



CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2016

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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, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 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, 2016 and 2015, 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 7, 2016

601 Union Street  
Suite 2300  
Seattle, WA 98101

(206) 382-7777 **MAIN**  
(206) 382-7700 **FAX**

psepa.com

**LANDESA**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 5,761,305	\$ 4,604,541
Pledges and grants receivable (Note 2)	2,856,439	1,371,565
Contracts receivable	1,295,519	727,946
Other receivables	4,791	207,866
Security deposits	98,140	85,031
Prepaid expenses and other	199,206	199,502
Total current assets	<u>10,215,400</u>	<u>7,196,451</u>
Long-term Pledges and Grants Receivable, less discount (Note 2)	1,058,843	831,831
Property and Equipment, at cost, less accumulated depreciation (Note 4)	57,540	21,608
Total assets	<u><u>\$ 11,331,783</u></u>	<u><u>\$ 8,049,890</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 133,397	\$ 111,332
Accrued payroll and related expenses	446,648	422,208
Accrued expenses	94,416	137,149
Deferred rent, current portion	58,739	49,913
Total current liabilities	<u>733,200</u>	<u>720,602</u>
India Termination Benefits	109,175	85,859
Deferred Rent, net of current portion	33,455	90,077
Total liabilities	<u>875,830</u>	<u>896,538</u>
Net Assets		
Unrestricted	2,465,278	1,300,331
Temporarily restricted (Note 5)	7,990,675	5,853,021
Total net assets	<u>10,455,953</u>	<u>7,153,352</u>
Total liabilities and net assets	<u><u>\$ 11,331,783</u></u>	<u><u>\$ 8,049,890</u></u>

See Notes to Consolidated Financial Statements

**LANDESA**

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Grants and contributions	\$ 3,934,723	\$ 8,482,213	\$ 12,416,936	\$ 1,587,280	\$ 5,907,826	\$ 7,495,106
Contract revenue	2,390,136		2,390,136	1,592,540		1,592,540
In-kind contributions (Note 1)	169,496		169,496	139,523		139,523
Special events revenue	215,531		215,531	83,700		83,700
Special events expenses	(54,320)		(54,320)	(66,146)		(66,146)
Interest and other revenue	6,580		6,580	2,725		2,725
Net assets released from restrictions	6,344,559	(6,344,559)		5,772,668	(5,772,668)	
Total support and revenue	13,006,705	2,137,654	15,144,359	9,112,290	135,158	9,247,448
Expenses						
Program	9,491,094		9,491,094	7,940,934		7,940,934
Management and general	1,531,596		1,531,596	1,041,103		1,041,103
Fundraising	819,068		819,068	828,663		828,663
Total expenses	11,841,758		11,841,758	9,810,700		9,810,700
<b>Change in net assets</b>	<b>1,164,947</b>	<b>2,137,654</b>	<b>3,302,601</b>	<b>(698,410)</b>	<b>135,158</b>	<b>(563,252)</b>
Net Assets, beginning of year	1,300,331	5,853,021	7,153,352	1,998,741	5,717,863	7,716,604
Net Assets, end of year	<u>\$ 2,465,278</u>	<u>\$ 7,990,675</u>	<u>\$ 10,455,953</u>	<u>\$ 1,300,331</u>	<u>\$ 5,853,021</u>	<u>\$ 7,153,352</u>

See Notes to Consolidated Financial Statements

**LANDESA**

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2016 and 2015

	2016				2015			
	Total Program	General and Administrative	Fundraising	Total	Total Program	General and Administrative	Fundraising	Total
Salaries and related payroll costs	\$ 4,766,555	\$ 1,390,128	\$ 672,486	\$ 6,829,169	\$ 4,381,887	\$ 959,261	\$ 671,898	\$ 6,013,046
Project operations cost	1,783,851	14,863	62,633	1,861,347	1,204,950	6,434	39,602	1,250,986
Program consulting	1,781,887			1,781,887	1,208,553		8,000	1,216,553
Rent and other occupancy costs	508,818	62,463	28,676	599,957	501,119	45,578	32,442	579,139
Information technology	143,765	22,150	21,159	187,074	89,205	7,635	10,343	107,183
Other office expenses	102,643	9,740	61,347	173,730	33,259	6,016	52,424	91,699
In-kind expenses	168,387	760	349	169,496	136,994	1,488	1,041	139,523
Consulting and professional fees	80,460	14,439	11,629	106,528	236,961	5,121	31,856	273,938
Telecommunications	50,895	5,457	2,507	58,859	45,162	1,327	2,408	48,897
Media, online, and print material	45,462	1,600	7,331	54,393	30,003	614	36,135	66,752
Domestic and international human resource costs	38,378	4,066	2,548	44,992	43,858	1,238	2,425	47,521
Depreciation	19,993	5,930	2,723	28,646	28,983	6,391	6,235	41,609
<b>Total expenses</b>	<b>9,491,094</b>	<b>1,531,596</b>	<b>873,388</b>	<b>11,896,078</b>	<b>7,940,934</b>	<b>1,041,103</b>	<b>894,809</b>	<b>9,876,846</b>
Less: expenses netted with revenue			(54,320)	(54,320)			(66,146)	(66,146)
<b>Net expenses</b>	<b>\$ 9,491,094</b>	<b>\$ 1,531,596</b>	<b>\$ 819,068</b>	<b>\$ 11,841,758</b>	<b>\$ 7,940,934</b>	<b>\$ 1,041,103</b>	<b>\$ 828,663</b>	<b>\$ 9,810,700</b>

See Notes to Consolidated Financial Statements

**LANDESA**

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ 3,302,601	\$ (563,252)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	28,646	41,609
Change in discounts on pledges and grants receivable	18,694	12,741
Change in operating assets and liabilities		
Pledges and grants receivable	(1,730,580)	(1,168,274)
Contracts receivable	(567,573)	(283,504)
Other receivables	203,075	(175,148)
Security deposits	(13,109)	(4,502)
Prepaid expenses and other	296	(34,626)
Accounts payable	22,065	(77,564)
Accrued payroll and related expenses	24,440	(2,031)
Accrued expenses	(42,733)	(18,789)
Deferred rent	(47,796)	(40,987)
India termination benefits	23,316	85,859
	1,221,342	(2,228,468)
Net cash flows from operating activities		
Cash Flows from Investing Activity		
Purchase of software and other equipment	(64,578)	
	<b>1,156,764</b>	<b>(2,228,468)</b>
<b>Net change in cash and cash equivalents</b>		
Cash and Cash Equivalents, beginning of year	4,604,541	6,833,009
Cash and Cash Equivalents, end of year	\$ 5,761,305	\$ 4,604,541

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
- Beijing, China
- Bangalore, India
- Hyderabad, India
- Kolkata, India
- New Delhi, India
- Bhubaneswar, India
- Lucknow, India
- Patna, India

Landesa does not hold significant amounts of assets or liabilities denominated in non-United States currency at June 30, 2016 or 2015. During the years ended June 30, 2016 and 2015, \$4,118,053 and \$3,372,419, 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 net assets.

During the year ended June 30, 2016, Landesa received significant contributions from the following organizations:

- Ford Foundation
- The Bill and Melinda Gates Foundation
- Google Foundation
- Conrad H. Hilton Foundation
- Stichting IKEA Foundation
- Omidyar Network
- River Star Foundation
- Stewardship Foundation

Landesa operates significant Indian program activities through an organization called the Rural Development Institute ("RDI India Trust"). The RDI India Trust is a public charitable trust recognized by the government of India. Landesa is the majority financial supporter of the RDI India Trust. The mission of the RDI India Trust is to undertake the Indian program activities of Landesa. All activities of the RDI India Trust are included in these consolidated financial statements.



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 continuing current operations in China and does not have a termination date. Landesa, through the LLC, registered in China a separate wholly foreign-owned enterprise under the name Landesa (Beijing) Agriculture Consulting Co. Ltd. All activities of the LLC and Landesa (Beijing) Agriculture Consulting Co. Ltd. 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, 2016 or 2015.

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, Landesa Consulting LLC, and Landesa (Beijing) Agriculture Consulting Co. Ltd. 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.

### **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.

### **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, 2016 or 2015, 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.

### **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 factoring in length of service and most recent salary. Landesa has accrued a benefit for each eligible employee as of June 30, 2016 and 2015.

### **In-Kind Contributions**

In-kind contributions represent contributed website services and legal services. These services were valued at fair value and amounted to \$169,496 and \$139,523 during the years ended June 30, 2016 and 2015, 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 the years ended June 30, 2016 and 2015, 45% and 35% of Landesa's revenue was from three and two entities, respectively.

At June 30, 2016, 63% of receivables was due from three entities. At June 30, 2015, 32% of receivables was due from one entity.

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

### **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 (Beijing) Agriculture Consulting Co. Ltd. is 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, 2016 and 2015, 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 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 statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### **Subsequent Events**

Landesa has evaluated subsequent events through the date these financial statements were available to be issued, which was November 7, 2016.

## **Note 2. Pledges and Grants Receivable**

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

	<u>2016</u>	<u>2015</u>
Amounts due in:		
One to five years	\$ 1,072,500	\$ 826,000
More than five years	10,000	20,000
Less unamortized discount to present value	<u>(23,657)</u>	<u>(14,169)</u>
Net long-term pledges and grants receivable	1,058,843	831,831
Amounts due in:		
Less than one year	<u>2,856,439</u>	<u>1,371,565</u>
Total pledges and grants receivable	<u><u>\$ 3,915,282</u></u>	<u><u>\$ 2,203,396</u></u>

The effective interest rate used to discount pledges and grants receivable was 1.08% and 0.50% for amounts pledged in the years ended June 30, 2016 and 2015, respectively.

### 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>2016</u>	<u>2015</u>
Conditional promises to give	\$ 5,033,447	\$ 1,103,382
Less: cumulative amount recognized	<u>(318,911)</u>	<u></u>
	<u>\$ 4,714,536</u>	<u>\$ 1,103,382</u>

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

	<u>2016</u>	<u>2015</u>
Conditional promises to give	\$ 1,060,000	\$ 5,060,000
Less: cumulative amount recognized	<u>(30,000)</u>	<u>(4,580,000)</u>
	<u>\$ 1,030,000</u>	<u>\$ 480,000</u>

### Note 4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 259,181	\$ 239,602
Software	<u>115,278</u>	<u>70,278</u>
	374,459	309,880
Less: accumulated depreciation	<u>(316,919)</u>	<u>(288,272)</u>
	<u>\$ 57,540</u>	<u>\$ 21,608</u>

## Note 5. Temporarily Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Program expenses in India	\$ 4,168,082	\$ 3,839,146
Program expenses in China	1,466,354	241,992
Program expenses, Global Advocacy	1,081,677	255,490
Program expenses, Global Projects	393,412	1,020,047
Program expenses in Southeast Asia	301,034	31,442
Program expenses for Landesa Center for Women's Land Rights	290,222	270,383
General support in future years	150,000	185,000
Program expenses in Africa	139,894	9,521
	<u>\$ 7,990,675</u>	<u>\$ 5,853,021</u>

## Note 6. Leases

Landesa leases one office space in Seattle, Washington, one in Beijing, China, one in New Delhi, India, and one in Washington, D.C. The Seattle lease is a seven-year non-cancelable operating lease agreement that expires on December 31, 2017. The Beijing lease is a non-cancelable one-year operating lease agreement that expires on August 31, 2017. The New Delhi lease is a three-year lease agreement with the first 18 months being non-cancelable; the lease expires on August 30, 2018. The Washington, D.C. lease is a non-cancelable one-year operating lease agreement that expires on May 30, 2017. Total rent expense for the fiscal years ended June 30, 2016 and 2015, was \$551,832 and \$534,911, respectively.

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

2017	\$ 490,491
2018	<u>161,838</u>
	<u>\$ 652,329</u>

## 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 expenses related to the Plan were \$125,195 and \$107,952 for the years ended June 30, 2016 and 2015, respectively.

**Note 8. Related Party Transactions**

Landesa received contributions of \$348,947 and \$206,158 from members of Landesa's Board of Directors during the years ended June 30, 2016 and 2015, respectively.

Seven board members have outstanding pledges receivable totaling \$478,956 as of June 30, 2016. Five board members have outstanding pledges receivable totaling \$366,901 as of June 30, 2015.

Landesa received \$1,050,000 and \$800,000 of total revenue for the years ended June 30, 2016 and 2015, respectively, from a private foundation. A member of Landesa's Board of Directors is a key member of management at this private foundation.