RIVERS & LANDS CONSERVANCY AND SUBSIDIARY

Consolidated Financial Statements
With
Independent Auditor's Report

For the Year Ended March 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rivers & Lands Conservancy and Subsidiary
Riverside, California

We have audited the accompanying consolidated financial statements of Rivers & Lands Conservancy and Subsidiary (the Conservancy) (a California nonprofit corporation) which comprise the consolidated statement of financial position as of March 31, 2018, and the related consolidated statement of activities, consolidated statement of cash flows and consolidated statement of functional expenses for the year then ended, and the related notes to the consolidated 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Conservancy'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 Conservancy'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 Rivers & Lands Conservancy and Subsidiary as of March 31, 2018, and the changes in its net assets and its cash flows for the year ended, in accordance with accounting principles generally accepted in the United States of America.

Prior Period Adjustments

As discussed in Note 13 to the consolidated financial statements, the net assets – beginning of the year is being restated for several errors noted in the prior year financial statements. Our opinion is not modified with respect to this matter.

Christenson Orejel Associates, LLP

Riverside, California
February 14, 2019

Christenson Orejel Associates, LLP
Certified Public Accountants

RIVERS & LANDS CONSERVANCY AND SUBSIDIARY

Consolidated Statement of Financial Position

March 31, 2018

ASSETS	
Cash and cash equivalents	$ 252,738
Other current assets	13,539
Property and equipment, net	63,998
Investments	9,902,322
Lands restricted for conservation	10,455,990
Beneficial interest in assets held by others	22,620
Total assets	$20,711,207
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable	$ 33,398
Accrued expenses	10,133
Total liabilities	43,531
Net assets	
Unrestricted	566,599
Temporarily restricted	5,618,033
Permanently restricted	14,483,044
Total net assets	20,667,676
Total liabilities and net assets	$20,711,207

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

RIVERS & LANDS CONSERVANCY AND SUBSIDIARY

Consolidated Statement of Activities

For the Year Ended March 31, 2018

UNRESTRICTED NET ASSETS	
Revenue and Support	
Contributions and grants	$ 298,821
Investment income, net of fees	182,272
Other income	15,911
Total revenue and support	497,004
Net assets released from restrictions	652,459
Total revenue, support and reclassifications	1,149,463
Expenses	
Program	833,882
General administration	235,499
Development	77,911
Total expenses	1,147,292
Increase in unrestricted net assets	2,171
TEMPORARILY RESTRICTED NET ASSETS	
Contributions	240,785
Investment income, net of fees	432,302
Other income	461
Change in value of beneficial interest in assets held by others	1,647
Net assets released from restrictions	(652,459)
Increase in temporarily restricted net assets	22,736
PERMANENTLY RESTRICTED NET ASSETS	
Contributions	910,364
Investment income, net of fees	68,267
Increase in permanently restricted net assets	978,631
Increase in net assets	1,003,538
Net assets – beginning of year, as previously reported	19,077,389
Prior period adjustments	586,749
Net assets – beginning of year, as restated	19,664,138
Net assets – end of year	$20,667,676

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

RIVERS & LANDS CONSERVANCY AND SUBSIDIARY

Consolidated Statement of Cash Flows

For the Year Ended March 31, 2018

Cash flows from operating activities	
Increase in net assets	$1,003,538
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	2,989
Realized and unrealized (gain) loss on investments	(353,323)
Change in value of beneficial interest held by others	(1,647)
Contributions restricted for investment in endowment	(910,364)
Interest and dividends restricted for investment in endowment	(68,267)
Decrease in prepaid expenses	220
Increase in accounts payable	14,938
Increase in accrued expenses	7,807
Net cash used in operating activities	(304,109)
Cash flows from investing activities	
Investment activities, net	(891,960)
Land purchased	(607,421)
Net cash used in investing activities	(1,499,381)
Cash flows from financing activities	
Contributions restricted for investment in endowment	910,364
Interest and dividends restricted for investment in endowment	68,267
Net cash provided by financing activities	978,631
Net decrease in cash and cash equivalents	(824,859)
Cash and cash equivalents, beginning of year	1,077,597
Cash and cash equivalents, end of year	$ 252,738
Supplemental Disclosure	
Taxes paid	$800

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

RIVERS & LANDS CONSERVANCY AND SUBSIDIARY

Consolidated Statement of Functional Expenses

For the Year Ended March 31, 2018

	Program			
	Land Acquisition	Outreach Education	Land Stewardship	Total Program Services
Appraisal fees	$ 8,500			$ 8,500
Bank service fees			$ 150	150
Land acquisition expense	3,250			3,250
El Casco LLC management expense			3,291	3,291
Stewardship field expense	3		9,812	9,815
Stewardship contractor			26,529	26,529
Property tax	77		2,631	2,708
Legal fees	103,378		21,163	124,541
Consulting fees	118,046			118,046
Contributions	301,333			301,333
Education/conference		$ 827	65	892
Travel	1,156	757	3,345	5,258
Rent	2,153	1,378	4,552	8,083
Office overhead		10	60	70
State filing fees			800	800
Accounting			500	500
Computer and office equipment				
Insurance	416		3,278	3,694
Employment expenses	54,162	34,673	114,505	203,340
Depreciation			2,989	2,989
Event expense and supplies		4,286	4,982	9,268
Professional memberships and sponsorships		825		825
Total expenses	$592,474	$42,756	$198,652	$833,882

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

General Administration	Development	Total
		$ 8,500
$ 641		791
182		3,432
		3,291
25		9,840
		26,529
		2,708
5,971		130,512
12,080		130,126
		301,333
570	$ 22	1,484
1,542	345	7,145
6,053	2,063	16,199
20,971	1,268	22,309
184		984
13,256		13,756
364		364
15,489		19,183
152,248	51,889	407,477
		2,989
361	22,324	31,953
5,562		6,387
$235,499	$77,911	$1,147,292

1. Organization and Significant Accounting Policies

Rivers & Lands Conservancy (formerly known as Riverside Land Conservancy) is dedicated to the preservation of open space by seeking to identify, protect, and manage habitats of rare and endangered species, natural land, and other sensitive sites throughout the Southern California Region. The conservancy receives support from contributions from individuals, businesses, and government grants. Service fees are received to facilitate the protection and stewardship of lands set aside as mitigation for developments.

Consolidation

The consolidated financial statements include the accounts of Rivers & Lands Conservancy and its wholly-owned subsidiary, El Casco LLC. All material intercompany balances and transactions have been eliminated in consolidation.

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 amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. While management believes these estimates are adequate, actual results could differ from those estimates.

Financial Statement Presentation

The assets, liabilities and net assets of the Conservancy are reported in the following net asset groups:

Unrestricted net assets include resources that are not temporarily or permanently restricted by the donor and are available for operations of the Conservancy without limitations.

Temporarily restricted net assets include those resources whose use is restricted by donor-imposed criteria that either expire with the passage of time or by actions of the Conservancy.

Permanently restricted net assets result from donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by the Conservancy's actions.

Contributions and investment income that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires or is met in the reporting period in which the contribution and investment income are recognized.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Conservancy considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Conservancy has cash in one financial institution that is insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The Conservancy also maintains money market type funds that are SIPC insured up to $250,000. At various times throughout the year, the Conservancy may have cash balances at these financial institutions which exceed the FDIC or SIPC insurance limits. Management reviews the financial condition of these financial institutions on a periodic basis and does not believe this concentration of cash results in a high level of risk for the Conservancy.

1. Organization and Significant Accounting Policies (continued)

Lands and Conservation Easements Held for Conservation

Lands held for conservation consists of land acquired by the Conservancy through purchase or donation and is stated at cost or the estimated fair market value of the land on the date of receipt. Easements acquired as mitigation are valued at zero due to the liability of associated stewardship requirements.

Property and Equipment

The Conservancy capitalizes all significant expenditures for land, buildings, leasehold improvements and equipment. The fair market value of donated assets is similarly capitalized. Expenditures for maintenance and repairs are expensed when incurred. Depreciation is provided on the straight-line method over the assets' estimated useful lives.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are recorded at their fair values in the statement of financial position.

Agency Transactions

All assets received with donor restrictions to transfer said assets to another organization are recorded at fair value on date of receipt as both an asset and a restricted fund.

Income Taxes

The Conservancy qualifies as a not-for-profit tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code and applicable provisions of the California Revenue and Taxation Code, Section 23701(d). The Conservancy is classified as other than a private foundation within the meaning of Section 509(a)(2) of the Internal Revenue Code. As a not-for-profit organization, the Conservancy is subject to federal and state taxes on any unrelated business taxable income. However, the Conservancy has not conducted any activities in the current year which would be classified as unrelated business activity.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the Conservancy's program and administrative expenses based on management estimates.

Net Assets

In August 2008, The Financial Accounting Standards Board issued Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FAS 117-1). FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006. (UPMIFA). FAS 117-1 also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The Conservancy has adopted FAS 117-1. The Board of Directors and Management have determined that the majority of the Conservancy's net assets meet the definition of endowment funds under UPMIFA.

1. Organization and Significant Accounting Policies (continued)

Net Assets (continued)

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purpose of the organization and the donor-restricted endowment fund
(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
(7) The investment policies of the organization

Because of the donors' intentions when establishing endowment funds, and the Conservancy's intentions to maintain the balances in these endowments, the Board of Directors has determined that all endowments, both easement and otherwise, are classified as permanently restricted until an appropriate future event.

Generally, if the corpus of a contribution will at some future time become available for spending it is recorded as temporarily restricted. If the corpus never becomes available for spending it will be reported as permanently restricted.

The Conservancy has adopted investment and spending policies for endowment assets that attempt to provide a forecasted stream of funding to programs supported by its endowment while seeking to maintain the corpus of the endowment funds. The Conservancy's spending and investment policies work together to achieve this objective. The current long-term return objective is to return 5% net of investment fees. Actual returns in any given year may vary from this amount. The expected return utilizes reasonable investment assumptions; however, a different set of assumptions could also be considered reasonable and result in varying expectations.

To satisfy its long-term rate-of-return objectives, the Conservancy relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Conservancy targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The spending policy on the endowments is to spend money as needed for stewardship and property management, without invading the corpus of the endowment. The amount of expenses can vary from year to year, depending on the requirements of the property and/or easement. During some years there will be no expenses paid out of the endowment funds. In cases of market decline of investment values, the Conservancy will allocate such losses to the endowments, possibly causing the value of the endowment to be less than the original corpus. In such instances, the Conservancy will make every effort to ensure that future market increases are allocated to the endowments to restore their original amounts.

Earnings on permanently restricted corpus are maintained in the same investment account as the restricted corpus. As expenses are incurred, funds are transferred from the endowment investment account to cash to pay expenses.

Future Accounting Pronouncements

In August 2017, the FASB issued ASU No. 2017-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities.* ASU 2017-14 guidance simplifies the current net asset classification requirements from three net asset classifications to two. The amendment also improves the information presented in the financial statements and notes regarding liquidity, financial performance, and cash flows. The standard is effective for annual reporting periods in fiscal years that begin after December 15, 2017. The Conservancy is currently evaluating the magnitude and other potential impacts on the financial statements.

In February 2017, the FASB issued ASU No. 2017-02, *Leases (Topic 842).* ASU 2017-02 replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements. ASU 2017-02 will require lessees to recognize most leases on their statement of financial position as liabilities, with corresponding "right-of-use" assets. The standard is effective for annual reporting periods in fiscal years that begin after December 15, 2018. The Conservancy is currently evaluating the magnitude and other potential impacts on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* This standard requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. The FASB has also issued several updates to ASU 2014-09. The new standard supersedes U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the present standards. It also requires additional disclosures. If applicable, ASU 2014-09 will be effective for the Conservancy for fiscal years beginning after December 15, 2018. The Conservancy is currently evaluating the magnitude and other potential impacts on the financial statements.

Recently Adopted Accounting Standards

In January 2017, the FASB issued ASU 2017-02, *Not-for-Profit Entities – Consolidation (Subtopic 958-810).* This standard clarifies when a not-for-profit entity that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar entity. The standard was effective for fiscal years beginning after December 15, 2016. The Conservancy implemented ASU 2017-02 during the year ended March 31, 2018. The implementation had no effect on the financial statements or the disclosures.

2. Property and Equipment

The following is a summary of property and equipment at March 31, 2018:

Computer hardware	$ 5,639
Mobile home	54,550
El Casco well	27,631
	87,820
Less accumulated depreciation	23,822
Property and equipment, net	$63,998

3. Investments

Investments consisted of the following at March 31, 2018:

	Fair Value	Cost
Cash and cash equivalents	$ 241,935	$ 241,935
Fixed Income	2,314,412	2,345,174
Equities	3,866,410	3,355,781
Mutual funds	3,479,565	3,414,882
	$9,902,322	$9,357,772

The Conservancy's investments included funds held for endowments totaling $7,939,527 at March 31, 2018.

Return on investments consisted of the following for the year ended March 31, 2018:

Dividends and interest	$416,273
Net realized and unrealized gains	353,323
Investment fees	(86,755)
	$682,841

4. Summary of Endowment Activity

	Unrestricted Board Designated	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Net assets, beginning of year	$270,100	$ 888,572	$5,375,763	$6,534,435
Investment income	14,250	266,286	68,267	348,803
Net realized and unrealized investment gain	12,600	288,987		301,587
Contributions			910,364	910,364
Transfers	82,796			82,796
Investment fees	(2,613)	(61,827)		(64,441)
Appropriation of endowment assets for expenditure	(50,113)	(123,905)		(174,017)
Net assets, end of year	$327,020	$1,258,113	$6,354,394	$7,939,527

5. Assets Transferred to a Recipient Organization

The Conservancy transferred cash held for endowment to a fund held by The Community Foundation (Foundation). The Conservancy specified that the Foundation is to distribute the income and principal (as long as principal exceeds $10,000) to the Conservancy upon written request in March or September annually. The Foundation has authority to modify restrictions on distributions if such restrictions are not consistent with the needs of the original criteria. The Conservancy reported $22,620 as a beneficial interest in assets held by others in the statement of financial position at March 31, 2018.

6. Fair Value Measurements

Fair values of assets measured on a recurring basis are as follows at March 31, 2018:

	Fair Value	Level 1	Level 2
Beneficial interest in assets held by others	$ 22,620		$22,620
Investments	9,902,322	$9,902,322	
Total	$9,924,942	$9,902,322	$22,620

Level 1
Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2
Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

1. Quoted prices for similar assets or liabilities in active markets;
2. Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal to principal market);
3. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates);
4. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

7. Fund Raising Events

During the fiscal year, the Conservancy held one fund raising event which raised $56,549 and incurred direct expenses of $22,114. Net revenue is reported in unrestricted contributions and grants.

8. Designated Net Assets

Included in unrestricted net assets are board-designated net assets available at March 31, 2018 for the following purposes:

Land revolving fund	$ 94,941
Reserve account	60,000
General stewardship	204,385
Legal defense fund	116,087
	$475,413

9. Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes at March 31, 2018:

El Casco LLC	$ 16,438
Adopt-a-Trail	4,433
Perris Valley Line	682,218
Santa Ana River Trail	30,205
Restricted Fund Holding Account	95,157
Evaluation Mitigation	209,330
Land and Easement Management	312,372
Fish & Wildlife Service DSF	556,960
Agricultural	84,778
Mt. Rubidoux Stewardship, Education & Outreach	17,887
The Community Foundation	12,620
Temporarily restricted endowment earnings – land management	1,258,113
Land held for conservation	2,337,522
	$5,618,033

Net assets released from donor restrictions by incurring expenses satisfying the purpose specified by donors are as follows for the year ended March 31, 2018:

Adopt-a-Trail	$ 9,705
Perris Valley Line – net, land purchase and transfer	490,178
Santa Ana River Trail	16,984
Restricted Fund Holding Account	19,415
Evaluation Mitigation	42,575
Land and Easement Management	64,607
Indian Hill Wildlands Grant Acquisition Services	5,340
Agricultural	3,655
	$652,459

Permanently restricted net assets consist of the following at March 31, 2018:

Land held for conservation in perpetuity	$ 8,118,650
Agency endowment	10,000
Land management	6,344,394
The Community Foundation	10,000
	$14,483,044

10. Related Party Transactions

Office space was provided to the Conservancy by a board member. During the year ended March 31, 2018, the estimated fair market value of the donated rent included in grants and contributions was $12,000. The Conservancy also paid rent to the board member totaling $4,200 during the year ended March 31, 2018.

11. Operating Leases

In February 2017 the Conservancy entered into a copier lease for 60 months. Operating lease rent expense for this lease for the year ended March 31, 2018 was $1,970.

Future minimum lease payments under the long-term operating lease follows:

Year ended March 31,	
2019	$1,970
2020	1,970
2021	1,970
2022	1,800
	$7,710

12. Retirement Plan

The Conservancy established a SIMPLE IRA plan effective October 1, 2008 for all employees who work at least 30 hours a week. The Conservancy agrees to match employees' contributions up to a limit of 3% of compensation for the year. For the year ended March 31, 2018, the Conservancy's expense for matching contributions to the plan totaled $7,751.

13. Prior Period Adjustments

Net assets at the beginning of the year was increased by $586,749 to correct errors in the prior year financial statements. The primary adjustment was made to increase the beginning investment balance for the change in fair market value for the year ended March 31, 2017 which caused the prior year net assets and change in net assets to be understated by $562,668. The remaining adjustments were made to correctly report accrued vacation, prepaid expenses, and the El Casco LLC assets at March 31, 2017 which caused the prior year net assets and change in net assets to be understated by $24,081.

Each class of net assets was affected by the adjustment of investments to fair market value and for errors in the net asset classifications reported in the prior year as follows:

Unrestricted Net Assets

The beginning balance for unrestricted net assets increased by $196,526. $43,495 of the increase relates to the increase in investments to fair market value, $24,079 of the increase relates to adjustments to report El Casco LLC properly and to report accrued vacation and prepaid expenses at March 31, 2017, and the remaining $128,952 of the increase is due to improper classification between net asset accounts at the beginning of the year.

13. Prior Period Adjustments (continued)

Temporarily Restricted Net Assets

The beginning balance for temporarily unrestricted net assets increased by $2,516,454. $519,193 of the increase relates to the increase in investments to fair market value. The remaining net increase is due to improper classification between net asset accounts at the beginning of the year as follows: $1,729,919 increase due to improper classification of land held for conservation, $416,293 increase due to improper classification of endowment earnings net of the fair market value adjustment, and $148,951 decrease due to general improper classification.

Permanently Restricted Net Assets

The beginning balance for permanently restricted net assets decreased by $2,126,212. $1,729,919 of the decrease relates to improper classification of land held for conservation. The remaining net decrease is due to improper classification between net asset accounts at the beginning of the year as follows: $416,293 decrease due to improper classification of endowment earnings net of the fair market value adjustment, and $20,000 increase due to general improper classification.

14. Subsequent Events

Management has evaluated events occurring between March 31, 2018 and February 14, 2019, the date the financial statements were available to be issued for the possible effects on these financial statements.