SOUTHERN ARIZONA LAND TRUST, INC.

Financial Statements

For the Years Ended December 31, 2018 and 2017

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Collings CPA FIRM, PLLC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Southern Arizona Land Trust, Inc.

We have audited the accompanying financial statements of Southern Arizona Land Trust, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, and 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 Southern Arizona Land Trust, Inc. as of December 31, 2018 and 2017, 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.

Collings CPA Firm, PLLC

Tucson, Arizona
June 25, 2019

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Southern Arizona Land Trust, Inc.
Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 4,737,327	$ 90,766
Tenant receivables	10,868	10,986
Notes receivables - current portion	5,158	129,621
Other receivables	499	5,000
Management designated cash	487,780	430,436
Prepaid expenses and other current assets	149,568	24,777
Total Current Assets	5,391,200	691,586
Property and Equipment, net of accumulated depreciation of $40,339 and $26,521, respectively	318,454	332,272
Other Assets		
Real property held for program related activities, net of accumulated depreciation of $1,683,097 and $1,359,188, respectively	21,578,227	17,225,110
Assurance bond	23,179	119,662
Notes receivables - long-term portion	125,654	130,713
Total Other Assets	21,727,060	17,475,485
Total Assets	$ 27,436,714	$ 18,499,343
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 36,339	$ 19,379
Accrued expenses	206,564	192,664
Prepaid rent and deposits	137,525	112,696
Notes payable, due within one year	34,922	-
Total Current Liabilities	415,350	324,739
Long-Term Liabilities		
Notes payable, net of maturities and deferred financing costs, net	2,298,204	130,525
Notes payable, related parties	7,700,000	1,000,000
Total Long-Term Liabilities	9,998,204	1,130,525
Total Liabilities	10,413,554	1,455,264
Net assets without donor restrictions	17,023,160	17,044,079
Total Liabilities and Net Assets	$ 27,436,714	$ 18,499,343

See accompanying notes and independent auditor's report.

Southern Arizona Land Trust, Inc.
Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2018 and 2017

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	2018 Net Assets Without Donor Restrictions	2017 Net Assets Without Donor Restrictions
Support and Revenue		
Rental income	$ 1,363,776	$ 1,142,559
Provision for program income paid to Pima County	(89,509)	(173,713)
Net rental income	1,274,267	968,846
Grant revenue	-	4,750,000
Gain (loss) on sale of properties, net of costs of $110,919 and $459,891, respectively	34,356	110,109
Consulting income	-	62,000
Interest income	72,917	33,524
Other income	5,700	2,950
Donations, cash	2,750	8,900
Donations, in-kind	245,271	114,453
Total Support and Revenue	1,635,261	6,050,782
Expenses		
Program service expenses	1,511,544	1,294,741
General and administrative expenses	144,636	131,269
Total Expenses	1,656,180	1,426,010
Change in Net Assets from Operations	(20,919)	4,624,772
Unrestricted Net Assets, Beginning of Year	17,044,079	12,419,307
Unrestricted Net Assets, End of Year	$ 17,023,160	$ 17,044,079

See accompanying notes and independent auditor's report.

Southern Arizona Land Trust, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services	General and Administrative	Total
Advertising and promotion	$ 11,482	$ -	$ 11,482
Bad debt	12,592	-	12,592
Bank charges	257	8	265
Charitable contributions	1,250	-	1,250
Consulting	1,407	352	1,759
Depreciation and amortization	330,818	6,909	337,727
Insurance	19,387	600	19,987
Interest expense	205,186	-	205,186
Legal and accounting	45,647	30,432	76,079
Management fees	19,516	-	19,516
Meals and entertainment	1,576	-	1,576
Occupancy expenses	3,604	3,604	7,208
Office supplies and other expenses	17,273	11,515	28,788
Payroll and related expenses	460,086	81,192	541,278
Property expenses	215,735	-	215,735
Property taxes	144,674	7,656	152,330
Training and education	-	30	30
Travel	21,053	2,339	23,392
Total Expenses	$ 1,511,544	$ 144,636	$ 1,656,180

See accompanying notes and independent auditor's report.

Southern Arizona Land Trust, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program Services	General and Administrative	Total
Advertising and promotion	$ 5,688	$ -	$ 5,688
Bad debt	8,078	-	8,078
Bank charges	305	9	314
Charitable contributions	5,740	-	5,740
Consulting	4,963	1,241	6,204
Depreciation and amortization	286,721	4,806	291,527
Insurance	61,495	1,902	63,397
Interest expense	121,397	-	121,397
Legal and accounting	44,447	29,631	74,078
Management fees	27,192	-	27,192
Meals and entertainment	1,210	-	1,210
Occupancy expenses	3,169	3,169	6,338
Office supplies and other expenses	16,858	11,242	28,100
Payroll and related expenses	423,430	74,723	498,153
Property expenses	193,665	-	193,665
Property taxes	69,965	2,164	72,129
Training and education	-	113	113
Travel	20,418	2,269	22,687
Total Expenses	$ 1,294,741	$ 131,269	$ 1,426,010

See accompanying notes and independent auditor's report.

Southern Arizona Land Trust, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Cash received from grants	$ -	$ 750,000
Cash received from consulting contracts	-	62,000
Cash received from rentals	1,388,723	1,157,531
Program income paid to Pima County	(89,509)	(173,713)
Cash received from other income	139,723	450
Cash paid to suppliers and employees	(1,156,105)	(816,057)
Interest expense paid	(179,452)	(111,133)
Cash contributions received	2,750	8,900
Interest income received	72,917	33,524
Income taxes paid	-	-
Net Cash Provided From (Used In) Operating Activities	179,047	911,502
Cash Flows From Investing Activities		
Cash received from sale of properties	145,275	446,880
Cash transferred to designated cash	(57,344)	(50,503)
Cash paid for the purchase of property and equipment	-	(26,817)
Cash paid for land and properties	(4,542,674)	(2,219,900)
Net Cash Provided From (Used In) Investing Activities	(4,454,743)	(1,850,340)
Cash Flows From Financing Activities		
Proceeds from line of credit	225,000	250,000
Repayment of line of credit	(225,000)	(400,000)
Proceeds from notes payable	2,284,922	-
Principal payments on notes payable	(62,665)	-
Proceeds from notes payable, related parties	6,700,000	1,000,000
Net Cash Provided From (Used In) Financing Activities	8,922,257	850,000
Increase (Decrease) in Cash	4,646,561	(88,838)
Cash and cash equivalents, Beginning of Year	90,766	179,604
Cash and cash equivalents, End of Year	$ 4,737,327	$ 90,766

Non-Cash Transactions

Donations In-Kind capitalized	$ 245,271	$ 114,453
Forgiveness of Debt	$ -	$ 4,000,000

See accompanying notes and independent auditor's report.

Southern Arizona Land Trust, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES

	2018	2017
Increase (Decrease) in Net Assets	$ (20,920)	$ 4,624,772
Adjustments to reconcile net increase (decrease) in net assets to net cash provided from (used in) operating activities		
Depreciation and amortization	337,727	291,527
Loan forgiveness grants from related parties	-	(4,000,000)
Discount on note payable	3,074	3,003
Donations in-kind	(245,271)	(114,453)
(Gain) loss on sale of property	(34,356)	(110,109)
(Increase) decrease in tenant receivables	118	(2,438)
(Increase) decrease in notes receivables	129,522	-
(Increase) decrease in other receivables	4,501	(5,000)
(Increase) decrease in loan issuance costs	(22,731)	-
(Increase) decrease in prepaid expenses	(28,308)	12,965
(Increase) decrease in other current assets	-	2,500
(Increase) decrease in assurance bonds and deposits	-	12,023
Increase (decrease) in accounts payable	16,961	10,021
Increase (decrease) in accrued expenses	(8,759)	162,020
Increase (decrease) in accrued interest	22,660	7,261
Increase (decrease) in prepaid rent and deposits	24,829	17,410
Net Cash Provided From (Used In) Operating Activities	$ 179,047	$ 911,502

See accompanying notes and independent auditor's report.

Note 1 – Nature of Activities

Southern Arizona Land Trust, Inc. (SALT) was founded in 2008 as a non-profit corporation under the laws of the State of Arizona. SALT is empowered to promote community interests in Pima County and Southern Arizona by: (a) acquiring land and interests in land; (b) retaining and conveying interests in land so as to conserve the resources of the land and protect the nature of the community; (c) retaining for the community any unearned increment in the market value of the land; (d) acquiring by purchase, gift, or otherwise to own, hold, use, maintain, improve, operate, sell, lease, and dispose of real and personal property; and (e) accepting gifts and money, securities and personal and real property from any firm, person, corporation, trust, association, organization, or agency of any kind and nature, to invest the funds of the Corporation, to borrow money and issue evidences of indebtedness, and to secure the same by mortgage, pledge or otherwise, and to perform every kind and nature of all acts and things incidental to or in furtherance of the accomplishment of the purposes of the Corporation, in support of the activities of The Industrial Development Authority of the County of Pima.

Note 2 - Summary of Significant Accounting Policies

The summary of significant accounting policies is presented to assist in the understanding of SALT's financial statements. The financial statements and notes are representations of SALT's management, who is responsible for their integrity and objectivity. Except as otherwise noted, these accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Basis of Accounting

The financial statements of SALT have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

The financial statements of Southern Arizona Land Trust, Inc., have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require Southern Arizona Land Trust, Inc., to report information regarding its financial position and activities according to the following net asset classifications:

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. These net assets may be used at the discretion of Southern Arizona Land Trust, Inc.'s management and the board of directors.

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

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 Southern Arizona Land Trust, Inc. or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities. For the years ended December 31, 2018 and 2017, none of the assets are subject to donor-imposed restrictions. Accordingly, all net assets are accounted for as unrestricted net assets under standards for presenting financial statements of not-for-profit organizations.

Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Trust’s ongoing rental housing services and interest and dividends earned on investments, if any. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Cash and Cash Equivalents

SALT considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to projects or other long-term purposes are excluded from this definition.

Accounts Receivable

Accounts receivables are stated at unpaid balances and are considered fully collectible. Management has assessed the collectability of receivables and has determined that all receivables are considered collectible and no allowance for doubtful accounts has been established.

Revenue Recognition

SALT recognizes its federal grants on a cost reimbursement basis. Under cost reimbursement contracts, SALT recognizes grant revenue as expenses are incurred. Receivables are recognized to the extent that grant revenue earned exceeds cash advanced from the granting agency. Conversely, unearned revenue or a contract payback is recorded when cash

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

advanced from the granting agency exceeds grant revenue earned. Funding agencies may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance with the terms of the grants or contracts. Program service revenue is generated by rental activities or the sale of grant properties and is recorded when earned.

Property and Equipment

Acquisitions of property and equipment having a unit cost in excess of $5,000 and a useful life of more than one year are capitalized. Depreciation is calculated on the straight-line basis over the estimated useful lives of assets. Repairs and maintenance expenditures in excess of $5,000 that increase the useful lives of the assets are capitalized and depreciated. The costs and related accumulated depreciation of assets sold or otherwise disposed of are removed from the accounts and any resulting gain or loss is reflected in the statement of activities in the year of disposition.

Functional Expenses

Functional expenses have been allocated between program services and supporting services based on an analysis of expenditures and personnel time for related activities.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

Southern Arizona Land Trust, Inc. is a not-for-profit organization as described in section 501(c)(3) of the Internal Revenue Code and Arizona Revised Statutes Section 43-1201(4), and as such, is exempt from federal and state income tax. Accordingly, there is no provision for income taxes. However, any income from certain activities that is not directly related to SALT's tax-exempt purpose would be subject to taxation as unrelated business income. Furthermore, SALT is also classified as a Type 2 Supporting Organization under Section 509(a)(3) of the Internal Revenue Code.

Accounting for Interest and Penalties on Taxes

SALT accounts for any interest expense incurred with respect to taxes as interest expense in the period in which SALT is first assessed or becomes aware of the obligation. Southern Arizona Land Trust, Inc. accounts for any penalties incurred with respect to taxes as other

Note 2 - Summary of Significant Accounting Policies (Continued)

Accounting for Interest and Penalties on Taxes (Continued)

expenses in the period in which SALT is first assessed or becomes aware of the obligation. During the years ended December 31, 2018 and 2017, SALT did not incur any interest and penalties.

In general, SALT's federal income tax returns have a three-year statute of limitations, and the state returns have a four-year statute of limitations. (With few exceptions, SALT is no longer subject to audit by taxing authorities prior to 2015).

Assets Limited as to Use

Assets limited as to use include designated cash set aside by Management for future capital improvements related to the NSP2 program, over which Management retains control and may at its discretion subsequently use for other purposes. Management designated cash as of December 31, 2018 and 2017 was $276,000 and $276,000, respectively.

Also included are funds limited to eligible uses under the NSP2 program in the amounts of $211,780 and $154,436 for the years ended December 31, 2018 and 2017, respectively.

Accrued Leave

Leave pay is accrued as a liability when employees earn a vested interest in this benefit. As of July 1, 2017, SALT adopted a new accrued sick time off policy to comply with the Arizona Proposition 206 law which became effective the same day. As of December 31, 2018 and 2017, the accrued leave liability was $7,986 and $8,804, respectively.

Advertising and Marketing

Southern Arizona Land Trust, Inc. expenses all advertising and marketing costs as they are incurred. Total advertising and marketing costs incurred for the years ended December 31, 2018 and 2017 were $11,482 and $5,688, respectively.

Debt Issuance Costs

Debt issuance costs are amortized over the life of the related loans and, for financial statement purposes, are netted against the related loan amount.

Debt issuance costs are amortized over the life of the related financing using the straight-line method. Accounting principals generally accepted in the United States of America require that the effective yield method to be used to amortize debt issuance costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

Southern Arizona Land Trust, Inc.'s financial instruments are cash and cash equivalents, receivables, shared equity note and loan receivables, accounts payable, and notes payables. The recorded values of cash and cash equivalents, receivables and accounts payable approximate their fair values based on their short-term nature. The recorded values of the shared equity note receivable and notes payable approximate the fair value, as interest approximates market rates.

Financial Statement Presentation

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation. Such reclassifications had no effect on the reported change in total net assets.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

New Accounting Pronouncements

SALT has adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03*, Interest – Imputation of Interest (Subtopic 853-30); Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction form the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The adoption of the standard had no effect on previously reported net assets.

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. SALT has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. The adoption of the standard had no effect on previously reported net assets.

Note 3 – Availability and Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions liming their use, within one year of the statement of financial position date, comprise the following:

	2018	2017
Cash and cash equivalents	$ 4,949,107	$ 245,202
Tenant receivables	10,868	10,986
Notes receivables	130,812	260,334
Other receivables	499	5,000
Management designated cash (maintenance reserve)	276,000	276,000
Financial assets available to meet general expenditures over the next twelve months	$ 5,367,286	$ 797,522

Southern Arizona Land Trust, Inc.'s goal is generally to maintain financial assets to meet 90 days of operating expenses. SALT strives to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. SALT also has a line of credit in the amount of $500,000, which it could draw upon in the event of an unanticipated liquidity need.

Note 4 – Notes Receivables

Shared Equity Note Receivable

On March 14, 2014, SALT entered into the shared equity note receivable agreement with a program participant to finance a portion of the purchase price for a property located in Tucson, AZ. The note is a second position mortgage with a principal amount of $34,500, stated interest rate of 0.00%, and monthly interest payments of $0. The program participant will be obligated to pay SALT the principal amount plus, as additional consideration, half of any appreciation in the value of the home when the home is refinanced or sold. The note has been discounted at 7% interest over 50 years, as the actual timing of the due date is uncertain. As of December 31, 2018 and 2017, the discounted value was $1,471 and $1,372, respectively.

There is a monthly program monitoring fee payable by the program participant to SALT of $50 per month with the first payment due in April of 2014. The purpose of the fee is to monitor the program participant's compliance with the terms of the shared equity note and the deed of trust. As of December 31, 2018 and 2017, total program monitoring fees paid by the program participant were $600 and $550, respectively.

Note 4 – Notes Receivables (Continued)

Other Notes Receivables

On February 23, 2015, SALT entered into a note receivable agreement with a program participant to finance a portion of the purchase price for a property located in Tucson, AZ. The note receivable is for $14,000 with an interest rate of 7%. Principal, interest, and additional impound fees for taxes and insurance are paid on a monthly basis and the note has a maturity date of February 28, 2020. The outstanding balance of the note receivable as of December 31, 2018 and 2017 was $3,970 and $6,907, respectively.

On September 23, 2016, SALT entered into a note receivable agreement with a program participant to finance a property located in Tucson, AZ. The note receivable is for $126,700 with an interest rate of 5.50%. Principal, interest, and impound fees for taxes and insurance are paid on a monthly basis with a balloon payment due at the maturity date of September 29, 2017, which was extended until January 2018. The outstanding balance of the note receivable as of December 31, 2018 and 2017 was $-0- and $124,742, respectively. As of January 25, 2018, the note receivable has been paid in full.

On August 16, 2017, SALT entered into a note receivable agreement with a program participant to finance a property located in Tucson, AZ. The note receivable is for $127,800 with an interest rate of 5.00%. Principal and interest are paid on a monthly basis with a balloon payment due at the maturity date of July 1, 2022. The outstanding balance of the note receivable as of December 31, 2018 and 2017 was $125,371 and $127,314, respectively.

As of December 31, 2018, the annual maturities of notes receivables for the next five years are as follows:

Year Ended December 31, 2019	$	5,158
Year Ended December 31, 2020		2,935
Year Ended December 31, 2021		2,221
Year Ended December 31, 2022		119,027
Year Ended December 31, 2023		-0-
Thereafter		1,471
Total	$	130,812

Note 5 – Program Income

Under the NSP2 Consortium Funding Agreement with Pima County through February 2014, SALT was required to return all net proceeds from the income derived from sales or rents earned, except if such income is earned under a developer’s agreement. Beginning February 12, 2014, SALT was able to retain sixty-five percent of net proceeds, of which sixty percent is used to fund any eligible NSP2 activity. The remaining five percent is used for NSP2-eligible administrative expenses.

Note 5 – Program Income (Continued)

During 2018 and 2017, Southern Arizona Land Trust, Inc., returned program income of $89,509 and $173,713 to Pima County, respectively. Program income returned to the County reduces rental income as reported on the Statement of Activities and Changes in Net Assets.

Note 6 – Real Property Held for Program Related Activities

	2018	2017
Non-grant investment houses	$ 8,141,006	$ 7,039,552
NSP2 grant investment houses	8,639,646	8,597,134
Investment lots & work-in-process lots	2,200,340	722,983
Investment land (unimproved)	912,536	898,860
Multi-family units	2,039,887	-0-
NSP2 properties (land banking)	1,327,909	1,325,769
	23,261,324	18,584,298
Less: accumulated depreciation	(1,683,097)	(1,359,188)
Net Real Property Held for Program Related Activities	$ 21,578,227	$ 17,225,110

For the years ended December 31, 2018 and 2017, depreciation expense totaled $323,909 and $281,915, respectively.

Note 7 – Property and Equipment

The following is a summary of property, furniture, and equipment at cost less accumulated depreciation as of December 31, 2018 and 2017:

	2018	2017
Office building	$ 324,476	$ 324,476
Vehicles	34,317	34,317
Less: accumulated depreciation	(40,339)	(26,521)
Net Property and Equipment	$ 318,454	$ 332,272

For the years ended December 31, 2018 and 2017, depreciation expense totaled $13,818 and $9,612, respectively.

Note 8 – Assurance Bonds and Deposits

SALT has placed certain refundable assurance bonds on deposit with the City of Tucson Engineering Department pending completion of required improvements to certain properties. The following is a list of the assurance amounts placed on deposit.

	2018	2017
Property 1 – Assurance Deposit	$ 96,483	$ 96,483
Property 2 – Assurance Deposit	23,179	23,179
	$ 119,662	$ 119,662

Note 9 – Income Taxes

Southern Arizona Land Trust, Inc. has been classified as an other than private foundation and is tax exempt under Section 501(c)(3) of the Internal Revenue Code. SALT may be subject to tax on income from any unrelated business. For the years ended December 31, 2018 and 2017, there were no taxes due or payable.

SALT adopted the provisions of FASB ASC 740-10 (formerly FIN 48), as amended by ASU 2009-06, with no cumulative effect adjustment required. The standard clarifies the accounting for uncertainty in income taxes recognized in SALT's financial statements. If SALT considers that a tax position is "more-likely-than-not" of being sustained upon audit, based solely on technical merits of the position, it recognizes the tax benefit.

Note 10 – Concentration of Risk

SALT's services are concentrated in Southern Arizona; therefore, revenue may be affected by changes in economic or other conditions, which affect these localities.

SALT, like many other businesses, is exposed to risks of business interruption or adverse economic conditions which may be caused by events beyond the control of the Company. Such risks or events may include, but are not limited to, (1) having readily available and reasonably priced fuel, energy, and insurance, (2) changes in government regulations, particularly environmental regulations, (3) ability to store, retrieve and transmit data and records electronically, (4) availability of credit, fluctuations in the interest rate and cost of borrowing, and access to credit, (5) hostile acts, and (6) natural disasters. Events may occur which prevent the Company from conducting business operations as usual, or may significantly increase the cost of doing business, or may decrease demand for the Company's services, with potentially adverse effects on revenue and profitability.

Note 10 – Concentration of Risk (Continued)

Cash and cash equivalents are maintained with major financial institutions in the United States. Deposits held with these institutions may, at times, exceed the amount of insurance provided on such deposits. Southern Arizona Land Trust, Inc., has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash. Generally, these deposits may be redeemed upon demand.

Note 11 – Retirement Plan

SALT sponsors a Simple IRA retirement plan covering substantially all of its employees. Contributions by employees are deducted through payroll and are matched by the organization up to the amount of 3% of the employee's salary. Pension expense was $10,684 and $11,319 for the years ended December 31, 2018 and 2017, respectively.

Note 12 – Program Lending

SALT has invested $1,000,000 of its own funds into its flagship affordable housing program funded through the Neighborhood Stabilization Program Two (NSP2). This program "loan" was invested in additional acquisition and rehabilitation projects for the SALT affordable rental portfolio, as well as the further development of NSP2 Land Bank properties. SALT anticipates the recovery of this investment through the eventual sale of a portion of this affordable housing inventory.

Note 13 – Bank Line of Credit

During fiscal year 2014, SALT entered into a $1,000,000 line of credit with the Bank of Tucson, which bears an interest rate of 5.75% and had an original maturity date of November 21, 2016. The line of credit is collateralized by a Deed of Trust and an Assignment of All Rents on certain real properties listed in the Deed of Trust located in Pima County. During 2016, the principal was increased to $1,250,000 and the maturity date was extended to November 21, 2018. As of December 31, 2018 and 2017, the outstanding line of credit balance was $-0- and $-0-, respectively. On January 8, 2019, the line of credit was closed with the bank.

Note 14 – Long-Term Debt

SALT's notes payables as of December 31, 2018 and 2017 consisted of the following:

	2018	2017
Note payable in the amount of $3,000,000 through the IDA, which bears an interest rate of 1.00%. Interest is paid annually and the principal is due on maturity which is February 28, 2023. (a)	$ 3,000,000	$ 1,000,000
Note payable in the amount of $4,700,000 through FHR, which bears an interest rate of 6.00%. Interest is paid in monthly payments and the principal is due on maturity which is October 14, 2020.	4,700,000	-0-
Note payable in the amount of $1,050,000 through Washington Federal, which bears an interest rate of 4.95%. The note is payable in monthly installments of $5,649 with maturity date of January 15, 2028.	1,034,410	-0-
Note payable in the amount of $1,200,000 through Washington Federal, which bears an interest rate of 4.85%. The note is payable in monthly installments of $6,386 with maturity date of April 15, 2028.	1,187,847	-0-
On August 28, 2015, SALT was awarded a HOME Funds grant that is structured as a zero-interest, deferred-payment loan that is forgivable, assuming all grant requirements are met. The term of the loan is 20 years with one balloon payment due at the end of the Affordability period which is April 22, 2036. The loan has been discounted at the interest rate of 2.33%.	133,599	130,525
Total long-term debt	10,055,856	1,130,525
Less: unamortized debt issuance costs	(22,730)	-0-
Less: long-term debt due within one year	(34,922)	-0-
	$ 9,998,204	$ 1,130,525

(a) In April 2017, SALT entered into a $1,000,000 promissory note agreement with the Industrial Development Authority of the County of Pima, which bears an interest rate of 1.00%. The note agreement calls for interest only payments with a balloon payment of unpaid principal and interest due by April 22, 2036. In March 2018, the promissory note was replaced by an updated note in the amount of $3,000,000, with an interest rate of 1.00%, and a maturity date of February 28, 2023.

Note 14 – Long-Term Debt (Continued)

SALT is required to meet certain covenants in order to comply with the above loan agreements. As of December 31, 2018 and 2017, management believes that SALT is in compliance with all of the covenants mentioned within the loan agreements.

Future Minimum Payments

As of December 31, 2018, the estimated annual maturities of notes payables for the next five years are as follows:

Year Ended December 31, 2019	$ 34,922
Year Ended December 31, 2020	4,736,387
Year Ended December 31, 2021	38,545
Year Ended December 31, 2022	40,501
Year Ended December 31, 2023	3,042,558
Thereafter	2,162,944
Total	$ 10,055,857

Note 15 – Related Party Transactions

SALT was formed to support the economic development activities of the Industrial Development Authority of the County of Pima (IDA). Family Housing Resources, Inc. (FHR) and Community Investment Corporation (CIC) are also supporting organizations of the IDA. Each of the supporting organizations has two of their three voting board members in common with the IDA's board.

In 2016, SALT entered into a property management agreement with a related party. As of December 31, 2018 and 2017, SALT recognized income of $-0- and $700, respectively. There were no outstanding balances due to or due from the related party for the years ended December 31, 2018 and 2017. Furthermore, SALT purchased insurance through one of SALT's board member's offices in the amount of $71,881 and $59,172 for the years ended December 31, 2018 and 2017.

As of December 31, 2018 and 2017, total outstanding notes payables due to the IDA were $3,000,000 and $1,000,000, respectively. Accrued and unpaid interest was $25,151 and $7,261 as of December 31, 2018 and 2017. (Refer to Note 14)

During 2015, SALT entered into two notes payable agreements with FHR which bear an interest rate of 4%. Interest is paid in monthly payments with the principal payment due on maturity. During 2017, FHR forgave $4,000,000 of the outstanding obligations.

Note 15 – Related Party Transactions (Continued)

During 2018, SALT entered into a $4,700,000 note payable agreement with FHR, which bears an interest rate of 6.00%. The note payable calls for monthly interest only payments with a balloon payment of unpaid principal and interest due by October 14, 2020. (Refer to Note 14)

Note 16 – Subsequent Events

On March 11, 2019, SALT entered into a $500,000 line of credit with Pacific Premier Bank with an interest rate of 5.50% and a maturity date of March 11, 2021. The line of credit is collateralized by a Deed of Trust and an Assignment of All Rents on certain real properties listed in the Deed of Trust located in Pima County.

In 2019, SALT gifted multi-family units at Blacklidge and Flower Street to Family Housing Resources as per the Industrial Development Authority of the County of Pima's instructions.

Subsequent events have been evaluated through June 25, 2019, which is the date the financial statements were available to be issued.