



CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Landesa
Seattle, Washington

We have audited the accompanying consolidated financial statements of Landesa, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Landesa as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Peterson Sullivan LLP.

November 16, 2018

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LANDESA

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

ASSETS	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 5,988,465	\$ 5,608,319
Pledges and grants receivable (Note 2)	707,019	2,097,956
Contracts receivable	771,724	540,299
Prepaid expenses, employee advances, and other	<u>342,939</u>	<u>289,034</u>
Total current assets	7,810,147	8,535,608
Long-Term Pledges and Grants Receivable, less discount (Note 2)	544,916	627,076
Property and Equipment, at cost, less accumulated depreciation (Note 4)	188,317	54,349
Security Deposits	<u>82,119</u>	<u>102,876</u>
Total assets	<u>\$ 8,625,499</u>	<u>\$ 9,319,909</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 406,154	\$ 74,242
Accrued payroll and related expenses	554,171	536,769
Accrued expenses	112,326	177,748
Deferred rent	<u>24,326</u>	<u>35,777</u>
Total current liabilities	1,096,977	824,536
India Termination Benefits	<u>70,049</u>	<u>109,640</u>
Total liabilities	1,167,026	934,176
Net Assets		
Unrestricted	1,148,635	1,212,004
Temporarily restricted (Note 5)	<u>6,309,838</u>	<u>7,173,729</u>
Total net assets	<u>7,458,473</u>	<u>8,385,733</u>
Total liabilities and net assets	<u>\$ 8,625,499</u>	<u>\$ 9,319,909</u>

See Notes to Consolidated Financial Statements

LANDESA

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Grants and contributions	\$ 4,002,443	\$ 7,258,153	\$ 11,260,596	\$ 1,829,071	\$ 6,289,757	\$ 8,118,828
Contract revenue	1,576,679		1,576,679	2,398,311		2,398,311
In-kind contributions (Note 1)	191,386		191,386	222,561		222,561
Special events revenue	297,455		297,455	193,574		193,574
Special events expenses	(129,122)		(129,122)	(65,623)		(65,623)
Interest and other revenue	5,772		5,772	8,959		8,959
Net assets released from restrictions	8,122,044	(8,122,044)		7,106,703	(7,106,703)	
Total support and revenue	14,066,657	(863,891)	13,202,766	11,693,556	(816,946)	10,876,610
Expenses						
Program	10,954,655		10,954,655	10,065,124		10,065,124
Management and general	1,968,434		1,968,434	1,910,406		1,910,406
Fundraising	1,206,937		1,206,937	971,300		971,300
Total expenses	14,130,026		14,130,026	12,946,830		12,946,830
Change in net assets	(63,369)	(863,891)	(927,260)	(1,253,274)	(816,946)	(2,070,220)
Net Assets, beginning of year	1,212,004	7,173,729	8,385,733	2,465,278	7,990,675	10,455,953
Net Assets, end of year	<u>\$ 1,148,635</u>	<u>\$ 6,309,838</u>	<u>\$ 7,458,473</u>	<u>\$ 1,212,004</u>	<u>\$ 7,173,729</u>	<u>\$ 8,385,733</u>

See Notes to Consolidated Financial Statements

LANDESA

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2018 and 2017

	2018				2017			
	Total Program	Management and General	Fundraising	Total	Total Program	Management and General	Fundraising	Total
Salaries and related payroll costs	\$ 5,196,130	\$ 1,722,549	\$ 951,479	\$ 7,870,158	\$ 5,318,248	\$ 1,509,657	\$ 820,653	\$ 7,648,558
Program consulting	2,812,705	214	4,696	2,817,615	1,939,301	3,453	3,974	1,946,728
Project operations cost	1,181,602	21,238	90,215	1,293,055	1,530,084	15,412	42,913	1,588,409
Rent and other occupancy costs	517,315	93,677	52,770	663,762	471,584	63,625	34,586	569,795
Consulting and professional fees	413,922	22,171	28,704	464,797	126,434	15,499	14,275	156,208
Other office expenses	240,064	19,233	123,738	383,035	123,208	11,937	65,534	200,679
In-kind expenses	185,791	3,605	1,990	191,386	212,214	6,703	3,644	222,561
Information technology	125,632	28,775	28,669	183,076	126,330	16,555	17,468	160,353
Domestic and international human resource costs	117,149	31,672	17,908	166,729	84,746	4,790	4,194	93,730
Media, online, and print material	69,746	6,472	24,835	101,053	47,278	2,047	13,413	62,738
Telecommunications	48,482	12,912	7,788	69,182	59,539	8,305	5,123	72,967
Depreciation	46,117	5,916	3,267	55,300	34,492	3,204	1,742	39,438
Write-off of receivable balance						250,289		250,289
Total expenses	10,954,655	1,968,434	1,336,059	14,259,148	10,073,458	1,911,476	1,027,519	13,012,453
Less: expenses netted with revenue			(129,122)	(129,122)	(8,334)	(1,070)	(56,219)	(65,623)
Net expenses	\$ 10,954,655	\$ 1,968,434	\$ 1,206,937	\$ 14,130,026	\$ 10,065,124	\$ 1,910,406	\$ 971,300	\$ 12,946,830

See Notes to Consolidated Financial Statements

LANDESA

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ (927,260)	\$ (2,070,220)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	55,300	39,438
Write-off of receivable balance		250,289
Change in discounts on pledges and grants receivable	(1,859)	8,814
Changes in operating assets and liabilities		
Pledges and grants receivable	1,474,956	931,147
Contracts receivable	(231,425)	755,220
Security deposits	20,757	(4,736)
Prepaid expenses, employee advances, and other	(53,905)	(85,037)
Accounts payable	331,912	(59,155)
Accrued payroll and related expenses	17,402	90,121
Accrued expenses	(65,422)	83,332
Deferred rent	(11,451)	(56,417)
India termination benefits	(39,591)	465
Net cash flows from operating activities	569,414	(116,739)
Cash Flows from Investing Activity		
Purchase of property and equipment	(189,268)	(36,247)
Net change in cash and cash equivalents	380,146	(152,986)
Cash and Cash Equivalents, beginning of year	5,608,319	5,761,305
Cash and Cash Equivalents, end of year	\$ 5,988,465	\$ 5,608,319

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Landesa is a Washington nonprofit corporation founded in 1981. Landesa is an international organization working to secure land rights for the world's poorest people. Landesa professionals have worked in over 40 developing countries in partnership with governments, non-governmental organizations, numerous foreign aid agencies, and other partners to design and implement laws, policies, and programs that provide opportunity, further economic growth, and promote social justice. Landesa has offices in:

- Seattle, Washington, United States
- Washington, D.C., United States
- Beijing, China
- Bangalore, India
- Kolkata, India
- New Delhi, India
- Bhubaneswar, India
- Lucknow, India
- Patna, India
- Monrovia, Liberia
- Yangon, Myanmar (Burma)
- Patheingyi, Myanmar (Burma)
- Dar es Salaam, Tanzania

Landesa does not hold significant amounts of assets or liabilities denominated in non-United States currency at June 30, 2018 or 2017. During the years ended June 30, 2018 and 2017, \$4,009,246 and \$4,664,554, respectively, of expenses were incurred outside the United States.

Landesa receives significant revenues from multi-year grants. If the grant award is not contingent upon future actions, accounting principles generally accepted in the United States ("GAAP") require Landesa to recognize the entire grant as revenue in the year the grant was awarded. This accounting requirement may account for large annual increases or decreases in total revenue and support, and the annual change in net assets.

During the year ended June 30, 2018, Landesa received significant contributions from the following organizations:

- King Philanthropies Foundation
- LUI Che Woo Prize Limited
- Bill & Melinda Gates Foundation
- Omidyar Network

Landesa is the sole member of a limited liability company called Landesa Consulting LLC ("the LLC"). As an LLC, the liability of the members is generally limited to amounts invested. The LLC was formed for the purpose of running operations in foreign countries while new registrations are in process.

Landesa implements its Indian program activities through a number of different partner organizations, including an organization called Rural Development Institute ("RDI India Trust"). The RDI India Trust is a public charitable trust recognized by the government of India. Landesa has been the majority financial supporter of the RDI India Trust, with control over its activities. All activities of the RDI India Trust are included in these consolidated financial statements. As discussed in Note 9, most of Landesa's activities with the RDI India Trust have been curtailed. In response, Landesa set up a new entity (Landesa Foundation for Innovations in Development) subsequent to June 30, 2018, to continue its work in India.

During the year ended June 30, 2018, a private limited company called Landesa Consulting Private Limited, which was a new entity, was registered in India under the LLC. Its purpose is to coordinate operations in India to eventually be transferred to Landesa Foundation for Innovations in Development.

In addition, in 2014, an entity was registered in China under the LLC called Landesa (Beijing) Agriculture Consulting Co. Ltd. The purpose of this entity was to coordinate operations in China.

All activities of the LLC, Landesa (Beijing) Agriculture Consulting Co. Ltd., and Landesa Consulting Private Limited are included in these consolidated financial statements.

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions and include Landesa's foreign and domestic activities. Accordingly, the net assets of Landesa and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of Landesa or the passage of time.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by Landesa. Landesa had no permanently restricted net assets at June 30, 2018 or 2017.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Basis of Consolidation

These consolidated financial statements include the accounts of Landesa, RDI India Trust, and Landesa Consulting LLC. As noted above, Landesa Consulting LLC owns 100% of Landesa (Beijing) Agriculture Consulting Co. Ltd. and Landesa Consulting Private Limited, so these entities are consolidated into the LLC and then consolidated within Landesa's financial statements. All intra-entity balances and transactions have been eliminated. All amounts in these consolidated financial statements are stated in United States dollars.

Cash and Cash Equivalents

Landesa considers highly liquid investments with original maturities of three months or less to be cash equivalents. Landesa maintains its cash and cash equivalents in bank deposit accounts and interest-bearing money market funds, which, at times, may exceed federally insured limits.

Pledge and Grant Receivable/Revenue

Pledges and grants receivable consist primarily of unconditional promises to give. Unconditional promises to give are recognized as revenues and support in the period the promise is made. Landesa records an estimated allowance for uncollectible pledges and grants receivable based on its assessment of possible uncollectible amounts. Landesa charges off receivables against the allowance when management determines that a receivable is not collectible. No allowance has been recorded for the years ended June 30, 2018 or 2017, based on historical collection trends.

Pledges and grants receivable that are expected to be collected within one year are recorded at net realizable value. Pledges and grants receivable that are expected to be collected in future years are initially recorded at fair value, which is measured as the present value of expected future cash flows. The discounts on those amounts are computed using donor-specific risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and contributions revenue in the consolidated statements of activities. Conditional promises to give are not included as support until the conditions are substantially met. Landesa has received grants for specific purposes that are open to review and audit by the grantor agencies.

Contract Receivables/Revenue

Support from cost-reimbursable contracts is recognized when eligible costs are incurred. Support from performance-based contracts is recognized when performance is completed. If support recognized exceeds cash advances received, then a receivable is recorded. However, if cash advances exceed support recognized, then a liability, unearned contract support, is recorded.

Property and Equipment

Property and equipment purchases greater than \$5,000 are capitalized and are recorded at cost or, in the case of donated fixed assets, at estimated fair value at the time of donation. Depreciation of fixed assets is provided for over the estimated useful lives of the assets for three to seven years on a straight-line basis.

Deferred Rent

Landesa recognizes lease expense on a straight-line basis over the life of the lease, with the deferred rent reported as a liability on the consolidated statements of financial position for the difference between recognized expense and the contractual payments stipulated in the lease agreement.

India Termination Benefits

In compliance with the Payment of Gratuity Act, 1971, employees located in India that have over five years of service are entitled to a lump-sum payment when they leave a company. The payment is based on a calculation that factors in length of service and most recent salary. Landesa has accrued a benefit for each eligible employee as of June 30, 2018 and 2017.

In-Kind Contributions

In-kind contributions represent contributed website services and legal services. These services were recorded at fair value and amounted to \$191,386 and \$222,561 for the years ended June 30, 2018 and 2017, respectively. In-kind services are only recognized if the services require a specialized skill that would otherwise be purchased by Landesa.

Vulnerability from Certain Concentrations

For both of the years ended June 30, 2018 and 2017, 65% of Landesa's revenue were from four entities. At June 30, 2018, 75% of receivables were due from three entities. At June 30, 2017, 53% of receivables were due from two entities.

Management of Landesa is aware of the related vulnerability but does not anticipate any losses in connection with these concentrations based on historical collections.

Income Tax Status

Landesa is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. RDI India Trust is exempt from income taxes under Section 12AA(1)(b)(i) of the Indian Income Tax Act. Landesa Consulting Private Limited is subject to income tax in India at the rate of 28%. Landesa Consulting LLC and its wholly owned subsidiary, Landesa (Beijing) Agriculture Consulting Co. Ltd., are subject to income tax in the People's Republic of China at a rate of 25%. Total income tax expense for both years ended June 30, 2018 and 2017, was zero.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The cost of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 2. Pledges and Grants Receivable

Included in pledges and grants receivable are the following unconditional promises to give at June 30:

	2018	2017
Amounts due in:		
One to five years	\$ 575,528	\$ 659,547
More than five years		
Less: unamortized discount to present value	(30,612)	(32,471)
Net long-term pledges and grants receivable	544,916	627,076
Amounts due in:		
Less than one year	707,019	2,097,956
Total pledges and grants receivable	<u>\$ 1,251,935</u>	<u>\$ 2,725,032</u>

The effective interest rate used to discount pledges and grants receivable ranged between 0.5% and 3.0% for amounts pledged in the years ended June 30, 2018 and 2017.

Note 3. Conditional Awards

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promise becomes unconditional.

Conditional promises to give for which payment is conditional upon satisfactorily meeting certain project deliverables are as follows at June 30:

	<u>2018</u>	<u>2017</u>
Conditional promises to give	\$ 11,862,061	\$ 8,953,153
Less: cumulative amount recognized	<u>(7,293,579)</u>	<u>(2,183,108)</u>
	<u>\$ 4,568,482</u>	<u>\$ 6,770,045</u>

Conditional promises to give for which payment is conditional upon receiving certain matching contributions are as follows at June 30:

	<u>2018</u>	<u>2017</u>
Conditional promises to give	\$ 1,000,000	\$ 1,060,000
Less: cumulative amount recognized	<u>(1,000,000)</u>	<u>(60,000)</u>
	<u>\$ -</u>	<u>\$ 1,000,000</u>

Note 4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 285,393	\$ 272,688
Software	115,278	115,278
Leasehold improvements	79,209	22,740
Work in progress	<u>13,900</u>	<u></u>
	493,780	410,706
Less: accumulated depreciation	<u>(305,463)</u>	<u>(356,357)</u>
	<u>\$ 188,317</u>	<u>\$ 54,349</u>

Note 5. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30:

	<u>2018</u>	<u>2017</u>
Program expenses, Global Projects	\$ 1,325,027	\$ 1,958,589
Program expenses, Global Advocacy	1,204,753	699,490
Program expenses in Southeast Asia	1,002,841	1,283,517
General support in future years	850,000	400,000
Program expenses in Africa	832,528	227,176
Program expenses in India	535,626	1,599,694
Program expenses in China	402,373	921,453
Program expenses for Landesa Center for Women's Land Rights	156,690	83,810
	<u>\$ 6,309,838</u>	<u>\$ 7,173,729</u>

Note 6. Leases

Landesa leases one office space each in Seattle, Washington; Beijing, China; New Delhi, India; Yangon, Myanmar; and Pathein, Myanmar, and subleases office space from a nonprofit organization in Washington, D.C. The details of each lease are as follows:

- The Seattle lease is a noncancelable operating lease that expires on February 28, 2025.
- The Beijing lease is a noncancelable operating lease that expires on August 31, 2019.
- The New Delhi lease expired on August 30, 2018, and was not renewed.
- The Yangon lease is a two-year operating lease agreement with the first 12 months being noncancelable; the lease expires on December 31, 2019.
- The Pathein lease is a noncancelable operating lease that expires on June 30, 2019.
- The Washington, D.C. sublease agreement expires on June 30, 2020.

Future minimum lease payments for the offices under noncancelable operating leases are as follows for the years ending June 30:

2019	\$ 597,441
2020	535,738
2021	454,016
2022	467,640
2023	481,672
Thereafter	833,416
	<u>\$ 3,369,923</u>

Rent expense for the fiscal years ended June 30, 2018 and 2017, was \$623,880 and \$523,101, respectively.

Note 7. Retirement Plan

Landesa has a 401(k) retirement plan ("the Plan") for its employees. Participants elect to make contributions to the Plan, and Landesa contributes 3% of an employee's gross wages to the Plan regardless of any employee contribution. Total contributions related to the Plan were \$162,305 and \$140,011 for the years ended June 30, 2018 and 2017, respectively.

Note 8. Related Party Transactions

Landesa received contributions of \$141,530 and \$219,719 from members of Landesa's Board of Directors during the years ended June 30, 2018 and 2017, respectively.

Two board members have outstanding pledges receivable totaling \$23,000 as of June 30, 2018. Six board members had outstanding pledges receivable totaling \$289,000 as of June 30, 2017.

Landesa received \$1,375,000 of total revenue for each of the years ended June 30, 2018 and 2017, from a private foundation. A member of Landesa's Board of Directors is a key member of management at this private foundation.

Note 9. Update on Foreign Operations

On February 14, 2012, India's Ministry of Home Affairs ("MHA") granted RDI India Trust permission under India's Foreign Contributions Regulation Act ("FCRA") to receive an unlimited amount of contributions from foreign entities for a period of five years. This permission expired on February 14, 2017. On April 5, 2017, the MHA rejected RDI India Trust's application for renewal of its FCRA approval. This has severely limited the ability of RDI India Trust to receive funding for its programs and operations. RDI India Trust has filed an appeal of this decision with the MHA. As of the date of these financial statements, a decision is still pending. The probability of a favorable decision is unknown. Management is working with its funders, partners, and RDI India Trust to implement ways for Landesa to continue to do work in India while FCRA approval is pending.

Note 10. Subsequent Events

Landesa has evaluated subsequent events through the date these consolidated financial statements were available to be issued, which was November 16, 2018.

Subsequent to June 30, 2018, a new entity was formed called Landesa Foundation for Innovations in Development ("the Foundation") under a Section 8 company registration in India. The Foundation is a private limited nonprofit company recognized by the government of India. Landesa is expected to be the majority financial supporter of the Foundation. All activities of the Foundation are expected to be included in these consolidated financial statements beginning during the year ending June 30, 2019.