

TRANSITION HABITAT CONSERVANCY

Financial Statements

With Independent Auditors' Report

December 31, 2017

TRANSITION HABITAT CONSERVANCY
(A Nonprofit Organization)
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December 31, 2017

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Independent Auditors' Report

To the Board of Directors
Transition Habitat Conservancy

TRANSITION HABITAT CONSERVANCY
(A Nonprofit Organization)
Statement of Net Assets
December 31, 2017

ASSETS

Current Assets

Cash and equivalents	\$ 324,616
Accounts receivable	<u>43,664</u>
Total Current Assets	<u>368,280</u>

Property and Equipment, net

333,876

Other Assets

Restricted cash and equivalents	260,485
Restricted investments	4,101,034
Service contract, net of \$3,636 in accumulated amortization	1,135
Conservation lands	13,353,344
Conservation easements	<u>867,913</u>
Total Other Assets	<u>18,583,911</u>
Total Assets	<u>\$ 19,286,067</u>

TRANSITION HABITAT CONSERVANCY
(A Nonprofit Organization)
Statement of Net Assets
December 31, 2017

LIABILITIES AND NET ASSETS

Liabilities

Current Liabilities

Accounts payable and accrued expenses	\$	16,034
Taxes payable		1,042
Deferred revenues		<u>11,327</u>
Total Current Liabilities		<u>28,403</u>
Total Liabilities		<u>28,403</u>

Net Assets

Unrestricted		
Undesignated		
Board designated		
Total unrestricted net assets		<u>1,219,170</u>
Temporarily restricted		625,558
Permanently restricted		<u>17,412,936</u>
Total Net Assets		<u>19,257,664</u>
Total Liabilities and Net Assets	\$	<u><u>19,286,067</u></u>

TRANSITION HABITAT CONSERVANCY
(A Nonprofit Organization)
Statement of Activities
For the Year Ended December 31, 2017

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Support, Revenues, Gains and Losses				
Grants and contributions	\$ 115,594	\$ 198,830	\$ -	\$ 314,424
In-kind services	137,837	-	-	137,837
Service fees	92,541	-	44,632	137,173
Interest	344	-	-	344
Return on investments	-	332,092	-	332,092
Net assets released				
Purpose satisfied	285,062	(285,062)	-	-
Total Support, Revenues, Gains and Losses	<u>631,378</u>	<u>245,860</u>	<u>44,632</u>	<u>921,870</u>
Expenses				
Program expenses	671,521	-	-	671,521
Supporting expenses	82,505	-	-	82,505
Total Expenses	<u>754,026</u>	<u>-</u>	<u>-</u>	<u>754,026</u>
Change in Net Assets	(122,648)	245,860	44,632	167,884
Extraordinary event	65,000	-	3,250,000	3,315,000
Net assets – beginning of year	<u>1,276,818</u>	<u>379,698</u>	<u>14,118,304</u>	<u>15,774,820</u>
Net assets – end of year	<u>\$ 1,219,170</u>	<u>\$ 625,558</u>	<u>\$ 17,412,936</u>	<u>\$ 19,257,664</u>

TRANSITION HABITAT CONSERVANCY
(A Nonprofit Organization)
Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program Expenses	Supporting Expenses General & Administrative	Total Expenses
Accounting services	\$ 10,880	\$ 2,720	\$ 13,600
Advertising	501	1,170	1,671
Amortization	3,636	-	3,636
Acquisition costs	23,502	-	23,502
Bank and merchant fees	-	403	403
Depreciation	25,056	4,272	29,328
Donations	400	100	500
Employee benefits	9,686	2,421	12,107
Environmental mitigation	10,998	-	10,998
Filing fees	-	85	85
In-kind labor	41,148	3,200	44,348
Insurance	7,666	1,917	9,583
Land mgmt. services	258,311	-	258,311
Legal fees	3,508	877	4,385
Meals	2,944	736	3,680
Membership dues	433	1,732	2,165
Occupancy	21,365	5,341	26,706
Office expense	16,385	4,096	20,481
Outreach	3,142	606	3,748
Payroll taxes	19,173	4,793	23,966
Printing	9,428	-	9,428
Property taxes	8,886	10	8,896
Public education	84	-	84
Salaries and wages	172,815	43,204	216,019
Training	2,583	1,722	4,305
Travel	16,530	2,485	19,015
Workers' compensation	2,461	615	3,076
	<u>671,521</u>	<u>82,505</u>	<u>754,026</u>
Total Expenses	\$ <u>671,521</u>	\$ <u>82,505</u>	\$ <u>754,026</u>

TRANSITION HABITAT CONSERVANCY
(A Nonprofit Organization)
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash Flows from Operating Activities

Increase in net assets	\$	167,884
Non-cash adjustments:		
Extraordinary event		3,315,000
In-kind services		(137,837)
Depreciation and amortization		32,964
(Gains)and losses		192,086
(Increases) decreases in operating assets:		
Accounts receivable		(20,107)
Prepaid expenses		-
Deposits		1,200
Increases (decreases) in operating liabilities:		
Accounts payable and accrued expenses		2,380
Taxes payable		409
Deferred revenue		(6,451)
Cash provided by (used in) land activities:		
Acquisitions of land and easements		<u>(3,447,304)</u>
Net Cash Provided by Operating Activities		<u>100,224</u>

Cash Flows from Investing Activities

Purchase of property and equipment		(284,204)
Sales and redemptions of securities		4,602,715
Purchases and reinvestments of securities		<u>(4,473,903)</u>
Net Cash Used for Investing Activities		<u>(155,392)</u>

Net (decrease) increase in cash and equivalents		(55,168)
Cash and equivalents, beginning of year		<u>640,269</u>
Cash and equivalents, end of year	\$	<u>585,101</u>

Supplemental Information

Cash paid for income taxes	\$	-
Cash paid for interest	\$	-
Noncash investing activity:		
Donated land	\$	4,207

TRANSITION HABITAT CONSERVANCY

(A Nonprofit Organization)

Notes to Financial Statements

December 31, 2017

Note 1: Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

Transition Habitat Conservancy (the Organization) is a nonprofit corporation operating in San Bernardino and Los Angeles Counties, California. In 2017, The Organization became an accredited land trust by the Land Trust Alliance's Accreditation Commission. The Organization's mission is to manage and restore lands and to enforce any prohibitions of use.

The Organization's primary sources of revenue are government grants, contributions from the public, and fees from businesses requiring environmental mitigation services. These resources are spent restoring and managing land and acquiring conservation land and easements.

Summary of Significant Accounting Policies

Cash and Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable and Deferred Revenue

The Organization charges fees for mitigation and other land management services. Generally, a retainer is received in advance of the performance of services, and charges are billed against the retainer. From time to time, services are performed before a new retainer is received. When the charges for services exceed the retainer, the Organization reports a receivable. When the balance of the retainer exceeds the charges for services, deferred revenue is reported. The Organization does not believe any of the receivables at December 31, 2017 are uncollectible.

Restricted Cash and Investments

Cash and investments restricted by grantors or donors for mitigation or acquisition of property is not available for operating or administrative purposes.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of net assets. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

TRANSITION HABITAT CONSERVANCY
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2017

Note 1: Nature of Organization and Summary of Significant Accounting Policies
(continued)

Property and Equipment

The Organization capitalizes property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over estimated useful lives as follows:

Furniture	7 years
Equipment and vehicles	5 years

Conservation Lands and Easements

The Organization records land and land interests at cost if purchased or at fair value at the date of acquisition, if all or part of the land was received as a donation. Fair value is generally determined by appraisal at the time of acquisition and is not subsequently adjusted. Costs related to the acquisition of land and land interests, such as appraisals, surveys, and initial restoration, are included in the total cost of the land or land interest.

Conservation land is real property with significant ecological value. The Organization's portfolio of conservation land includes land it intends to own and maintain in perpetuity.

Conservation easements are comprised of listed rights and/or restrictions over the owned property that grant the Organization the right to protect and or mitigate the property.

Contributed Services

The Organization records in-kind revenue when it receives donated services in the form of labor requiring specialized skill and knowledge. For the year ended December 31, 2017, the Organization recognized \$137,837 in revenue from land management services provided by volunteers. In addition, individuals volunteer their time and perform a variety of tasks that assist the Organization with its mailing and filing tasks, but these services do not meet the criteria for recognition as contributed services.

TRANSITION HABITAT CONSERVANCY
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2017

Note 1: Nature of Organization and Summary of Significant Accounting Policies
(continued)

Income Taxes

The Organization is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) or the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Organization is also exempt from state taxation under similar California Revenue and Taxation code.

The Organization's federal and state returns for the years ending 2014, 2015, 2016 and 2017 are subject to examination by the IRS and Franchise Tax Board, generally for three and four years, respectively, after they were filed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

The Organization measures financial instruments at fair value using valuation techniques that are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs – quoted prices in active markets for identical assets

Level 2 inputs – significant other observable inputs

Level 3 inputs – significant unobservable inputs

Cash and cash equivalents are valued at their carrying amount due to their short maturities. Investments in available for sale securities are measured on a recurring basis using quoted market prices.

Expense Allocation

The costs of providing program and administrative have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

TRANSITION HABITAT CONSERVANCY
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2017

Note 2: Cash and Equivalents

At December 31, 2017, cash and equivalents are as follows:

Cash in checking	\$ 259,086
Cash in savings and money markets	64,579
Cash on hand	951
	<u>\$ 324,616</u>

Cash and equivalents are reported on the statement of net assets as follows:

Cash and equivalents	\$ 324,616
Restricted cash and equivalents	260,485
	<u>\$ 585,101</u>

Note 3: Property and Equipment

Property and equipment consists of the following at December 31, 2017:

Buildings	222,136
Vehicles	\$ 108,302
Furniture and Equipment	36,077
	<u>366,515</u>
Less: Accumulated depreciation	<u>(87,639)</u>
	278,876
Land	55,000
	<u><u>333,876</u></u>

Note 4: Investments

Investments are stated at fair value and consist of the following at December 31, 2017:

	Balance	Fair Value (Level 1)	Cost	Unrealized Gain(Loss)
Domestic stocks	\$ 1,303,414	\$ 1,303,414	\$ 1,112,038	\$ 191,376
ETFs and CEFs	598,766	598,766	597,761	1,005
Mutual funds	256,948	256,948	197,236	59,712
Unit investment trusts	1,303,651	1,303,651	1,314,294	(10,643)
	<u>\$ 3,462,779</u>	<u>\$ 3,462,779</u>	<u>\$ 3,221,329</u>	<u>\$ 241,450</u>

TRANSITION HABITAT CONSERVANCY
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2017

Note 4: Investments (continued)

The following schedule summarizes investment returns for 2017 and their classification in the statement of activities:

	Temporarily Restricted Net Assets	Total
Interest and dividends, net	\$ 103,920	\$ 103,920
Net realized and unrealized gains	228,172	228,172
	\$ 332,092	\$ 332,092

Interest and dividends are recorded net of investment fees amounting to \$37,235.

Note 5: Conservation Lands

Conservation lands consisted of the following at December 31, 2017:

Completed acquisitions	\$ 13,353,344
Acquisitions in process	-
	\$ 13,353,344

Note 6: Conservation Easements

At December 31, 2017, conservation easements were as follows:

Completed acquisitions	\$ 866,440
Acquisitions in process	1,473
	\$ 867,913

Note 7: Net Assets and Restrictions on Net Assets

Unrestricted Net Assets

Unrestricted net assets include undesignated net assets and designated net assets as follows:

Board designated:	
Conservation lands	\$ 647,577
Other	571,593
Total board designated	1,219,170
Undesignated	529,137
	\$ 10,769,161

TRANSITION HABITAT CONSERVANCY
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2017

Note 7: Net Assets and Restrictions on Net Assets (continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for initial and continuing land management as follows:

Initial management of conservation land	\$	139,065
Perpetual management of conservation lands		<u>486,493</u>
	\$	<u><u>625,558</u></u>

Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment funds and conservation lands as follows:

Endowment funds	\$	4,059,592
Conservation lands		<u>13,353,344</u>
	\$	<u><u>17,412,936</u></u>

Note 8: Endowment Funds

The Organization’s permanently restricted endowments were established with contributions for the perpetual management of a conservation lands and easements. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization, in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making the determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization’s investment policies.

TRANSITION HABITAT CONSERVANCY
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2017

Note 8: Endowment Funds (continued)

The Organization has adopted investment and spending policies for endowment assets that attempt to subject the funds to low investment risk and provide the earnings needed for the established purposes. Endowment assets are invested in equities, exchange-traded and closed-end funds, mutual funds, and unit investment trusts.

The endowments for the perpetual management of conservation land and easements were established by contributions subject to restrictions, so they are classified as permanently restricted. A Property Analysis Record (PAR) was developed to establish the expected per-acre cost of providing perpetual management of the conservation easements and the present value of the original endowments based on an expected 3.50% return per annum. In keeping with donors' intents, earnings from endowments will accumulate in the permanent fund for three years. Subsequent earnings will be recorded as temporarily restricted net assets until they are appropriated for spending.

The composition of endowment net assets and the changes in endowment net assets are as follows:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Endowment net assets, January 1, 2017	\$ -	\$ 154,401	\$ 4,014,960	\$ 4,169,361
Contributions	-	-	44,632	44,632
Investment income, net of expenses	-	103,920	-	103,920
Net appreciation	-	228,172	-	228,172
Amounts appropriated for transfers	-	-	-	-
Endowment net assets, December 31, 2017	<u>\$ -</u>	<u>\$ 486,493</u>	<u>\$ 4,059,592</u>	<u>\$ 4,546,085</u>

Note 9: Commitments

One of the Organization's grants requires that the Organization provide a total of \$105,357 in matching funds during the grant period of September 15, 2014 through September 14, 2017. During the 2017 year, \$76,182 of the required matching funds were provided. There is a remaining balance of \$13,189 which is included in board designated net assets.