

MENDOCINO LAND TRUST, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

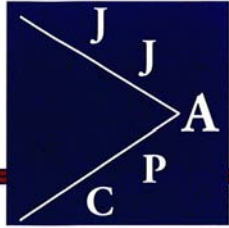


This page intentionally left blank.

Mendocino Land Trust, Inc.
Financial Statements
For the year ended June 30, 2019
Table of Contents

| | <u>Page</u> |
|---|-------------|
| Independent Auditor's Report | 1-2 |
| Financial Statements: | |
| Statement of Financial Position | 3 |
| Statement of Activities | 4 |
| Statement of Cash Flows | 5-6 |
| Statement of Functional Expenses..... | 7 |
| Notes to Financial Statements | 8-17 |

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, 2019, 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, 2019, 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.

October 8, 2019

JJACPA, Inc.
JJACPA, Inc.
Dublin, CA

Mendocino Land Trust, Inc.

Statement of Financial Position

June 30, 2019

| ASSETS | |
|--|---------------------|
| Current Assets: | |
| Cash and cash equivalents: | |
| Unrestricted | \$ 83,490 |
| Restricted | 22,150 |
| Accounts receivable | 70,617 |
| Prepaid expenses and deposits | 1,176 |
| Total current assets | <u>177,433</u> |
| Noncurrent Assets: | |
| Long-term investments: | |
| Unrestricted | 436,920 |
| Restricted | 1,406,213 |
| Furniture, equipment and leasehold improvements, net | 31,959 |
| Conservation lands and easements | 5,972,500 |
| Total noncurrent assets | <u>7,847,592</u> |
| Total assets | <u>\$ 8,025,025</u> |
| LIABILITIES AND NET ASSETS | |
| Liabilities: | |
| Current Liabilities: | |
| Accounts payable | \$ 22,693 |
| Accrued payroll and benefits | 22,462 |
| Unearned revenue | 2,723 |
| Total current liabilities | <u>47,878</u> |
| Total liabilities | <u>47,878</u> |
| Net Assets: | |
| Without donor restrictions: | |
| Unrestricted | 119,443 |
| Board designated | 433,584 |
| Capital assets, conservation lands and easements | 6,004,459 |
| With donor restrictions: | |
| Purpose | 1,419,661 |
| Total net assets | <u>7,977,147</u> |
| Total liabilities and net assets | <u>\$ 8,025,025</u> |

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

Mendocino Land Trust, Inc.
Statement of Activities
For the year ended June 30, 2019

| | Net Assets without Donor Restrictions | Net Assets with Donor Restrictions | Total |
|---|--|---------------------------------------|--------------|
| SUPPORT AND REVENUE | | | |
| Contributions and memberships | \$ 175,578 | \$ 37,592 | \$ 213,170 |
| Foundation grants | 51,253 | - | 51,253 |
| Governmental grants | 584,309 | - | 584,309 |
| Program service fees | 128,850 | - | 128,850 |
| Other support | 24,190 | - | 24,190 |
| Investment income | - | 38,518 | 38,518 |
| Net realized and unrealized gain (loss) on investments | 12,075 | 11,306 | 23,381 |
| Bequests | 95,347 | - | 95,347 |
| Other revenues and gains | 723 | - | 723 |
| Total support and revenue | 1,072,325 | 87,416 | 1,159,741 |
| | | | |
| NET ASSETS RELEASED FROM RESTRICTIONS | 62,401 | (62,401) | - |
| | | | |
| TOTAL SUPPORT, REVENUE AND NET POSITION RELEASED FROM RESTRICTIONS | 1,134,726 | 25,015 | 1,159,741 |
| | | | |
| EXPENSES | | | |
| Program and stewardship | 896,796 | - | 896,796 |
| Supporting services: | | | |
| Management and general | 156,230 | - | 156,230 |
| Fundraising | 30,001 | - | 30,001 |
| Total expenses | 1,083,027 | - | 1,083,027 |
| | | | |
| CHANGE IN NET ASSETS | 51,699 | 25,015 | 76,714 |
| | | | |
| In-kind easements contributed | 1,720,000 | - | 1,720,000 |
| Value of easement contributed | (1,720,000) | - | (1,720,000) |
| NET ASSETS - Beginning of year | 6,505,787 | 1,394,646 | 7,900,433 |
| | | | |
| NET ASSETS - End of year | \$ 6,557,486 | \$ 1,419,661 | \$ 7,977,147 |

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

Mendocino Land Trust, Inc.
Statement of Cash Flows
For the year ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|--|----------------|
| Receipts from contributions and bequests | \$ 308,517 |
| Receipts from grants | 824,908 |
| Receipts from program service fees and other support | 149,089 |
| Payments to vendors for services and supplies | (684,879) |
| Payments to employees for services | (379,031) |
| Net cash provided by operating activities | <u>218,604</u> |

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:**

| | |
|--|------------------|
| Payments of line of credit | (275,978) |
| Acquisition of capital assets | (23,604) |
| Net cash used by capital and related financing activities | <u>(299,582)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | |
|---|-----------------|
| Purchases of investments | (100,000) |
| Sales of investments | 54,536 |
| Investment income received | 38,518 |
| Net cash provided (used) by investing activities | <u>(6,946)</u> |
| Net decrease in cash | <u>(87,924)</u> |

CASH AND INVESTMENTS:

| | |
|-------------------|-------------------|
| Beginning of year | <u>193,564</u> |
| End of year | <u>\$ 105,640</u> |

PRESENTATION IN STATEMENT OF NET POSITION:

| | |
|----------------------------|-------------------|
| Cash and cash equivalents: | |
| Unrestricted | \$ 83,490 |
| Restricted | 22,150 |
| Total | <u>\$ 105,640</u> |

(continued)

Mendocino Land Trust, Inc.
Statement of Cash Flows
For the year ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|--|--------------------------|
| Increase (decrease) in net position | \$ 76,714 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 4,289 |
| Investment income | (38,518) |
| Net realized and unrealized gain (loss) on investments | (23,381) |
| Changes in operating assets and liabilities: | |
| Accounts receivable | 189,346 |
| Prepays and deposits | 1,990 |
| Accounts payable | 14,612 |
| Accrued payroll and benefits | (1,774) |
| Unearned revenue | (4,674) |
| Net cash provided by operating activities | <u><u>\$ 218,604</u></u> |

Supplemental disclosures

| | |
|-----------------------|--------------|
| Noncash transactions | |
| In-kind contributions | \$ 1,723,090 |
| Cash paid for: | |
| Interest | \$ - |
| Taxes | \$ 10 |

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

(concluded)

Mendocino Land Trust, Inc.
Statement of Functional Expenses
For the year ended June 30, 2019

| | Program and Stewardship | Supporting Expenses | | Total Supporting Expenses | Total Expenses |
|--|-------------------------------|---------------------------|-------------|---------------------------------|-------------------|
| | | Management and General | Fundraising | | |
| Personnel expenses: | | | | | |
| Wages and Salaries | \$ 255,047 | \$ 98,375 | \$ 10,931 | \$ 109,306 | \$ 364,353 |
| Payroll Taxes | 2,825 | 1,090 | 121 | 1,211 | 4,036 |
| Employee benefits | 6,208 | 2,394 | 266 | 2,660 | 8,868 |
| Total personnel costs | 264,080 | 101,859 | 11,318 | 113,177 | 377,257 |
| Fees: | | | | | |
| Professional services and subcontractors | 92,494 | 1,350 | 101 | 1,451 | 93,945 |
| Legal | 3,040 | - | - | - | 3,040 |
| Accounting | - | 16,557 | - | 16,557 | 16,557 |
| Environmental compliance permits | - | - | - | - | - |
| Payroll & IT | 1,500 | 3,189 | - | 3,189 | 4,689 |
| Total fees | 97,034 | 21,096 | 101 | 21,197 | 118,231 |
| Advertising and promotion | 7 | 677 | 20 | 697 | 704 |
| Office expenses | - | - | - | - | - |
| Dues and memberships | 3,003 | - | - | - | 3,003 |
| Software subscriptions | 851 | 1,461 | 702 | 2,163 | 3,014 |
| Trash disposal (non office) | 66 | 111 | - | 111 | 177 |
| Event expenses | 1,786 | - | 10,511 | 10,511 | 12,297 |
| Licenses, fees and permits | 9,269 | 160 | 254 | 414 | 9,683 |
| Travel expenses | 1,028 | 51 | - | 51 | 1,079 |
| Conferences, conventions and meetings | 330 | 771 | 292 | 1,063 | 1,393 |
| Depreciation and amortization | - | 4,289 | - | 4,289 | 4,289 |
| Internship program | 5,000 | - | - | - | 5,000 |
| Insurance | 1,275 | 8,809 | - | 8,809 | 10,084 |
| Interest | - | 8,405 | - | 8,405 | 8,405 |
| Postage and shipping | 71 | 490 | 542 | 1,032 | 1,103 |
| Printing and publications | 136 | 410 | 2,364 | 2,774 | 2,910 |
| Staff development | 400 | 160 | - | 160 | 560 |
| Supplies | 2,893 | 1,238 | 211 | 1,449 | 4,342 |
| Volunteer and donor appreciation | 55 | 40 | 1,327 | 1,367 | 1,422 |
| Vehicle maintenance, insurance and fuel | 12,303 | 278 | 337 | 615 | 12,918 |
| Signage | 198 | - | - | - | 198 |
| Construction expenses program work | 443,380 | - | - | - | 443,380 |
| Mowing and maintenance contractors | 34,666 | - | - | - | 34,666 |
| Construction materials and small tools | 8,068 | - | - | - | 8,068 |
| In-kind expenses | 36 | 1,610 | 1,444 | 3,054 | 3,090 |
| Rent | 7,500 | 1,020 | - | 1,020 | 8,520 |
| Utilities, internet and phone | - | 2,323 | - | 2,323 | 2,323 |
| Property taxes | 2,522 | 59 | - | 59 | 2,581 |
| Other expenses | 839 | 913 | 578 | 1,491 | 2,330 |
| Total expenses | \$ 896,796 | \$ 156,230 | \$ 30,001 | \$ 186,231 | \$ 1,083,027 |
| Percentages | 82.80% | 14.43% | 2.77% | 17.20% | 100.00% |

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

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.

Change in Accounting Principle

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, methods used to allocate costs, underwater endowments, and direction for consistency about the information provided about expenses and investment return. The Mendocino Land Trust, Inc. has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The adoption of ASU 2016-14 had no impact on Mendocino Land Trust's total net assets.

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.

Net Assets Without Donor Restrictions

Net assets without donor restrictions 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.

Net Assets 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.

Mendocino Land Trust, Inc.
Notes to Financial Statements, Continued
For the year ended June 30, 2019

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, 2019 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, 2019

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 \$2,723.

Advertising

Costs incurred for advertising are charged to expenses as incurred. Total advertising costs were \$704 for the year ended June 30, 2019.

Mendocino Land Trust, Inc.
Notes to Financial Statements, Continued
For the year ended June 30, 2019

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, 2019, 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.

Accounting Pronouncements Issued but Not Adopted

In June 2018, the FASB issued ASU No. 2018-08 Not-for-Profit Entities (Topic 958), "Clarifying the Scope and the Accounting Guidance for Contribution Received and Contribution Made" to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This ASU will be effective for Mendocino Land Trust for annual periods beginning after December 31, 2018.

Mendocino Land Trust, Inc.
Notes to Financial Statements, Continued
For the year ended June 30, 2019

2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

| | |
|---|--------------------|
| Financial assets at June 30, 2019: | |
| Cash and cash equivalents | \$ 105,640 |
| Accounts receivable | 70,617 |
| Investments | 1,760,255 |
| Total financial assets | <u>1,936,512</u> |
| Less amounts not available to be used within one year: | |
| Net assets with donor restrictions | <u>(1,419,661)</u> |
| Financial assets available to meet general expenditures within one year | <u>\$ 516,851</u> |

Although the Mendocino Land Trust does not intend to spend from the board-designated funds, these amounts could be made available if necessary.

3. FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

The following is a summary of changes for furniture, equipment, and leasehold improvements as of June 30, 2019:

| | <u>July 1, 2018</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2019</u> |
|---------------------------------------|---------------------|------------------|--------------------|----------------------|
| Depreciable assets: | | | | |
| Furniture | \$ - | \$ - | \$ - | \$ - |
| Equipment | - | - | - | - |
| Autos | 14,589 | 36,248 | (14,589) | 36,248 |
| Total depreciable assets | <u>14,589</u> | <u>36,248</u> | <u>(14,589)</u> | <u>36,248</u> |
| Total accumulated depreciation | <u>(1,945)</u> | <u>(4,289)</u> | <u>1,945</u> | <u>(4,289)</u> |
| Net depreciable assets | <u>12,644</u> | <u>31,959</u> | <u>(12,644)</u> | <u>31,959</u> |
| Total capital assets | <u>\$ 12,644</u> | <u>\$ 31,959</u> | <u>\$ (12,644)</u> | <u>\$ 31,959</u> |

Depreciation expense charged to operations for the year ended June 30, 2019, is \$4,289.

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, 2019

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, 2019:

| Description | Cost Basis | Fair Market Value Using | | |
|--|--------------------|-------------------------|------------|------------|
| | | Level 1 | Level 2 | Level 3 |
| Money market funds | \$250,752 | \$250,752 | - | - |
| Mutual funds | 1,087,335 | 1,592,381 | - | - |
| | <u>\$1,694,696</u> | <u>\$1,843,133</u> | <u>\$-</u> | <u>\$-</u> |
| Presented in the Statement of Financial Position – Long-term investments | | | | |
| Unrestricted | | \$ 436,920 | | |
| Restricted | | <u>1,406,213</u> | | |
| | | <u>\$1,843,133</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, 2019, 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, 2019

5. CONSERVATION LANDS AND EASEMENTS, Continued

Conservation easements held as of June 30, 2019, 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 |
| 18 | 2019 | Lovers Lane |

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, 2019

6. 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, 2019, the vacation benefit liability is \$7,912.

7. LINE OF CREDIT

Mendocino Land Trust had a line of credit and note agreement with The Conservation Fund of \$740,000 that began in 2015. The line bore 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 expired in 6 months from the date of the first draw and was secured by an assignment of the proceeds of Mendocino Land Trust's grants. The Line of Credit and note were extended twice over several years.

There were \$300,000 borrowings against the line during the fiscal year 2017. As of June 30, 2019, interest expense of \$8,405 was paid for the use of the line of credit at a current rate of 3%. The balance outstanding as of June 30, 2019 was \$0 as the previous draws were paid in full. The Line of Credit arrangement is now expired.

8. BOARD DESIGNATED NET ASSETS

The Land Trust Board of Directors has designated a portion of unrestricted net assets 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, 2019, is \$433,584.

9. RESTRICTED NET ASSETS

At June 30, 2019, the restricted net assets of the organization was as follows:

| | |
|---|--------------------|
| Easement Stewardship & Legal Defense Fund | \$568,128 |
| Noyo River Redwoods Fund | 748,018 |
| Fee Land Stewardship & Legal Defense Funds: | |
| Pelican Bluffs | |
| Hare Creek | 10,655 |
| Ten Mile | 70,710 |
| Fiscal Sponsorship Fund | |
| DOT Mitigation Trust Fund | 22,150 |
| | <u>\$1,419,661</u> |

10. 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.

Mendocino Land Trust, Inc.
Notes to Financial Statements, Continued
For the year ended June 30, 2019

11. IN-KIND DONATIONS

The following is a summary of in-kind donations Mendocino Land Trust received for the year ended June 30, 2019. 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.

| | |
|-----------------------------------|--------------------|
| Lovers Lane Conservation Easement | \$ 1,720,000 |
| Supplies | 3,090 |
| | <u>\$1,723,090</u> |

12. 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, 2019, the Land Trust contributed \$7,209 as a matching contribution of three percent of the eligible employee's compensation.

13. 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.

14. CONTINGENCIES

As of June 30, 2019, 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.

15. SUBSEQUENT EVENTS

Mendocino Land Trust has evaluated subsequent events through October 8, 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, 2019.