



CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2017

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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, 2017 and 2016, 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, 2017 and 2016, 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 3, 2017

LANDESA

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 5,608,319	\$ 5,761,305
Pledges and grants receivable (Note 2)	2,097,956	2,856,439
Contracts receivable	540,299	1,295,519
Security deposits	102,876	98,140
Prepaid expenses and other	<u>289,034</u>	<u>203,997</u>
Total current assets	8,638,484	10,215,400
Long-Term Pledges and Grants Receivable, less discount (Note 2)	627,076	1,058,843
Property and Equipment, at cost, less accumulated depreciation (Note 4)	<u>54,349</u>	<u>57,540</u>
Total assets	<u><u>\$ 9,319,909</u></u>	<u><u>\$ 11,331,783</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 74,242	\$ 133,397
Accrued payroll and related expenses	536,769	446,648
Accrued expenses	177,748	94,416
Deferred rent, current portion	<u>35,777</u>	<u>58,739</u>
Total current liabilities	824,536	733,200
India Termination Benefits	109,640	109,175
Deferred Rent, net of current portion	<u>33,455</u>	<u>33,455</u>
Total liabilities	934,176	875,830
Net Assets		
Unrestricted	1,212,004	2,465,278
Temporarily restricted (Note 5)	<u>7,173,729</u>	<u>7,990,675</u>
Total net assets	<u>8,385,733</u>	<u>10,455,953</u>
Total liabilities and net assets	<u><u>\$ 9,319,909</u></u>	<u><u>\$ 11,331,783</u></u>

See Notes to Consolidated Financial Statements

LANDESA

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Grants and contributions	\$ 1,829,071	\$ 6,289,757	\$ 8,118,828	\$ 3,934,723	\$ 8,482,213	\$ 12,416,936
Contract revenue	2,398,311		2,398,311	2,390,136		2,390,136
In-kind contributions (Note 1)	222,561		222,561	169,496		169,496
Special events revenue	193,574		193,574	215,531		215,531
Special events expenses	(65,623)		(65,623)	(54,320)		(54,320)
Interest and other revenue	8,959		8,959	6,580		6,580
Net assets released from restrictions	7,106,703	(7,106,703)		6,344,559	(6,344,559)	
Total support and revenue	11,693,556	(816,946)	10,876,610	13,006,705	2,137,654	15,144,359
Expenses						
Program	10,065,124		10,065,124	9,491,094		9,491,094
Management and general	1,910,406		1,910,406	1,531,596		1,531,596
Fundraising	971,300		971,300	819,068		819,068
Total expenses	12,946,830		12,946,830	11,841,758		11,841,758
Change in net assets	(1,253,274)	(816,946)	(2,070,220)	1,164,947	2,137,654	3,302,601
Net Assets, beginning of year	2,465,278	7,990,675	10,455,953	1,300,331	5,853,021	7,153,352
Net Assets, end of year	<u>\$ 1,212,004</u>	<u>\$ 7,173,729</u>	<u>\$ 8,385,733</u>	<u>\$ 2,465,278</u>	<u>\$ 7,990,675</u>	<u>\$ 10,455,953</u>

See Notes to Consolidated Financial Statements

LANDESA

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2017 and 2016

	2017				2016			
	Total Program	Management and General	Fundraising	Total	Total Program	Management and General	Fundraising	Total
Salaries and related payroll costs	\$ 5,318,248	\$ 1,509,657	\$ 820,653	\$ 7,648,558	\$ 4,766,555	\$ 1,390,128	\$ 672,486	\$ 6,829,169
Program consulting	1,939,301	3,453	3,974	1,946,728	1,781,887			1,781,887
Project operations cost	1,530,084	15,412	42,913	1,588,409	1,783,851	14,863	62,633	1,861,347
Rent and other occupancy costs	471,584	63,625	34,586	569,795	508,818	62,463	28,676	599,957
In-kind expenses	212,214	6,703	3,644	222,561	168,387	760	349	169,496
Information technology	126,330	16,555	17,468	160,353	143,765	22,150	21,159	187,074
Consulting and professional fees	126,434	15,499	14,275	156,208	80,460	14,439	11,629	106,528
Other office expenses	123,208	11,937	65,534	200,679	102,643	9,740	61,347	173,730
Domestic and international human resource costs	84,746	4,790	4,194	93,730	38,378	4,066	2,548	44,992
Telecommunications	59,539	8,305	5,123	72,967	50,895	5,457	2,507	58,859
Media, online, and print material	47,278	2,047	13,413	62,738	45,462	1,600	7,331	54,393
Depreciation	34,492	3,204	1,742	39,438	19,993	5,930	2,723	28,646
Write-off of receivable balance		250,289		250,289				
Total expenses	10,073,458	1,911,476	1,027,519	13,012,453	9,491,094	1,531,596	873,388	11,896,078
Less: expenses netted with revenue	(8,334)	(1,070)	(56,219)	(65,623)			(54,320)	(54,320)
Net expenses	\$ 10,065,124	\$ 1,910,406	\$ 971,300	\$ 12,946,830	\$ 9,491,094	\$ 1,531,596	\$ 819,068	\$ 11,841,758

See Notes to Consolidated Financial Statements

LANDESA

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ (2,070,220)	\$ 3,302,601
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	39,438	28,646
Write-off of receivable balance	250,289	
Change in discounts on pledges and grants receivable	8,814	18,694
Changes in operating assets and liabilities		
Pledges and grants receivable	931,147	(1,730,580)
Contracts receivable	755,220	(567,573)
Security deposits	(4,736)	(13,109)
Prepaid expenses and other	(85,037)	203,371
Accounts payable	(59,155)	22,065
Accrued payroll and related expenses	90,121	24,440
Accrued expenses	83,332	(42,733)
Deferred rent	(56,417)	(47,796)
India termination benefits	465	23,316
Net cash flows from operating activities	(116,739)	1,221,342
Cash Flows from Investing Activity		
Purchase of software and other equipment	(36,247)	(64,578)
Net change in cash and cash equivalents	(152,986)	1,156,764
Cash and Cash Equivalents, beginning of year	5,761,305	4,604,541
Cash and Cash Equivalents, end of year	\$ 5,608,319	\$ 5,761,305

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
- 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, 2017 or 2016. During the years ended June 30, 2017 and 2016, \$4,664,554 and \$4,118,053, 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, 2017, Landesa received significant contributions from the following organizations:

- Ford Foundation
- Omidyar Network
- King Philanthropies 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, 2017 or 2016.

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, 2017 or 2016, 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, 2017 and 2016.

In-Kind Contributions

In-kind contributions represent contributed website services and legal services. These services were valued at fair value and amounted to \$222,561 and \$169,496 during the years ended June 30, 2017 and 2016, 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, 2017 and 2016, 65% and 45% of Landesa's revenue was from four and three entities, respectively.

At June 30, 2017, 53% of receivables was due from two entities. At June 30, 2016, 63% of receivables was due from three entities.

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, 2017 and 2016, 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 consolidated 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 consolidated financial statements were available to be issued, which was November 3, 2017.

Note 2. Pledges and Grants Receivable

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

	<u>2017</u>	<u>2016</u>
Amounts due in:		
One to five years	\$ 659,547	\$ 1,072,500
More than five years		10,000
Less: unamortized discount to present value	<u>(32,471)</u>	<u>(23,657)</u>
Net long-term pledges and grants receivable	627,076	1,058,843
Amounts due in:		
Less than one year	<u>2,097,956</u>	<u>2,856,439</u>
Total pledges and grants receivable	<u>\$ 2,725,032</u>	<u>\$ 3,915,282</u>

The effective interest rate used to discount pledges and grants receivable ranged between 0.5% and 2.2% for amounts pledged in the years ended June 30, 2017 and 2016, 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>2017</u>	<u>2016</u>
Conditional promises to give	\$ 8,953,153	\$ 5,033,447
Less: cumulative amount recognized	<u>(2,183,108)</u>	<u>(318,911)</u>
	<u>\$ 6,770,045</u>	<u>\$ 4,714,536</u>

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

	<u>2017</u>	<u>2016</u>
Conditional promises to give	\$ 1,060,000	\$ 1,060,000
Less: cumulative amount recognized	<u>(60,000)</u>	<u>(30,000)</u>
	<u>\$ 1,000,000</u>	<u>\$ 1,030,000</u>

Note 4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 272,688	\$ 259,181
Software	115,278	115,278
Leasehold improvements	<u>22,740</u>	<u> </u>
	410,706	374,459
Less: accumulated depreciation	<u>(356,357)</u>	<u>(316,919)</u>
	<u>\$ 54,349</u>	<u>\$ 57,540</u>

Note 5. Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Program expenses, Global Projects	\$ 1,958,589	\$ 393,412
Program expenses in India	1,599,694	4,168,082
Program expenses in Southeast Asia	1,283,517	301,034
Program expenses in China	921,453	1,466,354
Program expenses, Global Advocacy	699,490	1,081,677
General support in future years	400,000	150,000
Program expenses in Africa	227,176	139,894
Program expenses for Landesa Center for Women's Land Rights	<u>83,810</u>	<u>290,222</u>
	<u>\$ 7,173,729</u>	<u>\$ 7,990,675</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 noncancelable operating lease agreement that expires on February 28, 2025. The Beijing lease is a noncancelable one-year operating lease agreement that expires on August 31, 2018. The New Delhi lease is a three-year operating lease agreement with the first 18 months being noncancelable; the lease expires on August 30, 2018. The Washington, D.C. lease is a three-year operating lease agreement that expires on June 30, 2020. Total rent expense for the fiscal years ended June 30, 2017 and 2016, was \$523,101 and \$551,832, respectively.

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

2018	\$ 483,379
2019	510,312
2020	501,908
2021	454,016
2022	467,640
Thereafter	<u>1,315,088</u>
	<u>\$ 3,732,343</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 \$140,011 and \$125,195 for the years ended June 30, 2017 and 2016, respectively.

Note 8. Related Party Transactions

Landesa received contributions of \$219,719 and \$348,947 from members of Landesa's Board of Directors during the years ended June 30, 2017 and 2016, respectively.

Six board members have outstanding pledges receivable totaling \$289,000 as of June 30, 2017. Seven board members had outstanding pledges receivable totaling \$478,956 as of June 30, 2016.

Landesa received \$1,375,000 and \$1,050,000 of total revenue for the years ended June 30, 2017 and 2016, respectively, 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. At 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 and RDI India Trust personnel to develop and implement plans for Landesa to be able to continue to do work in India in the short and long term.