

THE MONO LAKE FOUNDATION

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED
DECEMBER 31, 2016 AND 2015**

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
The Mono Lake Foundation
Lee Vining, California**

Report on the Financial Statements

We have audited the accompanying financial statements of The Mono Lake Foundation (the Foundation), which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and of 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of The Mono Lake Foundation as of December 31, 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 of America.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

August 30, 2017

THE MONO LAKE FOUNDATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 348,123	\$ 129,410
Accounts receivable (net of allowance of \$29,281 for 2016 and 2015)	101,575	120,136
Inventories	92,549	110,685
Prepaid expenses and other assets	<u>475</u>	<u>4,674</u>
Total current assets	542,722	364,905
INVESTMENTS	4,273,362	3,943,606
PROPERTY AND EQUIPMENT - Net	<u>1,551,321</u>	<u>1,574,510</u>
TOTAL ASSETS	<u>\$ 6,367,405</u>	<u>\$ 5,883,021</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 165,476	\$ 50,083
Accrued expenses	33,123	30,613
Security deposits	<u>1,709</u>	<u></u>
Total liabilities	<u>200,308</u>	<u>80,696</u>
NET ASSETS:		
Unrestricted	3,754,804	3,637,282
Temporarily restricted	1,836,249	1,614,759
Permanently restricted	<u>576,044</u>	<u>550,284</u>
Total net assets	<u>6,167,097</u>	<u>5,802,325</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,367,405</u>	<u>\$ 5,883,021</u>

The accompanying notes are an integral part of these financial statements.

THE MONO LAKE FOUNDATION

STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS:		
REVENUES:		
Member contributions	\$ 1,439,059	\$ 1,239,993
Bequests	223,211	485,210
Donation of land		84,807
Sales revenue, net of cost of goods sold of \$172,309 for 2016 and \$152,276 for 2015	151,065	136,411
Program service revenue	96,643	90,448
Interest and investment income (loss)	80,229	(74,606)
Rental and other income	56,517	22,793
Other general contributions	15,546	37,859
Net assets released from restrictions	<u>100,318</u>	<u>93,559</u>
Total revenues	<u>2,162,588</u>	<u>2,116,474</u>
EXPENSES:		
Program services:		
Public education and outreach	1,088,610	915,576
Membership communications	463,551	406,996
Research and policy development	<u>219,998</u>	<u>191,512</u>
Total program services	1,772,159	1,514,084
Supporting services:		
Fundraising	211,696	181,383
Management, general and store operations	<u>61,211</u>	<u>61,847</u>
Total expenses	<u>2,045,066</u>	<u>1,757,314</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>117,522</u>	<u>359,160</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions and grants	199,746	87,638
Interest and investment income	122,062	23,838
Donation of buildings		280,193
Net assets released from restrictions	<u>(100,318)</u>	<u>(93,559)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>221,490</u>	<u>298,110</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Investment gain (loss)	<u>25,760</u>	<u>(10,863)</u>
INCREASE IN NET ASSETS	364,772	646,407
NET ASSETS, Beginning of Year	<u>5,802,325</u>	<u>5,155,918</u>
NET ASSETS, End of Year	<u>\$ 6,167,097</u>	<u>\$ 5,802,325</u>

The accompanying notes are an integral part of these financial statements.

THE MONO LAKE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2016

	Program Services			Supporting Services		Total
	Public Educ. & Outreach	Membership Comm.	Research & Policy Develop.	Fundraising	Management, General & Store Operations	
Personnel	\$ 741,158	\$ 91,984	\$ 117,876	\$ 45,796	\$ 15,420	\$ 1,012,234
Professional services	105,201	147,110	44,318	73,860	10,473	380,962
Cost of goods sold	64,646				107,663	172,309
Printing	43,459	49,729	289	25,518		118,995
Postage	26,399	56,989	2,432	24,587	326	110,733
Advertising	13,102	68,094	295	1,959	3,503	86,953
Depreciation	38,636	5,460	7,705	3,160	871	55,832
Supplies	17,324	14,851	4,561	8,035	3,142	47,913
Travel	21,451	1,176	5,824	1,123	579	30,153
Occupancy	8,542	868	18,137	1,794	139	29,480
Insurance	12,479	1,620	6,878	1,250	4,813	27,040
Grants	17,539					17,539
Equipment	4,588	214	6,343	1,234	1,200	13,579
Telecommunications	7,094	931	1,313	539	150	10,027
Other	31,638	24,525	4,027	22,841	20,595	103,626
Total expenses	1,153,256	463,551	219,998	211,696	168,874	2,217,375
Less cost of goods sold included with revenues on the statement of activities	<u>64,646</u>				<u>107,663</u>	<u>172,309</u>
Total expenses included in the expense section of the statement of activities	<u>\$ 1,088,610</u>	<u>\$ 463,551</u>	<u>\$ 219,998</u>	<u>\$ 211,696</u>	<u>\$ 61,211</u>	<u>\$ 2,045,066</u>

The accompanying notes are an integral part of these financial statements.

THE MONO LAKE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2015

	Program Services			Supporting Services		Total
	Public Educ. & Outreach	Membership Comm.	Research & Policy Develop.	Fundraising	Management, General & Store Operations	
Personnel	\$ 594,157	\$ 58,607	\$ 100,011	\$ 35,360	\$ 12,314	\$ 800,449
Professional services	108,361	107,131	44,659	80,787	9,621	350,559
Cost of goods sold	79,307				72,969	152,276
Printing	44,055	68,825	304	23,338	10	136,532
Postage	17,859	67,060		17,375	408	102,702
Advertising	9,883	62,483	175	2,149	4,875	79,565
Depreciation	36,693	4,495	7,890	2,795	694	52,567
Supplies	16,701	10,971	2,419	6,258	1,483	37,832
Travel	17,166	30	7,469	643	1,446	26,754
Occupancy	7,290	581	10,956	1,118	90	20,035
Insurance	17,293	1,331	2,337	4,279	4,803	30,043
Grants	15,100					15,100
Equipment	8,732	92	10,261	72	15	19,172
Telecommunications	5,521	624	1,095	389	96	7,725
Other	16,765	24,766	3,936	6,820	25,992	78,279
Total expenses	994,883	406,996	191,512	181,383	134,816	1,909,590
Less cost of goods sold included with revenues on the statement of activities	<u>79,307</u>				<u>72,969</u>	<u>152,276</u>
Total expenses included in the expense section of the statement of activities	<u>\$ 915,576</u>	<u>\$ 406,996</u>	<u>\$ 191,512</u>	<u>\$ 181,383</u>	<u>\$ 61,847</u>	<u>\$ 1,757,314</u>

The accompanying notes are an integral part of these financial statements.

THE MONO LAKE FOUNDATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 364,772	\$ 646,407
Reconciliation to net cash (used) provided by operating activities:		
Net unrealized (gain) loss on investments	(139,398)	120,571
Receipt of donated investments		(414,318)
Receipt of donated buildings and land		(365,000)
Depreciation	55,832	52,567
Changes in:		
Accounts receivable	18,561	35,769
Inventories	18,136	(10,778)
Prepaid expenses and other assets	4,199	2,343
Accounts payable	115,393	(19,673)
Accrued expenses	4,219	(2,650)
Net cash provided by operating activities	<u>441,714</u>	<u>45,238</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(535,746)	(1,732,312)
Proceeds from sale of investments	345,388	1,548,236
Purchases of property and equipment	(32,643)	(15,500)
Net cash used by investing activities	<u>(223,001)</u>	<u>(199,576)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	218,713	(154,338)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>129,410</u>	<u>283,748</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 348,123</u>	<u>\$ 129,410</u>

The accompanying notes are an integral part of these financial statements.

THE MONO LAKE FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Mono Lake Foundation (the Foundation) is a nonprofit corporation whose mission consists of supporting the restoration and preservation of the Mono Lake ecosystem, educating the public about Mono Lake and the impacts on the environment of excessive water usage, and promoting cooperative solutions that protect Mono Lake and meet real water needs without transferring environmental problems to other areas.

Basis of presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Revenue recognition – Contributions, grants, and bequests are recognized as revenues when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as an increase in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted and are reported in the statement of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose. Permanently restricted net assets are those net assets whose use by the Foundation is restricted by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by the actions of the Foundation and consist of contributions to the Foundation's endowment fund.

Contributed property and equipment is recorded at fair value at the date of donation. In the absence of donor stipulations regarding how long the contributed assets must be used, the Foundation has adopted a policy of implying a time restriction on contributions of such assets that expires over the assets' useful lives. As a result, all contributions of property and equipment and of assets contributed to acquire property and equipment, are recorded as restricted support, except land which does not have a determinable useful life.

Professional services are recorded as in-kind donations and recognized at their estimated fair value as of the date of service. During 2016 and 2015, the Foundation received donated professional services valued at \$3,400 and \$2,800, respectively. The services primarily benefited Foundation programs. Contributed services that do not meet the criteria for recognition are not reflected in the financial statements.

Cash and cash equivalents – For financial statement purposes, the Foundation considers all investments with a maturity at purchase of three months or less to be cash equivalents, unless held for long-term purposes.

The Foundation minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and management believes The Foundation is not exposed to any significant credit risk related to cash.

Investments are stated at fair value.

THE MONO LAKE FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Inventories consist primarily of educational and artistic materials sold by the Foundation through its retail store or distributed as membership benefits. Inventories are recorded at the lower of average cost or market. Materials that have become obsolete are not included in the inventory balance.

Property and equipment is stated at cost or, if donated, at the estimated fair market value as of the date of donation. The Foundation capitalizes all expenditures for property and equipment in excess of \$2,500. Assets are depreciated using the straight-line method over estimated useful lives of 5 to 39 years.

Functional allocation of expenses – The costs of providing the program services have been summarized on a functional basis in the statements of activities and of functional expenses. Accordingly, certain costs have been allocated among the program services based on employees' time incurred and management's estimate of the usage of resources.

Joint fundraising and membership communication – The Foundation allocates costs of certain direct mail campaigns between fundraising and membership communication activities. See Note 7.

Income taxes – The Foundation is publicly supported and exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, except for immaterial amounts of tax on sales of certain merchandise and rental of mailing lists. The Foundation has applied the accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements. With some exceptions, the Foundation is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior 2012.

Fair value measurements – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2 Inputs	Inputs other than quoted prices in active markets that are observable either directly or indirectly.
Level 3 Inputs	Unobservable inputs for the asset or liability.

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

THE MONO LAKE FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Subsequent events have been reviewed through August 30, 2017, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2016 that require recognition or disclosure in such financial statements.

2. INVESTMENTS

Money market, mutual funds and equities are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices with reasonable levels of price transparency. Bonds are classified within Level 2 of the fair value hierarchy because they are measured by inputs other than quoted prices in active markets. Investments consist of the following:

	<u>2016</u>	<u>2015</u>
Money market funds	\$ 1,153,502	\$ 1,304,678
Mutual funds:		
Fixed income	694,836	536,724
Equities:		
Stock – Value	733,967	643,542
Stock – Growth	423,285	388,416
Stock – Core	427,946	339,897
Stock – Blend	338,774	260,659
World bond		
Bonds:		
Government	277,217	264,103
Corporate	<u>223,835</u>	<u>205,587</u>
Total	<u>\$ 4,273,362</u>	<u>\$ 3,943,606</u>

Interest and investment income consists of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 88,653	\$ 58,940
Net unrealized gain (loss)	<u>139,398</u>	<u>(120,571)</u>
Total	<u>\$ 228,051</u>	<u>\$ (61,631)</u>

THE MONO LAKE FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 545,177	\$ 545,177
Buildings and improvements	1,476,480	1,449,732
Furniture and office equipment	56,057	57,342
Automobiles	<u>43,089</u>	<u>43,089</u>
Total	2,120,803	2,095,340
Less accumulated depreciation and amortization	<u>(569,482)</u>	<u>(520,830)</u>
Property and equipment, net	<u>\$ 1,551,321</u>	<u>\$ 1,574,510</u>

4. DONATED PROPERTY

In 2015, the Foundation received a gift of real property comprised of a single family house and a duplex. The property was donated without restriction as to future use or sale of the property, allowing the discretion of the Board of Directors of the Foundation. However, in accordance with the Foundation's policy regarding donated property, a time restriction has been placed on the contribution which expires over the asset's useful life. Accordingly, the property (excluding land) has been classified as a temporarily restricted net asset and will be released from restriction over the property's estimated useful life.

5. NET ASSETS

Temporarily restricted net assets consist of amounts restricted by grantors and donors for the following purposes:

	<u>2016</u>	<u>2015</u>
Research and policy development	\$ 1,203,863	\$ 1,120,323
Donated Building	265,008	273,009
Public education	357,378	211,427
Store	<u>10,000</u>	<u>10,000</u>
Total	<u>\$ 1,836,249</u>	<u>\$ 1,614,759</u>

Permanently restricted net assets represent an endowment restricted in perpetuity. The endowment principal on the related investment is restricted from withdrawal. Interest and dividend earnings from this balance are restricted by the donor for use in research and policy development. The donor allows endowment principal to be reduced by unrealized investment losses.

The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) accumulated unrealized appreciation and depreciation of endowment investments if directed by the donor gift instrument, (c) the original value of subsequent gifts to the permanent endowments, and (d) 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 MONO LAKE FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Under the endowment investment policy as established by the Board of Directors, the primary investment objectives are to achieve a balanced return of investment income and growth, which will preserve the purchasing power of the endowment.

Changes in endowment net assets are as follows:

	<u>2016</u>	<u>2015</u>
Endowment net assets, beginning of year	\$ 550,284	\$ 561,147
Unrealized investment gain (loss)	<u>25,760</u>	<u>(10,863)</u>
Endowment net assets, end of year	<u>\$ 576,044</u>	<u>\$ 550,284</u>

6. PENSION PLAN

The Foundation maintains a “SIMPLE” IRA plan (Plan), under Internal Revenue Code Section 408(p), which includes all employees. Employees may contribute a portion of their gross compensation to the Plan. The Foundation makes matching contributions up to 3% of each employee’s gross compensation. Matching contributions totaled \$11,158 for 2016 and \$10,898 for 2015. All contributions are fully vested and non-forfeitable.

7. ALLOCATION OF EXPENSES

The Foundation achieves certain programmatic goals by conducting direct mail campaigns that include appeals for actions to support Mono Lake as well as for contributions. The costs of conducting these joint activities totaled \$314,271 for 2016 and \$267,879 for 2015. These joint costs were allocated as follows:

	<u>2016</u>	<u>2015</u>
Membership communications	\$ 216,768	\$ 205,786
Fundraising	<u>97,503</u>	<u>62,093</u>
Total	<u>\$ 314,271</u>	<u>\$ 267,879</u>