



CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2013

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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, 2013 and 2012, and the related consolidated statements of activities 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 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 of 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, 2013 and 2012, 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.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Petersen Sullivan LLP.*

October 29, 2013

**LANDESA**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and cash equivalents	\$ 3,874,775	\$ 3,548,521
Investments (Note 2)		800,000
Pledges and grants receivable (Note 3)	2,168,920	1,107,282
Contracts receivable	263,320	309,485
Prepaid expenses and other	<u>251,835</u>	<u>269,851</u>
Total current assets	6,558,850	6,035,139
Long-term Pledges and Grants Receivable, less discount (Note 3)	516,748	637,890
Long-term Investments (Note 2)		300,000
Property and Equipment, at cost, less accumulated depreciation (Note 5)	<u>148,949</u>	<u>175,055</u>
Total assets	<u>\$ 7,224,547</u>	<u>\$ 7,148,084</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 74,740	\$ 121,511
Accrued payroll and related expenses	468,777	492,664
Accrued expenses	<u>255,634</u>	<u>293,051</u>
Total current liabilities	799,151	907,226
Net Assets		
Unrestricted	1,155,951	1,849,982
Temporarily restricted (Note 6)	<u>5,269,445</u>	<u>4,390,876</u>
Total net assets	<u>6,425,396</u>	<u>6,240,858</u>
Total liabilities and net assets	<u>\$ 7,224,547</u>	<u>\$ 7,148,084</u>

See Notes to Consolidated Financial Statements

**LANDESA**

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Grants and contributions	\$ 4,718,014	\$ 5,375,056	\$ 10,093,070	\$ 4,995,199	\$ 2,708,901	\$ 7,704,100
Contract revenue	813,866		813,866	982,352		982,352
In-kind contributions (Note 1)	131,598		131,598	155,928		155,928
Special events revenue	97,922		97,922	261,160		261,160
Special events expenses	(32,151)		(32,151)	(66,590)		(66,590)
Interest and other revenue	17,742		17,742	22,705	1,262	23,967
Net assets released from restrictions	4,496,487	(4,496,487)		4,349,521	(4,349,521)	
Total support and revenue	10,243,478	878,569	11,122,047	10,700,275	(1,639,358)	9,060,917
Expenses						
Salaries and related payroll costs	7,335,569		7,335,569	7,191,117		7,191,117
Project operations cost	1,265,628		1,265,628	1,615,133		1,615,133
Program consulting	856,724		856,724	695,150		695,150
Occupancy and related costs	700,471		700,471	664,739		664,739
Consulting and professional fees	190,524		190,524	222,235		222,235
In-kind expenses	131,598		131,598	155,928		155,928
Information technology	120,661		120,661	176,057		176,057
Other office expenses	100,603		100,603	195,091		195,091
Depreciation	87,169		87,169	64,630		64,630
Media, online, and print material	63,166		63,166	127,871		127,871
Telecommunications	59,899		59,899	61,818		61,818
Domestic and international human resource costs	25,497		25,497	77,133		77,133
Total expenses	10,937,509		10,937,509	11,246,902		11,246,902
<b>Change in net assets</b>	<b>(694,031)</b>	<b>878,569</b>	<b>184,538</b>	<b>(546,627)</b>	<b>(1,639,358)</b>	<b>(2,185,985)</b>
Net Assets, beginning of year	1,849,982	4,390,876	6,240,858	2,396,609	6,030,234	8,426,843
Net Assets, end of year	\$ 1,155,951	\$ 5,269,445	\$ 6,425,396	\$ 1,849,982	\$ 4,390,876	\$ 6,240,858

See Notes to Consolidated Financial Statements

**LANDESA**

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ 184,538	\$ (2,185,985)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	87,169	64,630
Loss on disposal of property and equipment	3,405	
Change in discounts on pledges and grants receivable	(13,261)	3,226
Change in operating assets and liabilities		
Pledges and grants receivable	(927,235)	577,708
Contracts receivable	46,165	358,708
Prepaid expenses and other	18,016	17,353
Accounts payable	(46,771)	(62,203)
Accrued payroll and related expenses	(23,887)	91,444
Accrued expenses	(37,417)	205,421
	(709,278)	(929,698)
Net cash flows from operating activities	(709,278)	(929,698)
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,100,000	3,238,222
Purchase of property and equipment	(64,468)	(47,702)
	1,035,532	3,190,520
Net cash flows from investing activities	1,035,532	3,190,520
<b>Net change in cash and cash equivalents</b>	<b>326,254</b>	<b>2,260,822</b>
Cash and Cash Equivalents, beginning of year	3,548,521	1,287,699
Cash and Cash Equivalents, end of year	\$ 3,874,775	\$ 3,548,521

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, United States
- Beijing, China
- Bangalore, India
- Hyderabad, India
- Kolkata, India
- New Delhi, India
- Bhubaneswar, India

Landesa does not hold significant amounts of assets or liabilities denominated in non-United States currency at June 30, 2013 and 2012. During the years ended June 30, 2013 and 2012, \$3,483,488 and \$3,931,767, 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 (all years) 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. Landesa's operations generally reflect the multi-year nature of the grant (only expending a year's portion at a time) regardless of the particular revenue recognition principle.

Landesa operates significant Indian program activities through an organization called the 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 corporation called Landesa Consulting LLC ("the LLC"). As an LLC, the liability of the members is generally limited to amounts invested. The LLC was incorporated for the purpose of continuing current operations in China and does not have a termination date. Landesa is in the process of registering in China as a wholly foreign owned enterprise.

### **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, 2013 or 2012.

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. 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.

### **Investments**

Investments represent certificates of deposit and are stated at cost plus accrued interest.

### **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. Landesa has received grants for specific purposes that are open to review and audit by the grantor agencies.

### **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 received. 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, 2013 or 2012, 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 their future cash flows. The discounts on those amounts are computed using 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.

### **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. For leasehold improvements, depreciation is calculated using the shorter of the lease term or the useful life of the asset, also on the straight-line basis.

### **In-Kind Contributions**

In-kind contributions represent contributed website services and legal services. These services were valued at fair value and amounted to \$131,598 and \$155,928 during fiscal year 2013 and 2012, 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, 2013 and 2012, 58% and 70%, respectively, of Landesa's revenue was from three private foundations or donors. At June 30, 2013, 64% of total receivables were due from four private foundations and donors. At June 30, 2012, 68% of total receivables were due from two private foundations.

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. Tax returns for the years ended June 30, 2010 through 2013, are open to examination by the Internal Revenue Service.

RDI India Trust is exempt from income taxes under Section 12AA(1)(b)(i) of the Indian Income Tax Act. Tax returns for the years ended March 31, 2010 through 2013, are open to examination by the Indian taxing authorities.

### **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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **Reclassifications**

Certain reclassifications have been made to the June 30, 2012, financial statements in order to conform to the current year presentation. The reclassifications had no effect on previously reported net assets or change in net assets.

## **Subsequent Events**

Landesa has evaluated subsequent events through the date these financial statements were available to be issued, which was the same date as the independent auditors' report.

## **Note 2. Investments**

### **Short-Term**

Short-term investments consisted of certificates of deposit held at Wells Fargo Bank for \$800,000 as of June 30, 2012. No individual certificate of deposit exceeded \$250,000 at June 30, 2012, and all investments were federally insured. There were no short-term investments as of June 30, 2013.

### **Long-Term**

The Landesa Board of Directors designates money advanced to Landesa for future programs beyond one year as long-term investments. These funds are to be used only for the specific, expressed purpose of the related programs. This designation does not dictate how the money should be invested, but rather that the money should be appropriately segregated for financial statement purposes. As of June 30, 2012, long-term investments consisted of certificates of deposit held at Wells Fargo Bank for \$300,000. No individual certificate of deposit exceeded \$250,000 at June 30, 2012, and all investments are federally insured. There were no long-term investments as of June 30, 2013.

## **Note 3. Pledges and Grants Receivable**

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

	<u>2013</u>	<u>2012</u>
Amounts due in:		
One to five years	\$ 528,126	\$ 662,529
Less unamortized discount to present value	<u>(11,378)</u>	<u>(24,639)</u>
Net long-term pledges and grants receivable	516,748	637,890
Amounts due in:		
Less than one year	<u>2,168,920</u>	<u>1,107,282</u>
Total pledges and grants receivable	<u><u>\$ 2,685,668</u></u>	<u><u>\$ 1,745,172</u></u>

The effective interest rate used to discount pledges and grants receivable was 3.25% for amounts pledged prior to fiscal year 2012 and 0.75% and 0.50% for amounts pledged in fiscal year 2013 and 2012, respectively.

**Note 4. Conditional Awards**

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

In 2012, Landesa was awarded a conditional grant of \$575,763. Payments are conditional based on Landesa satisfactorily meeting project deliverables in support of a sustainable web-based education tool on land tenure (focused on Africa). As of June 30, 2013 and 2012, \$287,882 and \$143,941, respectively, had been cumulatively recognized as revenue under this award.

In 2013, Landesa was awarded another grant of \$220,000, of which, \$60,000 is contingent upon Landesa receiving certain matching contributions with the purpose of supporting land tenure professionals. As of June 30, 2013, no revenue was recognized on the conditional portion of this award.

**Note 5. Property and Equipment**

Property and equipment consists of the following at June 30:

	2013	2012
Furniture and equipment	\$ 239,602	\$ 214,439
Leasehold improvements	38,991	22,157
Software	61,938	82,874
Construction in progress	8,340	27,398
	348,871	346,868
Less accumulated depreciation	(199,922)	(171,813)
	\$ 148,949	\$ 175,055

**Note 6. Temporarily Restricted Net Assets**

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

	<u>2013</u>	<u>2012</u>
Program expenses in India	\$ 2,633,656	\$ 2,658,682
General support in future years	1,118,952	852,767
Program expenses for Landesa Center for Women's Land Rights	861,476	582,007
Program expenses, Global Projects	210,397	
Program expenses in China	177,415	23,275
Program expenses, Global Advocacy	159,407	
Program expenses in Africa	108,142	274,145
	<u>\$ 5,269,445</u>	<u>\$ 4,390,876</u>

**Note 7. Functional Allocation of Expenses**

The cost of providing the various programs and other activities has been allocated to the program and supporting services benefited as follows at June 30:

	<u>2013</u>	<u>2012</u>
Program services	\$ 8,558,274	\$ 8,833,427
Fundraising	799,296	978,849
Management and general	1,579,939	1,434,626
	<u>\$ 10,937,509</u>	<u>\$ 11,246,902</u>

**Note 8. Leases**

Landesa leases two office spaces in Seattle, Washington, one in Beijing, China, and one in New Delhi, India. The first Seattle lease is a five-year non-cancelable operating lease agreement which expired October 31, 2012, and was not renewed. The second Seattle lease is a seven-year non-cancelable operating lease agreement which expires December 31, 2017. The Beijing lease is a three-year operating lease agreement which expires April 30, 2015. The New Delhi Lease is a three-year lease agreement with the first 18 months being non-cancelable, which expires August 30, 2015. Total rent expense for the fiscal years ended June 30, 2013 and 2012, was \$667,024 and \$643,707, respectively.

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

2014	\$	582,214
2015		494,002
2016		310,440
2017		319,266
2018		161,838
		<hr/>
	\$	1,867,760
		<hr/>

#### **Note 9. 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 \$141,242 and \$134,541 for the years ended June 30, 2013 and 2012, respectively.

#### **Note 10. Related Party Transactions**

Landesa received contributions of \$1,776,000 and \$339,000 from members of Landesa's Board of Directors during the years end June 30, 2013 and 2012, respectively.

Three board members have outstanding pledges receivable totaling \$894,000 as of December 31, 2013. There were no outstanding pledges from related parties as of December 31, 2012.

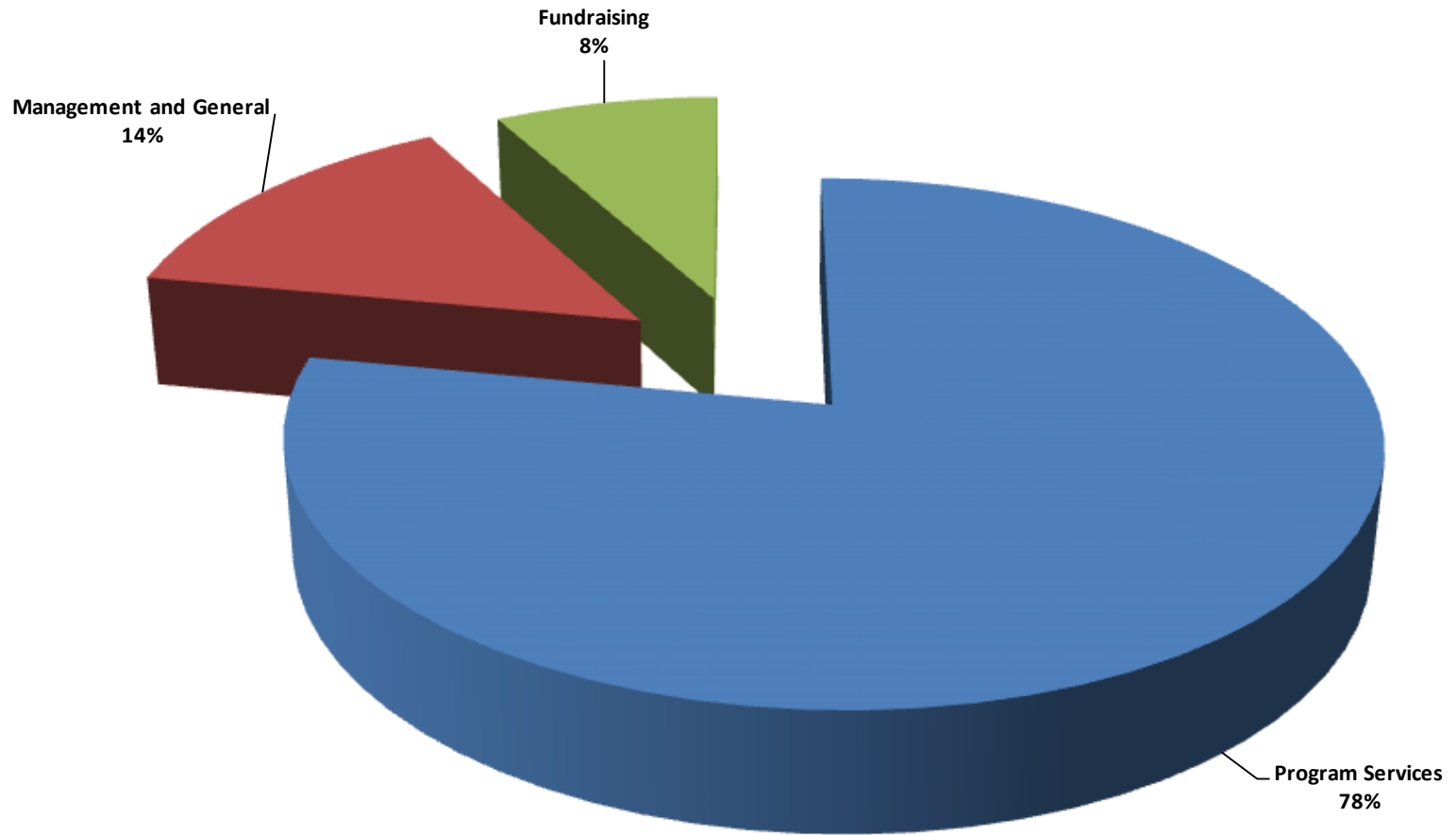
Landesa received \$3.5 million of total revenue for each of the years ended June 30, 2013 and 2012, respectively, from a private foundation. A member of Landesa's Board of Directors is a key member of management at this private foundation.

S U P P L E M E N T A R Y   I N F O R M A T I O N

**LANDESA**

**FUNCTIONAL ALLOCATION OF EXPENSES**

For the Year Ended June 30, 2013





# LANDESA

ALLOCATION OF RESOURCES BY PROGRAM AREA  
For the Year Ended June 30, 2013

