The Painted Turtle

Financial Statements and Independent Auditor's Report

December 31, 2017

CohnReznick
Accounting • Tax • Advisory

The Painted Turtle

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Independent Auditor's Report

To the Board of Directors
The Painted Turtle

We have audited the accompanying financial statements of The Painted Turtle, which comprise the statement of financial position as of December 31, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Painted Turtle as of December 31, 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.

CohnReznick LLP

Los Angeles, California
June 26, 2018

The Painted Turtle

Statement of Financial Position
December 31, 2017

Assets		
Current assets		
Cash and cash equivalents	$	1,066,578
Current portion of pledges receivable, net		679,038
Prepaid expenses and other		39,117
Total current assets		1,784,733
Property and equipment, net of accumulated depreciation and amortization		27,932,815
Pledges receivable, net of current portion		589,268
Investments		13,956,534
Total assets	$	44,263,350
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$	316,224
Total current liabilities		316,224
Long-term debt		10,000,000
Total liabilities		10,316,224
Commitments		
Net assets		
Unrestricted		27,742,820
Temporarily restricted		2,993,306
Permanently restricted		3,211,000
Total net assets		33,947,126
Total liabilities and net assets	$	44,263,350

See Notes to Financial Statements.

The Painted Turtle

Statement of Activities
Year Ended December 31, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and support				
Contributions	$ 3,129,706	$ 1,127,359	$ 52,000	$ 4,309,065
In-kind donations	578,731	-	-	578,731
Special events	547,443	-	-	547,443
Interest and other sources	195	-	-	195
Litigation settlement income, net	2,589,443	-	-	2,589,443
Realized and unrealized gain on investments	747,975	-	-	747,975
Donor redesignation	(102,000)	-	102,000	-
Net assets released from restrictions				
Time restricted, pledges receivable	686,178	(686,178)	-	-
Special purpose, operations	303,000	(303,000)	-	-
Total revenues and support	8,480,671	138,181	154,000	8,772,852
Expenses				
Program services				
Camp program	1,422,051	-	-	1,422,051
Medical	948,856	-	-	948,856
Facilities	3,443,807	-	-	3,443,807
Supporting services				
General and administrative	415,304	-	-	415,304
Fundraising and development	779,779	-	-	779,779
Special events	290,379	-	-	290,379
Total expenses	7,300,176	-	-	7,300,176
Change in net assets	1,180,495	138,181	154,000	1,472,676
Net assets, beginning	26,562,325	2,855,125	3,057,000	32,474,450
Net assets, end	$ 27,742,820	$ 2,993,306	$ 3,211,000	$ 33,947,126

See Notes to Financial Statements.

The Painted Turtle

Statement of Functional Expenses
Year Ended December 31, 2017

	Program services			Supporting services			
	Camp program	Medical	Facilities	General and administrative	Fundraising and development	Special events	Total
Automobiles	$ 19,387	$ 434	$ 25,908	$ 5,339	$ 8,273	$ -	$ 59,341
Camp services	81,379	24,120	112,939	1,068	-	-	219,506
Cost of direct benefits to donors	-	-	-	-	-	290,379	290,379
Depreciation and amortization	-	-	1,209,937	-	-	-	1,209,937
Dues and subscriptions	20,339	1,034	-	-	2,473	-	23,846
Employee costs	82,947	14,666	13,376	6,929	15,223	-	133,141
Insurance	50,072	64,237	185,574	27,950	41,620	-	369,453
Interest and bond related costs	-	-	278,699	-	-	-	278,699
Leasing fees	4,229	-	7,395	1,788	-	-	13,412
Maintenance	-	-	305,867	-	-	-	305,867
Miscellaneous	-	-	-	12,195	9,691	-	21,886
Office	12,538	5,035	72,653	30,138	33,409	-	153,773
Outside service	3,430	-	-	40,640	302	-	44,372
Payroll taxes	82,502	52,601	60,446	9,637	46,125	-	251,311
Professional fees	-	-	-	41,152	-	-	41,152
Promotions	-	-	-	340	68,369	-	68,709
Rent	-	-	6,342	105,632	-	-	111,974
Salaries	837,530	640,523	665,787	104,236	545,297	-	2,793,373
Supplies	170,555	111,023	239,307	3,655	-	-	524,540
Taxes and licenses	-	-	43,037	175	-	-	43,212
Travel and entertainment	15,248	3,461	-	1,907	3,511	-	24,127
Utilities	11,128	2,200	159,861	20,919	4,102	-	198,210
Workers' compensation	30,767	29,522	56,679	1,604	1,384	-	119,956
Total	$1,422,051	$948,856	$ 3,443,807	$ 415,304	$ 779,779	$290,379	$7,300,176

See Notes to Financial Statements.

The Painted Turtle

Statement of Cash Flows
Year Ended December 31, 2017

Cash flows from operating activities	
Change in net assets	$ 1,472,676
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Change in discount of pledges receivable	36,290
Depreciation and amortization	1,209,937
Contributions restricted for endowment	(52,000)
Net realized and unrealized gain on investments	(747,975)
Changes in operating assets and liabilities	
Pledges receivable	(452,471)
Prepaid expenses and other	(6,812)
Accounts payable and accrued expenses	76,391
Net cash provided by operating activities	1,536,036
Cash flows from investing activities	
Purchases of property and equipment	(873,162)
Purchases of investments	(9,401,897)
Proceeds from sales of investments	4,153,684
Net cash used in investing activities	(6,121,375)
Cash flows from financing activities	
Contributions restricted for endowment	52,000
Net decrease in cash and cash equivalents	(4,533,339)
Cash and cash equivalents, beginning	5,599,917
Cash and cash equivalents, end	$ 1,066,578
Supplemental disclosure of cash flow data	
Interest paid	$ 179,370

See Notes to Financial Statements.

Notes to Financial Statements
December 31, 2017

Note 1 - Business and summary of significant accounting policies

Business
The Painted Turtle (a California non-profit corporation) (the "Organization") was incorporated in California on December 24, 1996 and designated as a 501(c)(3) non-profit corporation. The purpose of the Organization is to own, operate and maintain a state of the art medical camping facility that provides services to chronically ill children without cost to their families. The affairs of the Organization are managed and controlled by the Board of Directors (the "Board") of the Organization.

Basis of accounting
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial statement presentation
The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, which are described as follows:

Unrestricted - Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board.

Temporarily restricted - Net assets whose use by the Organization is subject to either explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of the Organization or that expire by the passage of time.

Permanently restricted - Net assets subject to explicit donor-imposed stipulations that must be maintained permanently by the Organization and stipulate the use of income and/or appreciation as temporarily restricted based on donor-imposed stipulations or by operation of law.

Contributions
Unconditional promises to give are recorded as pledges receivable when the promise is received. Unconditional promises to give with payments due in future periods are reported as restricted support.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions for which donors have imposed restrictions which limit the use of the donated assets are reported as restricted support if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Contributions of assets which donors have stipulated must be maintained permanently, with only the income earned thereon available for current use, are classified as permanently restricted assets.

Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions but which are met within the same reporting period, are reported as unrestricted support.

Gifts of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets 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 stipulation, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promissor, shall be recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

Contributed services and facilities
During the year ended December 31, 2017, there were no contributed services meeting the requirements for recognition in the financial statements. During the year ended December 31, 2017, there was $72,000 of contributed facilities, which represents discounted rent for office space and is included with in-kind donations.

In-kind donations
During the year ended December 31, 2017, the value of in-kind donations (including rent) or noncash assets received by the Organization was $578,731. The donated assets were in relation to the operations of the Organization and are included in program and supporting services. The value of in-kind donations is based on either donor-stated value, face value or replacement value had the Organization needed to purchase from an outside source.

Functional allocation of expenses
Identifiable expenses are charged to program services, supporting services and special events. Other functional services have been allocated between such categories related to personnel time and space utilized for activities.

Cash and cash equivalents
The Organization considers all highly liquid investments with a maturity at date of purchase of three months or less to be cash equivalents.

Pledges receivable
Pledges receivable are stated at unpaid balances, less an allowance for doubtful accounts and a discount on those pledges receivable due in greater than one year. The Organization provides for losses on receivables using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of the donors to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

Investments
Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair value in the statement of financial position. The realized and unrealized gains and losses are included in the Organization's statement of activities.

Fair value measurements

The Organization values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

> Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
>
> Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
>
> Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the assets, generally ranging from three to five years. Camp facilities are depreciated over an estimated useful life of 40 years. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the lease term.

Long-lived assets

Long-lived assets to be held and used are periodically reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable, at which time the Organization will record an impairment. No impairments were recorded during the year ended December 31, 2017.

Income taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue Taxation Code of California. Accordingly, no provision for income taxes is included in the accompanying financial statements.

The Organization has no unrecognized tax benefits at December 31, 2017. The Organization's federal and state income tax returns prior to fiscal years 2014 and 2013, respectively, are closed. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If applicable, the Organization recognizes interest and penalties associated with tax matters as part of income tax expense and includes accrued interest and penalties with the related tax liability in the statement of financial position.

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 certain reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Organization has evaluated the impact of subsequent events through June 26, 2018, which is the date the financial statements were available to be issued.

Note 2 - Concentrations

Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and pledges receivable. The Organization maintains its cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits.

The Organization's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to the Organization's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes.

At December 31, 2017, three donors accounted for approximately 47% of the Organization's total pledges receivable. For the year ended December 31, 2017, one donor accounted for approximately 13% of the Organization’s contributions.

Note 3 - Pledges receivable

At December 31, 2017, unconditional pledges receivable consist of future amounts to be received for camp endowment and general purposes. Unconditional pledges receivable are reflected at the present value of estimated future cash flows using a discount rate of 4.5%. The receivables are recorded as follows:

Pledges receivable	$ 1,336,871
Less discount to net present value	68,565
	1,268,306
Less current portion	679,038
	$ 589,268

At December 31, 2017, gross undiscounted pledges receivable due in less than one year are $679,038, pledges receivable due in one to five years are $507,833 and pledges receivable due in greater than five years are $150,000. At December 31, 2017, the Organization believes that all pledges receivable are collectible.

Note 4 - Property and equipment

At December 31, 2017, property and equipment consist of the following:

Automobiles	$ 301,573
Computer equipment	374,693
Furniture and fixtures	1,757,091
Leasehold improvements	49,493
Camp facilities	38,704,393
Land	1,140,574
	42,327,817
Less accumulated depreciation and amortization	14,395,002
	$ 27,932,815

Depreciation and amortization expense for the year ended December 31, 2017 was $1,209,937.

Note 5 - Investments

At December 31, 2017, investments consist of the following:

Fixed income	$ 1,887,843
Preferred stock	1,378,000
Mutual funds	
Non-traditional bond	3,160,278
World bond	1,841,717
Bank loan	2,528,973
Multisector bond	3,159,723
	$ 13,956,534

Note 6 - Fair value measurements

At December 31, 2017, financial assets are carried at fair value and are classified in the table below in one of the three categories as described in Note 1:

	Level 1	Level 2	Level 3	Total
Fixed income	$ 1,887,843	$ -	$ -	$ 1,887,843
Preferred stock	1,378,000	-	-	1,378,000
Mutual funds				
Non-traditional bond	3,160,278	-	-	3,160,278
World bond	1,841,717	-	-	1,841,717
Bank loan	2,528,973	-	-	2,528,973
Multisector bond	3,159,723	-	-	3,159,723
Total	$ 13,956,534	$ -	$ -	$ 13,956,534

Fixed income and preferred stock investments consist of exchange traded funds and are valued from real-time quotes. Valuations of mutual funds are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Note 7 - Long-term debt

At December 31, 2017, the Organization is indebted under a bond issuance through the California Statewide Communities Development Authority in the amount of $10,000,000. The funds were used to finance the acquisition, construction, improvement, furnishings and equipping of the Organization's camp facilities. The bonds are variable rate bonds (1.72% at December 31, 2017) with interest payable monthly and mature on April 1, 2033. The bonds are secured by the property.

At December 31, 2017, the Organization has an outstanding letter of credit with a bank that supports the bond issuance. The letter of credit has an available limit up to the amount outstanding on the bond issuance and is subject to an annual fee of 1.39%. The letter of credit is secured by substantially all of the Organization's assets and matures in September 2018.

For the year ended December 31, 2017, interest expense on the bonds totaled $219,121.

The letter of credit contains covenants regarding certain financial amounts, ratios and activities of the Organization. At December 31, 2017, the Organization was in compliance with all such covenants.

The following is a schedule, by years, of the future minimum principal payments on the Organization's long-term debt for the five years subsequent to December 31, 2017 and thereafter:

2018	$	-
2019		-
2020		-
2021		-
2022		295,000
Thereafter		9,705,000
	$	10,000,000

Note 8 - Restricted net assets

At December 31, 2017, temporarily restricted net assets consist of the following:

Time restricted, pledges receivable	$	1,268,306
Special purpose		1,675,000
Special purpose, debt repayment		50,000
	$	2,993,306

At December 31, 2017, permanently restricted net assets consist of camp endowment funds of $3,211,000.

Note 9 - Endowments

The Organization's endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the State of California 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 Organization and 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.

The Organization's investment policy over endowment assets attempts to provide a predictable stream of funding while seeking to maintain the purchasing power of the assets. Under this policy, investments are intended to assume a conservative level of investment risk and are held in money market accounts. All income earned on these accounts is expected to be appropriated and used in operations to support the Organization's programs.

Endowment net asset composition by type of fund as of December 31, 2017 is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 3,211,000	$ 3,211,000
Board-designated endowment funds	85,665	-	-	85,665
Endowment assets, end	$ 85,665	$ -	$ 3,211,000	$ 3,296,665

The following table summarizes the activity affecting endowment net assets for the year ended December 31, 2017:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment assets, beginning	$ 64,378	$ -	$ 3,057,000	$ 3,121,378
Contributions	-	-	52,000	52,000
Investment income	4,520	16,767	-	21,287
Appropriated for expenditure	16,767	(16,767)	-	-
Donor redesignated	-	-	102,000	102,000
Endowment assets, end	$ 85,665	$ -	$ 3,211,000	$ 3,296,665

At December 31, 2017, there were no deficiencies of donor-restricted endowment funds.

Note 10 - 401(k) retirement plan

The Organization maintains a 401(k) plan which is available to substantially all full-time employees who have attained the age of twenty-one and have completed 90 days of service. Employees can elect to make contributions of up to 15% of compensation or the maximum allowed by law. The Organization has an option to match up to 4% of compensation. For the year ended December 31, 2017, the Organization contributed $51,205.

Note 11 - Commitments

The Organization leases its office facilities and certain office equipment under noncancelable operating leases expiring through February 2023. Total rent expense under these leases was $39,974 for the year ended December 31, 2017.

The following is a schedule, by years, of future minimum lease payments required under the operating leases that have initial or remaining lease terms in excess of one year as of December 31, 2017:

2018	$ 7,680
2019	7,692
2020	7,692
2021	7,312
2022	4,412
Thereafter	377
	$ 35,165

Note 12 - Litigation settlement

In February 2017, the Organization entered into a litigation settlement agreement related to extensive fire loss which resulted in the Organization receiving $3,700,000 in full and final settlement. The Organization paid expenses of $1,110,557 for smoke remediation resulting in net settlement income of $2,589,443 for the year ended December 31, 2017.

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