

**MENDOCINO LAND TRUST, INC.**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**



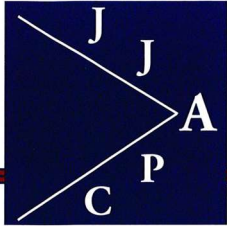
*This page intentionally left blank.*

**Mendocino Land Trust, Inc.**  
**Financial Statements**  
**For the year ended June 30, 2018**  
**Table of Contents**

---

	<u>Page</u>
<b>Independent Auditor's Report</b> .....	1-2
<b>Financial Statements:</b>	
Statement of Financial Position .....	3
Statement of Activities .....	4
Statement of Cash Flows .....	5-6
Statement of Functional Expenses.....	7
Notes to Financial Statements .....	8-18

*This page intentionally left blank.*



JJACPA, Inc.

A Professional Accounting Services Corp.

---

### **Independent Auditor's Report**

Governing Board  
Mendocino Land Trust, Inc.  
Fort Bragg, California

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Mendocino Land Trust, Inc. (Organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities 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, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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.

Governing Board  
Mendocino Land Trust, Inc.  
Fort Bragg, California

Page 2

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2018, and the changes in its Net Position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

February 19, 2019

*JJACPA, Inc.*  
**JJACPA, Inc.**  
**Dublin, CA**













## **1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Summary of Organization**

Mendocino Land Trust is a California non-profit public benefit corporation, as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from federal and state income taxes. The Land Trust was formed in 1976 under the laws of the State of California for the purpose of protecting the scenic, natural, agricultural and open spaces of the Mendocino Coast for the benefit of the community, including future generations, by developing long-term land protection strategies, by promoting private and public funding for land conservation, by acquiring land and conservation easements, by practicing stewardship, including the restoration of conservation properties, and by developing both a sense of place and a land ethic through activities, education and outreach.

In February 2017 Mendocino Land Trust became Accredited and received national recognition from the Land Trust Alliance joining a network of only 372 accredited land trusts across the nation that have demonstrated their commitment to professional excellence and to maintaining the public's trust in their work.

Mendocino Land Trust has an office in Fort Bragg, California and its operations are funded by support from donors, contracts from various state and federal agencies, and from fee for service work.

### ***Basis of Accounting***

The financial statements of Mendocino Land Trust have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Land Trust reports information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions in the following net asset categories.

#### ***Unrestricted Net Assets***

Unrestricted net assets represent available resources other than donor-restricted contributions. These funds may be expended at the discretion of the Board of Directors. The Board periodically designates a portion of unrestricted net assets for use on specific projects or programs. Current designations are for land, land preservation and other conservation projects.

#### ***Temporarily Restricted Net Assets***

Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure and accumulated investment gains and income on endowment investments that have not been appropriated for expenditure. 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.

#### ***Permanently Restricted Net Assets***

Permanently restricted net assets represent resources that have donor-imposed restrictions that require that the principal is maintained in perpetuity. The income from these net assets is available to support activities as designated by the donors. At June 30, 2018, Mendocino Land Trust had no permanently restricted net assets.

**Mendocino Land Trust, Inc.**  
**Notes to Financial Statements, Continued**  
**For the year ended June 30, 2018**

---

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,**  
**Continued**

*Cash and Cash Equivalents*

Mendocino Land Trust considers cash balances and unrestricted highly liquid investments with original or remaining maturities of three months or less at the time of purchase to be cash equivalents. The Land Trust reports money market accounts and certificates of deposits held as part of investment accounts as investments.

*Accounts Receivable*

Accounts receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts, if amounts are deemed uncollectible. The allowance is established based on factors such as historical experience, credit quality and the age of the account balances. At June 30, 2018 and 2017 all amounts were deemed collectible with no allowance required.

*Investments*

Investments are stated at fair value. Realized and unrealized gains and losses are reflected in the statement of activities.

*Furniture, Equipment, and Leasehold Improvements*

Mendocino Land Trust has adopted a capitalization policy requiring all assets acquired whether purchased or received by donation, with a cost or value of more than \$5,000 to be capitalized. Those below that threshold are expenses in the period received.

Purchased fixed assets are stated at cost. Donated capital assets are recorded as contributions at their estimated fair value. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets, which range from five to seven years, or over the lesser of the term of the lease or the estimated useful life of the asset for assets under capital lease.

Leasehold improvements are amortized over the lesser of the term of the lease or the estimated useful life of the improvements.

Upon sale or retirement of depreciable assets, the related cost and accumulated depreciation or amortization are removed from the accounts. Any gain or loss on the sale or retirement is recognized in current operations.

*Conservation Lands and Easements*

Mendocino Land Trust records land it acquires at cost or records the land at fair value on the date of acquisition if all or part of the land is received as a donation. Values are recorded based on the following:

- Independent professional appraisals are performed for the donor or the organization; or
- Value is adopted by the acquiring public agency; or
- Where neither of the preceding sources is available, the organization may use the full cash value as established by the local tax assessor.

**Mendocino Land Trust, Inc.**  
**Notes to Financial Statements, Continued**  
**For the year ended June 30, 2018**

---

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,**  
**Continued**

*Conservation Lands and Easements, continued*

Conservation easements acquired by or donated to the Mendocino Land Trust represent numerous restrictions over the use and development of land not owned by the organization. These easements provide that the land will be maintained unimpaired in its current natural, agricultural, scenic or recreational state. Since the benefits of such easements accrue to the public upon acquisition, and the easements themselves have no marketable value, easements acquired by the Mendocino Land Trust are reflected as zero value.

*Donated Furniture, Equipment and Property*

Donations of furniture and equipment are recorded as support at their estimated fair value at the date of receipt or unconditional promise to give. Donated property is reported at the appraised value of the property when received. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long the donated assets must be maintained, Mendocino Land Trust reports expirations of donor restrictions when the donated or acquired assets are placed in service. Mendocino Land Trust reclassifies temporarily restricted net assets to unrestricted net assets at that time.

*Contributions*

Contributions are recorded as revenues at fair value at the date of receipt or unconditional promise to give, and as assets or decreases of liabilities or expenses, depending on the form of the benefit received.

Donor-restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted contributions.

*Contributed Services*

Contributed services are recognized in the financial statements if they enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased, if not provided by donation. General volunteers do not meet these recognition criteria, but have donated significant amounts of time and performed a variety of tasks that assist Mendocino Land Trust in meeting their objectives.

*Unearned revenue*

The balance of the unearned revenue account represents payments that the Mendocino Land Trust received that were not fully expensed by the end of the current fiscal year. The balance of the unearned revenue account at the balance sheet date is \$7,397.

*Advertising*

Costs incurred for advertising are charged to expenses as incurred. Total advertising costs were \$4,420 for the year ended June 30, 2018.

**Mendocino Land Trust, Inc.**  
**Notes to Financial Statements, Continued**  
**For the year ended June 30, 2018**

---

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,**  
**Continued**

*Functional Allocation of Expenses*

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain administrative costs have been allocated among the programs and supporting services benefited based on personnel, space, and other factors.

*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 expenses during the relevant period. Actual results may differ from those estimates.

Significant accounting estimates reflected in the Mendocino Land Trust's financial statements include the valuation of investments, the valuation of donated land holdings and conservation easements, and functional allocation of expenses.

*Income Taxes*

Mendocino Land Trust is a not-for-profit organization that is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and related California code sections.

Mendocino Land Trust follows the guidance of FASB ASC 740 – Accounting for Uncertainty in Income Taxes. As of June 30, 2018, management evaluated the Land Trust's tax positions and concluded that Mendocino Land Trust maintained its tax-exempt status and had taken no uncertain tax positions that require adjustments to the financial statements.

**2. CONCENTRATIONS**

*Concentration of Credit Risk*

The organization maintains cash balances at several financial institutions. The National Credit Union Administration, the Federal Deposit Insurance Corporation, and the Securities Investor Protection Corporation insure accounts up to \$250,000 at each institution. At June 30, 2018, Mendocino Land Trust had no uninsured cash balances.

The organization maintains investments in one mutual fund family of funds, Fidelity Investments. These investments are exposed to numerous risks, including interest rate fluctuation, market volatility, and credit risks.

Fidelity brokerage accounts are covered by the Securities Investor Protection Corporation which provides a maximum of \$500,000 coverage for securities, including a \$250,000 limit for cash held in brokerage accounts per institution. In addition, Fidelity offers protection up to aggregate of \$1 billion in excess of coverage by the Securities Investor Protection Corporation. At June 30, 2018, Mendocino Land Trust had no uninsured investment balances.

**Mendocino Land Trust, Inc.**  
**Notes to Financial Statements, Continued**  
**For the year ended June 30, 2018**

**2. CONCENTRATIONS, Continued**

*Concentrations of Revenue Sources*

Mendocino Land Trust has certain customers whose accounts receivables individually represent 10% or more of the total of accounts receivables, or whose revenue individually represent 10% or more of the revenue total.

The following is a summary of major customer and accounts receivable as of June 30, 2018

	Concentration Revenue, Percentage	Concentration Accounts Receivables, Percentage
California Energy Commission (CEC)	24	91
California Department of Fish and Wildlife	28	-
State Coastal Conservancy	22	-
Martha Davis Wagner Trust	10	-
	<u>84%</u>	<u>91%</u>

**3. FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

The following is a summary of changes for furniture, equipment, and leasehold improvements as of June 30, 2018:

	July 1, 2017	Additions	Retirements	June 30, 2018
<b>Depreciable assets:</b>				
Furniture	\$ 6,143	\$ -	\$ (6,143)	\$ -
Equipment	9,303	-	(9,303)	-
Autos	-	14,589	-	14,589
<b>Total depreciable assets</b>	<u>15,446</u>	<u>14,589</u>	<u>(15,446)</u>	<u>14,589</u>
<b>Total accumulated depreciation</b>	<u>(11,214)</u>	<u>(5,177)</u>	<u>3,232</u>	<u>(1,945)</u>
<b>Net depreciable assets</b>	<u>4,232</u>	<u>9,412</u>	<u>(12,214)</u>	<u>12,644</u>
<b>Total capital assets</b>	<u>\$ 4,232</u>	<u>\$ 9,412</u>	<u>\$ (12,214)</u>	<u>\$ 12,644</u>

Depreciation expense charged to operations for the year ended June 30, 2018, is \$5,177.



#### **4. FAIR MARKET VALUE AND INVESTMENTS**

FASB ASC 820 established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Mendocino Land Trust has the ability to access at the measurement date.

**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;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. As a practical expedient, certain investments are measured at fair value on the basis of net asset value. The fair value of these investments is not included in the fair value hierarchy.

Mendocino Land Trust uses appropriate valuation techniques based on the available inputs to measure the fair value of their investments. When available, Mendocino Land Trust measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investments.

**Mendocino Land Trust, Inc.**  
**Notes to Financial Statements, Continued**  
**For the year ended June 30, 2018**

**4. FAIR MARKET VALUE AND INVESTMENTS, Continued**

The following schedule reports the types of investments that Mendocino Land Trust owns as well as the investment's cost and fair market value at June 30, 2018:

Description	Cost Basis	Fair Market Value Using		
		Level 1	Level 2	Level 3
Money market funds	615,262	615,262	-	-
Mutual funds	1,087,335	1,159,026	-	-
	<u>\$1,702,597</u>	<u>\$1,774,288</u>	<u>\$-</u>	<u>\$-</u>
Presented in the Statement of Financial Position – Long-term investments				
Unrestricted		\$ 493,592		
Temporarily Restricted		<u>1,280,696</u>		
		<u>\$1,774,288</u>		

**5. CONSERVATION LANDS AND EASEMENTS**

Mendocino Land Trust has several land holdings that require the organization to adhere to use limits and maintenance requirements. If these requirements are not met by the Mendocino Land Trust, the properties will revert either to the heirs of the donor or other land conservancy organizations. Also, certain conservation lands have been purchased using governmental funds. Such funds restrict the sale and disposition of the property under various agreements.

Conservation lands held as of June 30, 2018, include:

	<i>Year Acquired</i>	<i>Property</i>
1	1999	Navarro Point (55.3 acres for public access, trails and preserve)
2	2010	Hare Creek Beach (5.8 acres for public access, trails, and preserve)
3	2012	Noyo River Redwoods (426 acres of forest land managed for old growth redwoods)
4	2013	Pelican Bluffs (75 acres)
5	2014	Seaside Beach (13.6 acres)
6	2016	Ten Mile Estuary (49 acres)

**Mendocino Land Trust, Inc.**  
**Notes to Financial Statements, Continued**  
**For the year ended June 30, 2018**

**5. CONSERVATION LANDS AND EASEMENTS, Continued**

Conservation easements held as of June 30, 2018, include:

	<i>Year Acquired</i>	<i>Property</i>
1	1992	Phillips/Corning (Oak woodlands near Hopland)
2	1998	Fetzer/Skinner (Oak woodlands and forest near Hopland)
3	1998	Fetzer/Concha y Toro (Oak woodlands and forest near Hopland)
4	2000	Salvation Army/Miller-Schell (Redwood forest near Point Arena)
5	2000	Linney/Dye (Coniferous forest near Point Arena)
6	2001	Galbreath-Johnson (Oak woodlands, Old Growth Redwood and Fir; salmon streams)
7	2005	Ridgewood Ranch (Old Growth and second growth Redwoods)
8	2005	Hannum and Partners (Oak woodlands, grasslands, and salmon habitat)
9	2007	Ridgewood Ranch (Oak woodlands, grasslands, and salmon habitat)
10	2007	Freriks (Nature preserve and retreat near Albion)
11	2012	Maxwell ("Gleason-Prescott Preserve," Oak woodlands, grasslands, and forest)
12	2013	Dolan/Gobbi St. Vineyard (Ukiah valley agricultural conservation)
13	2013	Dolan/Dark Horse Ranch (Ukiah valley agricultural conservation)
14	2014	Big River (Estuarine, wetlands, and wildlife)
15	2014	Gordon/Potter Valley
16	2015	Brush Creek
17	2018	Smith Family Conservation Easement

In addition to the conservation land and easements identified above, the Mendocino Land Trust also has four Open Space Easements near Navarro Point, Little River, Gualala and Gordon Lane pygmy forest, and ninety-seven public access easements granted between June 1996 and July 2014 to preserve the public's right to access the California coast.

**Mendocino Land Trust, Inc.**  
**Notes to Financial Statements, Continued**  
**For the year ended June 30, 2018**

---

**6. LAND HELD FOR RESALE**

One of the lands Mendocino Land Trust owned and managed was Caspar Southern Remainder Parcel. This 11-acre parcel Mendocino Land Trust acquired in 2004 and was sold on February 2, 2018. In 2017, the parcel was appraised by an independent professional and recorded at \$306,000. Upon sale of the property \$246,000 was remitted to the Coastal Conservancy in satisfaction of Grant Agreement #99-006 and \$60,000 was retained by the Land Trust for property management and disposition costs incurred.

**7. VACATION LIABILITY**

Mendocino Land Trust provides for vacation benefits at a rate of 10 days accrued for full-time employees having 1-4 years of tenure, and 15 days accrued for employees with 5 or more years of tenure. Part-time employees accrue days based upon their hours worked at a pro rata amount in accordance with the days accrued for full-time employees in accordance with the current policy. As of June 30, 2018, the vacation benefit liability is \$11,058.

**8. LINE OF CREDIT**

Mendocino Land Trust has a line of credit agreement with The Conservation Fund of \$740,000. The line bears interest of 86% of the prime rate or 2.8% as of the date of the first draw. Under the terms, the line of credit expires in 18 months from the date of the first draw and is secured by an assignment of proceeds of Mendocino Land Trust's grants.

There were \$300,000 borrowings against the line during the fiscal year 2017. As of June 30, 2018, interest expense of \$2,420 was paid for the use of the line of credit at a current rate of 3%. The balance outstanding as of June 30, 2018 was \$275,978.

**9. BOARD DESIGNATED NET POSITION**

The Land Trust Board of Directors has designated a portion of unrestricted net position as an Operating Reserve fund that the Board may use for whatever it chooses in conjunction with the Trust's exempt purpose. Current designations are for land, land preservation and other conservation projects. The balance of the fund as of June 30, 2018, is \$379,703.

**Mendocino Land Trust, Inc.**  
**Notes to Financial Statements, Continued**  
**For the year ended June 30, 2018**

---

**10. TEMPORARILY RESTRICTED NET POSITION**

At June 30, 2018, the temporarily restricted net position of the organization was as follows:

Easement Stewardship & Legal Defense Fund	\$427,453
Noyo River Redwoods Fund	744,363
Fee Land Stewardship & Legal Defense Funds:	
Pelican Bluffs	4,002
Hare Creek	13,109
Ten Mile	69,006
Fiscal Sponsorship Fund	( 129)
DOT Mitigation Trust Fund	22,763
CFMC – Save the Day Grant	3,000
Cornell Bird Survey Grant	4,000
MLT Truck Fund	10,511
	<u>\$1,298,078</u>

**11. GOVERNMENT SUPPORT**

Mendocino Land Trust received a substantial amount of its operating support from state and local governments. Any significant reduction in the level of this support could affect the Land Trust's programs and ability to maintain operations at their current level.

**12. IN-KIND DONATIONS**

The following is a summary of in-kind donations Mendocino Land Trust received for the year ended June 30, 2018. These donations have been recorded both as revenue and expense in the financial statements. The donation of land has been capitalized and recorded on the statement of financial position.

Otto Smith Conservation Easement	\$ 453,000
Stocks	5,670
Supplies	1,550
Services	500
	<u>\$460,720</u>

**13. RETIREMENT BENEFITS**

Mendocino Land Trust sponsors a Simple IRA retirement plan covering qualified employees as defined by their Personnel Policy. For the year ended June 30, 2018, the Land Trust contributed \$5,007 as a matching contribution of three percent of the eligible employee's compensation.

**14. OPERATING LEASE COMMITMENTS**

Mendocino Land Trust has entered into a lease for a facility in Fort Bragg, California that is both its operating headquarters and a place for program activities. The lease term is month-to-month rent with a monthly payment of \$710.

**Mendocino Land Trust, Inc.**  
**Notes to Financial Statements, Continued**  
**For the year ended June 30, 2018**

---

**15. SPONSORSHIP COMMITMENT**

In July 2015 Mendocino Land Trust entered into a fiscal sponsorship agreement with Friends of Point Arena-Stornetta Lands group, a start-up nonprofit aiming to spin off into their own 501(c)(3) organization. The mission of the group is protection and support of the Point Arena-Stornetta Unit of the California Coastal National Monument. All of the financial activities of the group is aggregated for financial statement purposes. However, their funds are kept segregated in individual accounts. As of June 30, 2018, \$129 is due to satisfy the resolution of this agreement.

**16. CONTINGENCIES**

As of June 30, 2018, Mendocino Land Trust did not have any pending litigation or potential nondisclosed liabilities that management believes would have a material effect on the financial statements.

**17. SUBSEQUENT EVENTS**

Mendocino Land Trust has evaluated subsequent events through February 19, 2019, the date which the financial statements were available to be issued. No subsequent events were identified that required adjustment to or additional disclosure within the financial statement for the year ended June 30, 2018.