June 30, 2020 consist of the following:

Accrued vacation	\$ 64,219
Accrued payroll liability	<u>56,089</u>
	<u>\$120,308</u>

continued

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

9. Paycheck Protection Program

In April 2020, Pepperwood Foundation received a loan from the U.S. Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) loan, as provided by the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. The amount of the loan was \$209,300 and bears an interest of 1.00% per year. All SBA loan proceeds will be used only for business-related purposes as specified in the loan application and consistent with the PPP regulations. The loan is due on April 2022 and pursuant to the program, all or a portion of the loan may be forgiven upon compliance with PPP requirements.

10. Net Assets With Donor Restrictions

Net asset with donor restrictions as of June 30, 2020 consist of the following:

Support operations in future years	\$261,432
Program restrictions	<u>296,715</u>
	<u>\$558,147</u>

For the year ended June 30, 2020, net assets with donor restrictions released from restrictions were \$2,575,001.

11. 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, 2020 were \$46,639.

12. 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 Pepperwood Foundation as the beneficiary. The trust terminates September 2020.

PEPPERWOOD FOUNDATION

NOTES TO FINANCIAL STATEMENTS

13. Gain from Insurance Claim

In October 2017, Pepperwood Foundation was impacted by the Tubbs Fire that burned through the preserve. As a result, Pepperwood Foundation received proceeds from insurance claims for the losses of the property and equipment due to such event. The total gain from the insurance claim at June 30, 2020 was \$1,533,318.

14. Commitments and Contingencies

COVID-19 Impact

In March 2020, the COVID-19 virus was declared a global pandemic and it continues to spread, with severe economic impacts on communities world-wide. On March 17, 2020, Sonoma County issued Health Order No. C19-03 directing all business to cease non-essential operations at physical locations in the County and prohibiting the gathering of individuals and non-essential travel. Pursuant to shelter-in-place guidelines, management transitioned all staff to remote work locations and cancelled all on-site activities, including the annual spring fundraising event. Pepperwood Foundation continues to conduct most business activities remotely, and field programs continue to operate under the direction of the County's guidelines.

Pepperwood Foundation has been in constant communication with board members and have prepared to pivot programming to virtual platforms as necessary. The board Finance Committee is now meeting monthly to evaluate cash flow needs and has prepared financial scenarios to adapt as necessary to potential reductions in donations. Pepperwood Foundation has made arrangements to access liquid funds held in Operating Reserves to continue managing operations, when necessary.