

FINANCIAL STATEMENTS



**FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016**

THE POTOMAC CONSERVANCY, INC.

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GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Potomac Conservancy, Inc.
Silver Spring, Maryland

We have audited the accompanying financial statements of The Potomac Conservancy, Inc. (the Conservancy), which comprise the statements of financial position as of September 30, 2017 and 2016, 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 audits 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 the Conservancy as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

March 13, 2018

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THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 280,112	\$ 256,881
Investments	165,163	155,046
Grants receivable	151,429	140,426
Pledges receivable	108,582	-
Prepaid expenses	<u>11,757</u>	<u>10,954</u>
Total current assets	<u>717,043</u>	<u>563,307</u>
PROPERTY AND EQUIPMENT		
Equipment	39,302	59,385
Leasehold improvements	<u>9,298</u>	<u>9,298</u>
	48,600	68,683
Less: Accumulated depreciation and amortization	<u>(36,535)</u>	<u>(58,625)</u>
Net property and equipment	<u>12,065</u>	<u>10,058</u>
OTHER ASSETS		
Land and easements	3,113,942	3,113,942
Security deposits	<u>6,149</u>	<u>6,149</u>
Total other assets	<u>3,120,091</u>	<u>3,120,091</u>
TOTAL ASSETS	<u>\$ 3,849,199</u>	<u>\$ 3,693,456</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Line of credit	\$ 50,000	\$ 70,000
Accounts payable and accrued liabilities	185,088	190,610
Interest payable	154,613	89,513
Deferred revenue	16,630	-
Deferred rent liability, current portion	<u>7,817</u>	<u>5,418</u>
Total current liabilities	<u>414,148</u>	<u>355,541</u>
NONCURRENT LIABILITIES		
Note payable	2,170,000	2,170,000
Deferred rent liability, net of current portion	<u>13,228</u>	<u>21,058</u>
Total noncurrent liabilities	<u>2,183,228</u>	<u>2,191,058</u>
Total liabilities	<u>2,597,376</u>	<u>2,546,599</u>
NET ASSETS		
Unrestricted:		
Undesignated	603,667	521,009
Board-designated Reserve Fund	63,530	63,395
Board-designated Stewardship Fund	<u>191,100</u>	<u>190,693</u>
Total unrestricted net assets	858,297	775,097
Temporarily restricted	<u>393,526</u>	<u>371,760</u>
Total net assets	<u>1,251,823</u>	<u>1,146,857</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,849,199</u>	<u>\$ 3,693,456</u>

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and contributions	\$ 1,515,237	\$ 318,373	\$ 1,833,610
Interest and investment revenue	12,181	-	12,181
In-kind contributions	16,408	-	16,408
Other income	1,500	-	1,500
Net assets released from donor restrictions - satisfaction of donor restrictions	<u>296,607</u>	<u>(296,607)</u>	<u>-</u>
Total support and revenue	<u>1,841,933</u>	<u>21,766</u>	<u>1,863,699</u>
EXPENSES			
Program Services:			
Land Protection	344,579	-	344,579
Public Policy	221,289	-	221,289
Community Conservation	646,315	-	646,315
Communications	<u>197,671</u>	<u>-</u>	<u>197,671</u>
Total program services	<u>1,409,854</u>	<u>-</u>	<u>1,409,854</u>
Supporting Services:			
Management and General	83,152	-	83,152
Fundraising	<u>265,727</u>	<u>-</u>	<u>265,727</u>
Total supporting services	<u>348,879</u>	<u>-</u>	<u>348,879</u>
Total expenses	<u>1,758,733</u>	<u>-</u>	<u>1,758,733</u>
Changes in net assets	83,200	21,766	104,966
Net assets at beginning of year	<u>775,097</u>	<u>371,760</u>	<u>1,146,857</u>
NET ASSETS AT END OF YEAR	<u>\$ 858,297</u>	<u>\$ 393,526</u>	<u>\$ 1,251,823</u>

2016		
Unrestricted	Temporarily Restricted	Total
\$ 1,047,870	\$ 288,574	\$ 1,336,444
12,868	-	12,868
7,016	-	7,016
1,500	-	1,500
<u>383,722</u>	<u>(383,722)</u>	<u>-</u>
<u>1,452,976</u>	<u>(95,148)</u>	<u>1,357,828</u>
628,763	-	628,763
174,282	-	174,282
266,265	-	266,265
<u>176,853</u>	<u>-</u>	<u>176,853</u>
<u>1,246,163</u>	<u>-</u>	<u>1,246,163</u>
96,496	-	96,496
<u>275,613</u>	<u>-</u>	<u>275,613</u>
<u>372,109</u>	<u>-</u>	<u>372,109</u>
<u>1,618,272</u>	<u>-</u>	<u>1,618,272</u>
(165,296)	(95,148)	(260,444)
<u>940,393</u>	<u>466,908</u>	<u>1,407,301</u>
<u>\$ 775,097</u>	<u>\$ 371,760</u>	<u>\$ 1,146,857</u>

THE POTOMAC CONSERVANCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Program Services				Supporting Services				Total Expenses
	Land Protection	Public Policy	Community Conservation	Communications	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related benefits	\$ 147,216	\$ 96,763	\$ 130,466	\$ 114,901	\$ 489,346	\$ 97,567	\$ 116,428	\$ 213,995	\$ 703,341
Occupancy	14,216	15,835	15,835	27,711	73,597	7,917	3,959	11,876	85,473
Professional fees	54,356	76,666	42,015	36,472	209,509	14,589	46,460	61,049	270,558
Grant subcontracting fees	7,607	-	395,105	-	402,712	-	-	-	402,712
Insurance	8,038	1,439	1,439	1,439	12,355	1,919	480	2,399	14,754
Depreciation and amortization	600	598	598	598	2,394	449	150	599	2,993
Donated services	16,408	-	-	-	16,408	-	-	-	16,408
Printing and production	211	84	6,862	10,182	17,339	2,966	62,542	65,508	82,847
Dues, subscriptions and publications	1,800	615	90	-	2,505	324	245	569	3,074
Telecommunications	5,276	1,424	1,317	1,475	9,492	1,475	379	1,854	11,346
Travel and related expenses	3,195	2,652	3,018	20	8,885	4,420	417	4,837	13,722
Bank charges and other fees	-	-	-	-	-	8,488	-	8,488	8,488
Program materials and supplies	501	3,506	2,384	-	6,391	-	-	-	6,391
Equipment and rental	5,809	762	1,143	1,905	9,619	991	152	1,143	10,762
Licenses and fees	-	125	-	-	125	2,540	-	2,540	2,665
Supplies	2,072	1,362	1,836	1,617	6,887	1,373	1,639	3,012	9,899
Special events	386	-	5,687	-	6,073	-	32,876	32,876	38,949
Staff training and education	-	1,201	350	1,351	2,902	-	-	-	2,902
Interest	65,100	-	-	-	65,100	3,471	-	3,471	68,571
Other	200	-	190	-	390	2,488	-	2,488	2,878
Allocation of management and general	11,588	18,257	37,980	-	67,825	(67,825)	-	(67,825)	-
TOTAL	\$ 344,579	\$ 221,289	\$ 646,315	\$ 197,671	\$ 1,409,854	\$ 83,152	\$ 265,727	\$ 348,879	\$ 1,758,733

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Program Services				Supporting Services				Total Expenses
	Land Protection	Public Policy	Community Conservation	Communications	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related benefits	\$ 134,813	\$ 80,974	\$ 139,538	\$ 106,263	\$ 461,588	\$ 94,691	\$ 97,617	\$ 192,308	\$ 653,896
Occupancy	18,609	27,445	16,282	11,762	74,098	7,841	3,921	11,762	85,860
Professional fees	352,806	36,730	41,109	33,820	464,465	23,115	68,415	91,530	555,995
Insurance	7,681	2,020	2,020	2,020	13,741	2,693	673	3,366	17,107
Depreciation and amortization	632	633	633	633	2,531	475	158	633	3,164
Donated services	7,016	-	-	-	7,016	-	-	-	7,016
Printing and production	144	1,430	2,378	12,757	16,709	2,383	63,199	65,582	82,291
Dues, subscriptions and publications	2,025	32	-	-	2,057	433	298	731	2,788
Telecommunications	5,800	1,344	1,464	1,503	10,111	1,503	376	1,879	11,990
Travel and related expenses	1,618	2,096	4,298	153	8,165	4,862	4,060	8,922	17,087
Bank charges and other fees	-	-	-	-	-	6,241	-	6,241	6,241
Program materials and supplies	4,868	120	18,645	-	23,633	-	-	-	23,633
Equipment and rental	6,168	862	1,293	-	8,323	1,120	172	1,292	9,615
Licenses and fees	-	-	-	2,155	2,155	803	105	908	3,063
Supplies	2,407	1,397	2,408	351	6,563	1,634	2,708	4,342	10,905
Special events	-	450	4,459	1,842	6,751	583	32,909	33,492	40,243
Staff training and education	-	1,640	930	-	2,570	2,525	1,002	3,527	6,097
Interest	65,100	-	-	-	65,100	1,436	-	1,436	66,536
Other	330	129	2,002	-	2,461	12,284	-	12,284	14,745
Allocation of management and general	18,746	16,980	28,806	3,594	68,126	(68,126)	-	(68,126)	-
TOTAL	\$ 628,763	\$ 174,282	\$ 266,265	\$ 176,853	\$ 1,246,163	\$ 96,496	\$ 275,613	\$ 372,109	\$ 1,618,272

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 104,966	\$ (260,444)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	2,993	3,164
Unrealized gain on investments	(6,067)	(7,368)
Realized gain on sales of investments	(1,014)	-
(Increase) decrease in:		
Grants receivable	(11,003)	293,595
Pledges receivable	(108,582)	-
Prepaid expenses	(803)	549
Increase (decrease) in:		
Accounts payable and accrued liabilities	(5,522)	(170,477)
Interest payable	65,100	65,100
Deferred revenue	16,630	-
Deferred rent liability	<u>(5,431)</u>	<u>(3,139)</u>
Net cash provided (used) by operating activities	<u>51,267</u>	<u>(79,020)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(5,000)	-
Purchase of investments	<u>(3,036)</u>	<u>(4,833)</u>
Net cash used by investing activities	<u>(8,036)</u>	<u>(4,833)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payments to) proceeds from line of credit	<u>(20,000)</u>	<u>70,000</u>
Net cash (used) provided by financing activities	<u>(20,000)</u>	<u>70,000</u>
Net increase (decrease) in cash and cash equivalents	23,231	(13,853)
Cash and cash equivalents at beginning of year	<u>256,881</u>	<u>270,734</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 280,112</u>	<u>\$ 256,881</u>
SUPPLEMENTAL INFORMATION		
Interest Paid	<u>\$ 3,471</u>	<u>\$ 1,436</u>
SCHEDULE OF NONCASH INVESTING TRANSACTIONS		
Donated Securities	<u>\$ 138,983</u>	<u>\$ 23,507</u>

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Potomac Conservancy, Inc. (the Conservancy) is a non-profit organization, incorporated in the State of Maryland and located in Silver Spring. The Conservancy safeguards the lands and waters of the Potomac River and its tributaries and connects people to this national treasure. The Conservancy is supported primarily by contributions from individuals, corporations, foundations, and Federal grants and contracts.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Cash and cash equivalents -

The Conservancy considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, the Conservancy maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their fair value. Realized and unrealized gains and losses are included in interest and investment income in the Statements of Activities and Changes in Net Assets. Donated investments are recorded at their fair value at the date of the gift.

Grants and pledges receivable -

Grants and pledges receivable approximate fair value. Management considers all amounts to be fully collectible within one year. Accordingly, an allowance for doubtful accounts has not been established.

Property and equipment -

Property and equipment with an acquisition value in excess of \$1,000 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally five to seven years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

Depreciation and amortization expense for the years ended September 30, 2017 and 2016 totaled \$2,993 and \$3,164, respectively.

Land and easements -

On May 13, 2015, the Conservancy purchased land, and the value assigned to the sales transaction (and in the Conservancy's financial statements) was its fair market value as of that date. Land is not depreciated as it is assumed to have an unlimited useful life.

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Land and easements (continued) -

The Conservancy also holds several perpetual conservation easements, which were received as a donation and valued at \$1 per easement. The easements are assigned this nominal value because the easements themselves have no marketable value, and the benefits of the easement accrue to the public. The purpose of each easement is to preserve and protect the environment of the properties and to maintain the open-space values and character of the properties.

Income taxes -

The Conservancy is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Conservancy is not a private foundation.

Uncertain tax positions -

For the years ended September 30, 2017 and 2016, the Conservancy has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Deferred revenue -

Deferred revenue consists of refundable advances and amounts to be used to pay for a fellow's salary from October 2017.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Conservancy and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Conservancy and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Grants and contributions -

Unrestricted and temporarily restricted grants and contributions are recorded as revenue in the year notification is received from the donor. Temporarily restricted grants and contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Temporarily restricted grants and contributions received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

In-kind contributions -

The Conservancy receives contributions of donated professional services, which are recorded at their fair value as of the date of the gift. In addition, volunteers have donated significant amounts of their time to the Conservancy; these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Use of estimates -

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

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

Risks and uncertainties -

The Conservancy invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

The Conservancy adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Conservancy accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

New accounting pronouncements (not yet adopted) -

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions.

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

New accounting pronouncements (not yet adopted) (continued) -

The change in each of the classes of net assets must be reported on the Statements of Activities and Changes in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the Conservancy's financial statements, it is not expected to alter the Conservancy's reported financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted. The Conservancy has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statements of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Conservancy plans to adopt the new ASUs at the respective required implementation dates.

2. INVESTMENTS

Investments consisted of the following at September 30, 2017 and 2016:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	\$ <u>137,684</u>	\$ <u>165,163</u>	\$ <u>133,634</u>	\$ <u>155,046</u>

Interest and investment income, during the years ended September 30, 2017 and 2016, is comprised of the following:

	2017	2016
Interest and dividends	\$ 5,100	\$ 5,500
Unrealized gain on investments	6,067	7,368
Realized gain on sales of investments	1,014	-
TOTAL INTEREST AND INVESTMENT INCOME	\$ <u>12,181</u>	\$ <u>12,868</u>

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

3. NOTE PAYABLE

On May 13, 2015, the Conservancy entered into a \$2,170,000 promissory note payable to The Conservation Fund for the purchase of "White Horse Mountain". The note bears interest of 3.0% per annum, however, principal and interest payments are not due and payable (payments are optional) until the note matures on May 12, 2018. If the promissory note is not satisfied in full on the maturity date, interest at a rate of 10.0% per annum will accrue on the unpaid principal balance until full satisfaction of the note. The note is collateralized by the Conservancy's right, title and interest in all the grants to be used as funding sources for the purchase of the land together with the land itself.

As of September 30, 2017 and 2016, the outstanding principal balance aggregated \$2,170,000.

During the years ended September 30, 2017 and 2016, interest expense of \$65,100 and \$65,100, respectively, has been expensed in the accompanying financial statements. As of September 30, 2017 and 2016, the accrued interest liability aggregated \$154,613 and \$89,513, respectively.

The loan agreement contains various covenants and, as of the date of this report, The Conservancy was in compliance with all loan covenants.

4. LINE OF CREDIT

The Conservancy has secured a \$150,000 line of credit with a local financial institution. The line of credit is secured by all inventory, equipment, receivables, chattel paper, property, investments, money, and other rights of payments and performance. Amounts borrowed under this agreement bear interest based on a variable rate, with a floor of 5.25%. As of September 30, 2017 and 2016, the balance due under the line of credit aggregated \$50,000 and \$70,000, respectively.

5. BOARD-DESIGNATED NET ASSETS

As of September 30, 2017 and 2016, net assets have been designated by the Board of Directors for the following purposes:

	2017	2016
Endowment Fund	\$ 63,530	\$ 63,395
Stewardship Fund	191,100	190,693
TOTAL BOARD-DESIGNATED NET ASSETS	\$ 254,630	\$ 254,088

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at September 30, 2017 and 2016:

	2017	2016
Stewardship Fund	\$ 162,811	\$ 174,402
Community Conservation	79,828	116,321
Land Protection	61,723	54,172
Public Policy	78,795	26,865
Fundraising	10,369	-
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ 393,526	\$ 371,760

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
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7. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

	2017	2016
Stewardship Fund	\$ 17,714	\$ 17,023
Community Conservation	131,493	144,565
Communications	-	21,883
Land Protection	40,855	98,019
Public Policy	101,914	78,166
Fundraising	4,631	24,066
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ 296,607	\$ 383,722

8. IN-KIND CONTRIBUTIONS

During the years ended September 30, 2017 and 2016, the Conservancy was the beneficiary of donated services, which allowed the Conservancy to provide greater resources toward its various programs. Donated legal services were estimated at a fair value of \$16,408 and \$7,016 during the years ended September 30, 2017 and 2016, respectively.

9. LEASE COMMITMENTS

On October 30, 2013, the Conservancy entered into a six-year lease for office space commencing on February 1, 2014. Under the terms of the lease, base rent is \$6,149 per month, plus a proportionate share of building operating expenses and real estate taxes, increasing by a factor of 3% each year. In addition, the lease provides for five months of free rent.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability in the accompanying Statements of Financial Position. As of September 30, 2017 and 2016, the total deferred rent liability aggregated \$21,045 and \$26,476, respectively.

Additionally, in January, 2015, the Conservancy entered into a new lease for the Winchester Office. The lease term was for one year, commencing February 1, 2015, with a monthly rent payment of \$505. During the year ended September 30, 2016, a new lease was entered into for a term of one year from February 1, 2016, with a monthly rental of \$525. On September 20, 2017, a new lease for a term of one year was entered into at a monthly rental of \$350.

The following is a schedule of the future minimum payments required under these aforementioned leases:

<u>Year Ending September 30,</u>	
2018	\$ 86,444
2019	84,712
2020	28,514
	\$ 199,670

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

9. LEASE COMMITMENTS (Continued)

Occupancy expense, including real estate taxes and storage rental, for the years ended September 30, 2017 and 2016, totaled \$85,473 and \$85,860, respectively.

10. RETIREMENT PLAN

The Conservancy provides retirement benefits to its employees through a tax-deferred annuity plan under IRS Section 403(b). All full-time employees with one year of experience are eligible to participate in the plan. The Conservancy contributes up to 3% of an employee's annual gross wages. Contributions to the plan for the years ended September 30, 2017 and 2016, totaled \$13,021 and \$12,271, respectively.

11. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Conservancy has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Conservancy has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used as of September 30, 2017.

- *Mutual funds* - Fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.

The table below summarizes, by level within the fair value hierarchy, the Conservancy's investments as of September 30, 2017:

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Balanced fund	\$ 26,048	\$ -	\$ -	\$ 26,048
Growth and income fund	24,540	-	-	24,540
Bond fund	87,031	-	-	87,031
Equity income fund	<u>27,544</u>	<u>-</u>	<u>-</u>	<u>27,544</u>
TOTAL	<u>\$ 165,163</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,163</u>

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

11. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, the Conservancy's investments as of September 30, 2016:

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Balanced fund	\$ 22,233	\$ -	\$ -	\$ 22,233
Growth and income fund	21,250	-	-	21,250
Bond fund	86,545	-	-	86,545
Equity income fund	<u>25,018</u>	<u>-</u>	<u>-</u>	<u>25,018</u>
TOTAL	<u>\$ 155,046</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 155,046</u>

12. PURCHASE OF LAND

During the fiscal year ended September 30, 2014, the Conservancy paid two non-refundable deposits (\$25,000 each) to purchase a real estate option, in exchange for consideration of \$50,000, for the (at the time) potential purchase of 1,715 acres of high conservation value land in Hampshire County, West Virginia, known as "White Horse Mountain". The Conservancy executed their option on May 13, 2015 and purchased the land for \$2,825,000. All option consideration payments made by the Conservancy were credited against the purchase price at closing. The acquisition of the land also included the execution of a promissory note totaling \$2,170,000 (Note 3).

The Conservancy's intention is to ensure that the property is protected for conservation through the agreed subsequent transfer of the property to the State of West Virginia, at less than fair market value. The subsequent transfer will ensure that the property will be conserved in perpetuity.

13. SUBSEQUENT EVENTS

In preparing these financial statements, the Conservancy has evaluated events and transactions for potential recognition or disclosure through March 13, 2018, the date the financial statements were issued.

During October 2017, the Conservancy paid a total of \$600,000 to The Conservation Fund. This comprised repayment of \$440,841 of principal and payment of \$159,159 of interest accrued on the note payable.