

THE MONO LAKE FOUNDATION

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

**YEARS ENDED
DECEMBER 31, 2017 AND 2016**

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, which comprise the statements of financial position as of December 31, 2017 and 2016, 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, 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 of America.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

August 24, 2018

THE MONO LAKE FOUNDATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 236,667 | \$ 348,123 |
| Accounts receivable (net of allowance of \$0 for 2017 and \$29,281 for 2016) | 183,525 | 101,575 |
| Inventories | 87,482 | 92,549 |
| Prepaid expenses and other assets | <u>8,105</u> | <u>475</u> |
| Total current assets | 515,779 | 542,722 |
| INVESTMENTS | 4,738,495 | 4,273,362 |
| PROPERTY AND EQUIPMENT - Net | <u>1,515,801</u> | <u>1,551,321</u> |
| TOTAL ASSETS | <u>\$ 6,770,075</u> | <u>\$ 6,367,405</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 181,357 | \$ 165,476 |
| Accrued expenses | 53,748 | 33,123 |
| Security deposits | <u>2,159</u> | <u>1,709</u> |
| Total liabilities | <u>237,264</u> | <u>200,308</u> |
| NET ASSETS: | | |
| Unrestricted | 4,176,516 | 3,901,515 |
| Temporarily restricted | 1,723,001 | 1,689,538 |
| Permanently restricted | <u>633,294</u> | <u>576,044</u> |
| Total net assets | <u>6,532,811</u> | <u>6,167,097</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 6,770,075</u> | <u>\$ 6,367,405</u> |

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

THE MONO LAKE FOUNDATION

STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| UNRESTRICTED NET ASSETS: | | |
| REVENUES: | | |
| Member contributions | \$ 1,522,671 | \$ 1,439,059 |
| Interest and investment income | 306,464 | 169,455 |
| Sales revenue, net of cost of goods sold of \$182,222 for 2017 and \$172,309 for 2016 | 154,392 | 151,065 |
| Program service revenue | 103,872 | 96,643 |
| Bequests | 73,884 | 223,211 |
| Rental and other income | 59,629 | 56,517 |
| Other general contributions | 30,842 | 15,546 |
| Net assets released from restrictions | <u>177,108</u> | <u>100,318</u> |
| Total revenues | <u>2,428,862</u> | <u>2,251,814</u> |
| EXPENSES: | | |
| Program services: | | |
| Public education and outreach | 1,116,053 | 1,088,610 |
| Membership communications | 389,037 | 463,551 |
| Research and policy development | <u>301,163</u> | <u>219,998</u> |
| Total program services | 1,806,253 | 1,772,159 |
| Supporting services: | | |
| Fundraising | 266,475 | 211,696 |
| Management, general and store operations | <u>81,133</u> | <u>61,211</u> |
| Total expenses | <u>2,153,861</u> | <u>2,045,066</u> |
| INCREASE IN UNRESTRICTED NET ASSETS | <u>275,001</u> | <u>206,748</u> |
| TEMPORARILY RESTRICTED NET ASSETS: | | |
| Contributions and grants | 150,961 | 199,746 |
| Interest and investment income | 59,610 | 32,836 |
| Net assets released from restrictions | <u>(177,108)</u> | <u>(100,318)</u> |
| INCREASE IN TEMPORARILY RESTRICTED NET ASSETS | <u>33,463</u> | <u>132,264</u> |
| PERMANENTLY RESTRICTED NET ASSETS: | | |
| Investment gain | <u>57,250</u> | <u>25,760</u> |
| INCREASE IN NET ASSETS | 365,714 | 364,772 |
| NET ASSETS, Beginning of Year | <u>6,167,097</u> | <u>5,802,325</u> |
| NET ASSETS, End of Year | <u>\$ 6,532,811</u> | <u>\$ 6,167,097</u> |

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

THE MONO LAKE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2017

| | Program Services | | | Supporting Services | | Total |
|--|----------------------------|---------------------|----------------------------------|---------------------|---|---------------------|
| | Public Educ. & Outreach | Membership Comm. | Research & Policy Develop. | Fundraising | Management, General & Store Operations | |
| Personnel | \$ 719,364 | \$ 70,215 | \$ 126,963 | \$ 46,173 | \$ 11,268 | \$ 973,983 |
| Professional services | 124,042 | 109,409 | 119,130 | 101,803 | 14,840 | 469,224 |
| Cost of goods sold | 92,631 | | | | 89,591 | 182,222 |
| Printing | 55,049 | 47,545 | | 46,238 | | 148,832 |
| Postage | 19,521 | 48,300 | 455 | 34,386 | 491 | 103,153 |
| Advertising | 12,652 | 58,518 | 892 | 13,639 | 4,041 | 89,742 |
| Depreciation | 47,345 | 5,280 | 10,384 | 3,575 | 673 | 67,257 |
| Supplies | 21,020 | 16,587 | 8,607 | 6,368 | 1,555 | 54,137 |
| Travel | 30,876 | 567 | 5,149 | 716 | 521 | 37,829 |
| Occupancy | 9,262 | 650 | 19,584 | 1,409 | 82 | 30,987 |
| Insurance | 17,153 | 1,350 | 3,145 | 3,284 | 4,527 | 29,459 |
| Grants | 16,000 | | | | | 16,000 |
| Equipment | 11,711 | 711 | 4,594 | 266 | 618 | 17,900 |
| Telecommunications | 6,093 | 647 | 1,465 | 420 | 79 | 8,704 |
| Other | 25,965 | 29,258 | 795 | 8,198 | 42,438 | 106,654 |
| Total expenses | 1,208,684 | 389,037 | 301,163 | 266,475 | 170,724 | 2,336,083 |
| Less cost of goods sold included with revenues on the statement of activities | 92,631 | | | | 89,591 | 182,222 |
| Total expenses included in the expense section of the statement of activities | <u>\$ 1,116,053</u> | <u>\$ 389,037</u> | <u>\$ 301,163</u> | <u>\$ 266,475</u> | <u>\$ 81,133</u> | <u>\$ 2,153,861</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

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase in net assets | \$ 365,714 | \$ 364,772 |
| Reconciliation to net cash provided by operating activities: | | |
| Net unrealized gain on investments | (335,310) | (139,398) |
| Receipt of donated investments | (8,627) | |
| Depreciation | 67,257 | 55,832 |
| Changes in: | | |
| Accounts receivable | (81,950) | 18,561 |
| Inventories | 5,067 | 18,136 |
| Prepaid expenses and other assets | (7,630) | 4,199 |
| Accounts payable | 15,881 | 115,393 |
| Accrued expenses | 21,075 | 4,219 |
| Net cash provided by operating activities | <u>41,477</u> | <u>441,714</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments | (1,035,371) | (535,746) |
| Proceeds from sale of investments | 914,175 | 345,388 |
| Purchases of property and equipment | <u>(31,737)</u> | <u>(32,643)</u> |
| Net cash used by investing activities | <u>(152,933)</u> | <u>(223,001)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (111,456) | 218,713 |
| CASH AND CASH EQUIVALENTS, Beginning of Year | <u>348,123</u> | <u>129,410</u> |
| CASH AND CASH EQUIVALENTS, End of Year | <u>\$ 236,667</u> | <u>\$ 348,123</u> |

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

THE MONO LAKE FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, foundation 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 2017 and 2016, the Foundation received donated professional services valued at \$4,500 and \$3,400, 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, 2017 AND 2016

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 2013.

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, 2017 AND 2016

Subsequent events have been reviewed through August 24, 2018, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2017 that require recognition or disclosure in such financial statements.

2. INVESTMENTS

Money market funds, mutual funds and equities are classified within Level 1 of the fair value hierarchy because they 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>2017</u> | <u>2016</u> |
|--------------------|---------------------|---------------------|
| Money market funds | \$ 1,161,316 | \$ 1,153,502 |
| Mutual funds: | | |
| Fixed income | 821,916 | 694,836 |
| Equities: | | |
| Stock – Value | 840,705 | 733,967 |
| Stock – Growth | 497,180 | 423,285 |
| Stock – Blend | 433,072 | 338,774 |
| Stock – Core | 404,420 | 427,946 |
| Bonds: | | |
| Government | 364,653 | 277,217 |
| Corporate | <u>215,233</u> | <u>223,835</u> |
| Total | <u>\$ 4,738,495</u> | <u>\$ 4,273,362</u> |

Interest and investment income consists of the following:

| | <u>2017</u> | <u>2016</u> |
|------------------------|-------------------|-------------------|
| Interest and dividends | \$ 88,014 | \$ 88,653 |
| Net unrealized gain | <u>335,310</u> | <u>139,398</u> |
| Total | <u>\$ 423,324</u> | <u>\$ 228,051</u> |

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Land | \$ 545,177 | \$ 545,177 |
| Buildings and improvements | 1,497,036 | 1,476,480 |
| Furniture and office equipment | 67,238 | 56,057 |
| Automobiles | <u>43,089</u> | <u>43,089</u> |
| Total | 2,152,540 | 2,120,803 |
| Less accumulated depreciation and amortization | <u>(636,739)</u> | <u>(569,482)</u> |
| Property and equipment, net | <u>\$ 1,515,801</u> | <u>\$ 1,551,321</u> |

THE MONO LAKE FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

4. NET ASSETS

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

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|---------------------|---------------------|
| Research and policy development | \$ 1,125,990 | \$ 1,057,152 |
| Donated building | 257,007 | 265,008 |
| Public education | 330,004 | 357,378 |
| Store | <u>10,000</u> | <u>10,000</u> |
| Total | <u>\$ 1,723,001</u> | <u>\$ 1,689,538</u> |

Investment income previously recorded to research and policy development was determined to lack donor restriction. As a result, investment income earned in 2015 of \$57,485 was reclassified to unrestricted net assets as of January 1, 2016, and 2016 investment income of \$89,226 was reclassified to unrestricted revenue.

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.

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>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Endowment net assets, beginning of year | \$ 576,044 | \$ 550,284 |
| Unrealized investment gain | <u>57,250</u> | <u>25,760</u> |
| Endowment net assets, end of year | <u>\$ 633,294</u> | <u>\$ 576,044</u> |

THE MONO LAKE FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

5. 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 \$12,621 for 2017 and \$11,158 for 2016. All contributions are fully vested and non-forfeitable.

6. 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 \$312,256 for 2017 and \$314,271 for 2016. These joint costs were allocated as follows:

| | <u>2017</u> | <u>2016</u> |
|---------------------------|-------------------|-------------------|
| Membership communications | \$ 219,726 | \$ 216,768 |
| Fundraising | <u>92,530</u> | <u>97,503</u> |
| Total | <u>\$ 312,256</u> | <u>\$ 314,271</u> |