

**THE LAND TRUST
OF NORTH ALABAMA
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Land Trust of North Alabama
Huntsville, Alabama

We have audited the accompanying financial statements of The Land Trust of North Alabama (a non-profit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 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 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 Land Trust of North Alabama as of December 31, 2018, and the changes in net assets and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Mercer & Associates, PC

Huntsville, Alabama
August 12, 2019

**THE LAND TRUST OF NORTH ALABAMA
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018**

ASSETS

Current Assets

Cash and cash equivalents		
Without Donor Restrictions	\$	413,218
With Donor Restrictions		<u>390,470</u>
		803,688
Investment account		139,715
Accounts Receivable		7,500
Prepaid expenses		<u>10,072</u>
Total Current Assets		<u><u>960,975</u></u>

Land, Buildings, Land Improvements and Equipment

Land		24,261,096
Land improvements		458,835
Furniture and equipment		58,746
Vehicles		35,179
Less allowance for depreciation		<u>(281,046)</u>
Total Land, Buildings Site Improvements and Equipment		<u><u>24,532,810</u></u>

Other Assets

Investment account -donor restricted		21,000
Conservation easement fund - restricted		59,744
Deposits		<u>3,227</u>
Total Other Assets		<u><u>83,971</u></u>

TOTAL ASSETS \$ 25,577,756

LIABILITIES AND NET ASSETS

Current Liabilities

Accrued compensated absences	\$	10,471
Accounts payable		6,166
Payroll liabilities		6,602
Note payable - current portion		<u>15,583</u>
Total Current Liabilities		<u><u>38,822</u></u>

Long Term Liabilities

Security deposit		300
Note payable		<u>119,406</u>
Total Long Term Liabilities		<u><u>119,706</u></u>

Total Liabilities 158,528

Net Assets

Without Donor Restrictions		24,969,014
With Donor Restrictions		<u>450,214</u>
Total Net Assets		<u><u>25,419,228</u></u>

**TOTAL LIABILITIES AND
NET ASSETS** \$ 25,577,756

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

**THE LAND TRUST OF NORTH ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Net Assets Without Donor Restrictions	
Support	
Contributions	\$ 685,394
Special events revenue	193,528
Less: costs relating to special events	(87,836)
Less: purchase of silent auction items	(3,446)
Total Support Revenue	<u>787,640</u>
Program Revenue	
Leases and sale of land revenue	18,577
Miscellaneous revenue	5,350
Total Program Revenue	<u>23,927</u>
Total Support and Program Revenue	<u>811,567</u>
Functional Expenses	
Program services	539,908
Support services	
Management and general	170,946
Fundraising	26,780
Total Functional Expenses	<u>737,634</u>
Other Income (Expense)	
Investment income	5,126
Donated land and land improvements	2,508,201
In-Kind Contributions	18,179
Unrealized loss on investment in marketable securities	(9,506)
Total Other Income (Expense)	<u>2,522,000</u>
Net assets released from restriction	439,314
Increase (Decrease) in Net Assets Without Donor Restrictions	<u>3,035,247</u>
Net Assets With Donor Restrictions	
Designated gifts	383,115
Grant income	61,332
Net assets released from restrictions	(439,314)
Increase (Decrease) in Net Assets with Donor Restrictions	<u>5,133</u>
Change in Net Assets	3,040,380
Net Assets, Beginning of Period	22,378,848
Net Assets, End of Period	<u>\$ 25,419,228</u>

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

**THE LAND TRUST OF NORTH ALABAMA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 254,946	\$ 29,994	\$ 14,997	\$ 299,937
Property management and taxes	55,219	-	-	55,219
Rent	-	33,421	-	33,421
Grant expenses	159,689	-	-	159,689
Depreciation	22,052	2,594	1,297	25,944
Payroll taxes	19,910	2,342	1,171	23,423
Printing	-	21,764	-	21,764
Employee benefits	11,649	1,371	685	13,705
Office expense	-	7,967	-	7,967
Membership expense	-	10,472	7,987	18,459
Interest expense	-	10,418	-	10,418
Insurance	-	12,426	-	12,426
Advertising, marketing, and public relations	12,097	3,183	642	15,922
Credit card merchant fees expense	-	6,702	-	6,702
Postage	-	5,493	-	5,493
Bank charges	-	6,431	-	6,431
Computer expense	-	1,990	-	1,990
Dues and subscriptions	-	4,131	-	4,131
Professional expenses	-	4,869	-	4,869
Land expense	3,245	-	-	3,245
Board expenses	-	2,090	-	2,090
Travel and conferences	-	2,284	-	2,284
Education	1,100	-	-	1,100
Utilities	-	1,005	-	1,005
TOTAL FUNCTIONAL EXPENSES	\$ 539,908	\$ 170,946	\$ 26,780	\$ 737,634

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

**THE LAND TRUST OF NORTH ALABAMA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

**Reconciliation of Increase in Net Assets to Net Cash
Provided (Used) by Operating Activities**

Increase (Decrease) in Net Assets	\$ 3,040,380
Adjustment to reconcile net income to net cash provided (used) by operating activities:	
Depreciation	25,944
Unrealized loss on marketable securities	9,506
Receipt of donated stock	(14,800)
Receipt of donated land	(2,501,292)
Receipt of donated land improvements and vehicle	(6,910)
Decrease (increase) in:	
Accounts receivable	(7,500)
Prepaid expenses	(2,234)
Increase (decrease) in:	
Payroll liabilities	5,121
Accounts payable	(11,472)
Accrued compensated absences	785
Net cash provided (used) by operating activities	<u>537,528</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Dividends received on investment fund	1,482
Conservation easement fund	(7,520)
Purchase of land	(200,843)
Purchase of fixed assets	(107,843)
Net cash provided (used) by investing activities	<u>(314,724)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payment on loan	(93,996)
Payment on line of credit	(84,994)
Net cash provided (used) by financing activities	<u>(178,990)</u>

Net increase in cash and cash equivalents 43,814

Cash and cash equivalents at beginning of year 759,874

Cash and cash equivalents at end of year \$ 803,688

Supplemental information:

Cash paid for:	Interest	\$ <u><u>10,418</u></u>
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The accompanying notes to financial statements are an integral part of these financial statements.

**THE LAND TRUST OF NORTH ALABAMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Land Trust of North Alabama, (the "Organization") is a non-profit organization established in 1988 to preserve lands for public use to enhance recreation, education, conservation, and prosperity in the North Alabama Region. The Organization purchases and accepts donations of land in order to accomplish this mission. Other sources of revenue include contributions received and special events held throughout the year.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Accounting standards require that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the statement of financial position. In addition, gains and losses on investments should be reported in the statement of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

Support and Revenue Recognition

The Organization recognizes contributions as support and revenue when the pledged receivable is currently due. Deferred revenues are those revenues collected for specific events that have not occurred and prepaid expenses are expenditures for specific events that have not yet occurred. Contributions received are recorded as support with donor restrictions or without donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. All contributions are considered available for unrestricted use unless specially restricted by the donor or subject to other legal restrictions.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Support and Revenue Recognition (continued)

The Organization has elected to report donor-restricted contributions (including contributions of long-lived assets) whose restrictions are met in the same reporting period as unrestricted support. The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years experience and management's analysis of specific promises made. At December 31, 2018, the allowance for uncollectible promises to give was zero.

Donated Equipment and Services

Donated equipment and materials are reflected as contributions in the accompanying statements at the estimated value at the date of receipt. In addition, a substantial number of volunteers have donated significant amounts of their time in the organization's program services and in its fund-raising campaigns. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles of the United States of America requires use of management's estimates. Management has made estimates related to accruals of revenues and expenses.

Property and Equipment

Buildings, site improvements, and equipment are stated at cost. It is the Organization's policy to capitalize acquisitions of property and equipment in excess of \$2,500. Additions, improvements, and expenses for repairs and maintenance that extend the economic life of the assets are capitalized. Other expenses for repairs and maintenance are charged to operating accounts when incurred. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets. Construction in progress is not depreciated until the assets are completed and placed into service.

Income Tax Status

The Organization is a non-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. The Organization is not aware of any tax positions it has taken that are subject to a significant degree of uncertainty. Tax years after December 31, 2014 remain subject to examination by taxing authorities.

Advertising

Advertising costs are expensed as incurred. Total advertising and public relations expense for year ended December 31, 2018 was \$15,922.

Cash and cash equivalents

For the purposes of the statements 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. A payroll time study was done to allocate payroll and other expenses based on the amount of time employees spend on program services and supporting services.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries, Payroll Taxes, and Benefits	Payroll Time Study
Membership Expense	Time and Effort
Depreciation	Payroll Time Study
Rent, Utilities, and Insurance	Management and General
Printing, Office Expense, Postage, Bank fees	Management and General

NOTE 2 - COMMITMENTS AND CONTINGENCIES

The Organization signed a three year lease for the Huntsville office effective February 1, 2019. This required a payment of \$2,840 per month for years 1 through 3. Rental expense for the Huntsville office for the year ended December 31, 2018 totaled \$33,421.

Future minimum rental payments are as follows:

<u>Year Ended December 31:</u>	
2019	\$34,025
2020	34,080
2021	34,080
2022	2,840

NOTE 3 - LAND

The Organization both purchases land and accepts donations of land in order to carry out the mission. Land that is purchased is recorded at cost. Donated land is carried at estimated fair market value at the date that it was received. The Organization has received land donations where the donor has retained a life estate interest in the property. The agreements allow the donor use of the property for their remaining life. The property is restricted both in regards to the life estate and may only be transferred to a local government if the Organization ceases to operate.

The Organization has received certain donated land that is restricted by the donor for the limited use of the Land Trust. Restrictions have been placed on some donated land that does not allow the Organization to sell the land or transfer to any organization except the City of Huntsville or as designated in the deed of the donated property.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 4 - BOARD DESIGNATED FUNDS

Certain commitments have been approved by the Board of Directors and are shown on the balance sheet included with net assets without donor restrictions. These designations can change as needed by approval of the Board, as no restrictions were placed on these funds by the donors. The board designated funds total \$413,928 at December 31, 2018.

NOTE 5 - 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 programs and supporting services benefited.

NOTE 6 - CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash accounts at several Huntsville, Alabama commercial banks and in uninsured money market accounts. The FDIC insures the total cash balances at each commercial bank up to \$250,000. Balances of all accounts are stated at cost, which approximates market value. The uninsured balance at December 31, 2018 is \$260,493.

NOTE 7 - IN KIND SERVICES AND DONATIONS

During the year ended December 31, 2018 the value of donated materials and services meeting the requirements for recognition in the financial statements was \$25,089.

The donations recorded as expenses are as follows:

Auction items for special events	<u>\$3,000</u>
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NOTE 8 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement dates. A fair value measurement assumes that the transaction to see the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure value.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 8 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value in three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access.

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 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Foundation's own data.)

The following table presents the Land Trust of North Alabama's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2018.

	Level 1		Level 2		Level 3		Total
Investment	\$ 160,715	\$	0	\$	0	\$	160,715
Interest Receivable	<u>0</u>		<u>0</u>		<u>0</u>		<u>0</u>
Totals	\$ <u>160,715</u>	\$	\$ <u>0</u>	\$	\$ <u>0</u>	\$	\$ <u>160,715</u>

NOTE 9 - NOTES PAYABLE

During 2016, a loan was obtained from a local bank to assist in paying off a note which had been issued to a private party for the purchase of land. This loan was refinanced in February, 2017. This loan was for \$238,978 and bears an interest rate of 3.68%. A monthly payment of \$1,956 is made on this note, which includes interest and principal. The balance of the loan as of December 31, 2018 is \$134,989. Interest expense on this loan for 2018 equals \$10,418. Principal requirements on the note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2019	\$15,583
2020	16,194
2021	16,828
2022	17,488
2023	18,173
Thereafter	<u>50,723</u>
	<u>\$134,989</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 10 - FIXED ASSETS

At December 31, 2018, the costs and related accumulated depreciation of fixed assets consisted of the following:

	Balance December 31, 2017	Additions	Retirements and Reclassifications	Balance December 31, 2018
Land	\$ 21,558,961	\$ 2,702,135	\$ 0	\$ 24,261,096
Land improvements	359,261	99,574	0	458,835
Furniture and equipment	58,746	0	0	58,746
Vehicles	20,000	15,179	0	35,179
Accumulated depreciation	(255,102)	(25,944)	0	(281,046)
Total unrestricted land, property and equipment, net	\$ 21,741,866	\$ 2,790,944	\$ 0	\$ 24,532,810

Depreciation expense for the year ended December 31, 2018 was \$25,944.

NOTE 11 – SPECIAL EVENTS

Special events generate revenue for the Organization as well as raise awareness about the organization's mission. Some events are annual and some are incidental to the Organization's central activities and do not happen regularly. Incidental events are recorded net in the accompanying Statement of Activities.

	<u>2018</u>
<u>Changes in net assets without donor restrictions:</u>	
Contributions:	
Concerts	\$113,563
Moon Dance	<u>79,965</u>
Total	\$193,528
Expenses:	
Concerts	\$63,614
Moon Dance	<u>27,668</u>
Total	<u>\$91,282</u>
Increases in net assets without donor restrictions	<u>\$102,246</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 12 – LIQUIDITY

The Organization’s financial assets available within one year of the balance sheet date for general expenditure are as follows:

	<u>2018</u>
Cash and cash equivalents	\$803,688
Investments	139,715
Accounts Receivable	7,500
Prepaid expenses	<u>10,072</u>
Total	<u>\$960,975</u>

The Organization’s financial assets have been reduced by amounts not available for general use because of donor imposed restrictions within one year of the balance sheet date.

As part of The Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 13- NET ASSETS – WITH DONOR RESTRICTIONS

Donor restricted net assets consist for the following purposes as of December 31, 2018:

Subject to expenditure for specified purpose:	<u>2018</u>
City of Madison land purchase	\$43,684
Green Mountain Property	1,200
General land acquisition	131,967
Land stewardship	16,370
Greenway	43,716
Robinson Spring Stewardship	59,740
Education	10,676
Chapman mountain trail head project	53,294
The Nature Conservancy	7,500
Bloucher Ford Project	19,067
Bethel Springs Accessibility Project	22,000
NEEF Bluff Line trail	20,000
Subject to the passage of time:	
Endowment fund	<u>21,000</u>
Total	<u>\$450,214</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 13- NET ASSETS – WITH DONOR RESTRICTIONS (CONTINUED)

Releases from Donor Restricted Net Assets for December 31, 2018 are as follows:

Subject to expenditure for specified purpose:	<u>2018</u>
General land acquisition	\$240,556
Land stewardship	14,860
Greenway	113,398
Education	3,500
Chapman mountain trail head project	10,000
The Nature Conservancy	15,000
Bloucher Ford Project	
Bethel Springs Accessibility Project	22,000
NEEF Bluff Line trail	<u>20,000</u>
Total	<u>\$439,314</u>

A donation was received in a prior year to establish a conservation easement fund for a parcel of land. Interest earned on this restricted account is also included in net assets with donor restrictions. The value of the easement fund cash account at December 31, 2018 is \$59,744.

NOTE 14 - SUBSEQUENT EVENTS

The date through which subsequent events have been evaluated is August 12, 2019. The financial statements were available to be issued at that time.