

FINANCIAL STATEMENTS



**FOR THE YEARS ENDED
SEPTEMBER 30, 2015 AND 2014**

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, 2015 and 2014, 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, 2015 and 2014, 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 1, 2016

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THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 270,734	\$ 369,563
Investments	142,845	142,699
Grants receivable	434,021	237,934
Pledges receivable	-	5,000
Prepaid expenses	11,503	10,376
Other assets	<u>-</u>	<u>50,000</u>
Total current assets	<u>859,103</u>	<u>815,572</u>
PROPERTY AND EQUIPMENT		
Land and easements	3,113,942	265,985
Equipment	59,385	54,873
Leasehold improvements	<u>9,298</u>	<u>9,298</u>
	3,182,625	330,156
Less: Accumulated depreciation and amortization	<u>(55,461)</u>	<u>(50,389)</u>
Net property and equipment	<u>3,127,164</u>	<u>279,767</u>
NONCURRENT ASSETS		
Security deposits	<u>6,149</u>	<u>6,149</u>
TOTAL ASSETS	<u>\$ 3,992,416</u>	<u>\$ 1,101,488</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	<u>\$ 385,500</u>	<u>\$ 82,810</u>
LONG-TERM LIABILITIES		
Note payable	2,170,000	-
Deferred rent abatement	<u>29,615</u>	<u>25,748</u>
Total long-term liabilities	<u>2,199,615</u>	<u>25,748</u>
Total liabilities	<u>2,585,115</u>	<u>108,558</u>
NET ASSETS		
Unrestricted:		
Undesignated	686,942	196,650
Board-designated Endowment Fund	63,236	63,040
Board-designated Stewardship Fund	<u>190,215</u>	<u>189,627</u>
Total unrestricted net assets	940,393	449,317
Temporarily restricted	<u>466,908</u>	<u>543,613</u>
Total net assets	<u>1,407,301</u>	<u>992,930</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,992,416</u>	<u>\$ 1,101,488</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, 2015 AND 2014

	<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and contributions	\$ 1,308,088	\$ 892,484	\$ 2,200,572
Interest and investment income	1,751	-	1,751
In-kind contributions	7,650	-	7,650
Other revenue	-	-	-
Net assets released from donor restrictions - satisfaction of donor restrictions	<u>969,189</u>	<u>(969,189)</u>	<u>-</u>
Total support and revenue	<u>2,286,678</u>	<u>(76,705)</u>	<u>2,209,973</u>
EXPENSES			
Program Services:			
Community Conservation	271,175	-	271,175
Land Protection	815,623	-	815,623
Public Policy	<u>272,000</u>	<u>-</u>	<u>272,000</u>
Total program services	<u>1,358,798</u>	<u>-</u>	<u>1,358,798</u>
Supporting Services:			
Management and General	136,549	-	136,549
Fundraising	<u>300,255</u>	<u>-</u>	<u>300,255</u>
Total supporting services	<u>436,804</u>	<u>-</u>	<u>436,804</u>
Total expenses	<u>1,795,602</u>	<u>-</u>	<u>1,795,602</u>
Changes in net assets	491,076	(76,705)	414,371
Net assets at beginning of year	<u>449,317</u>	<u>543,613</u>	<u>992,930</u>
NET ASSETS AT END OF YEAR	<u>\$ 940,393</u>	<u>\$ 466,908</u>	<u>\$ 1,407,301</u>

<u>2014</u>		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 1,108,174	\$ 506,264	\$ 1,614,438
12,345	-	12,345
18,460	-	18,460
3,907	-	3,907
<u>523,438</u>	<u>(523,438)</u>	<u>-</u>
<u>1,666,324</u>	<u>(17,174)</u>	<u>1,649,150</u>
258,099	-	258,099
522,687	-	522,687
<u>421,915</u>	<u>-</u>	<u>421,915</u>
<u>1,202,701</u>	<u>-</u>	<u>1,202,701</u>
107,410	-	107,410
<u>215,497</u>	<u>-</u>	<u>215,497</u>
<u>322,907</u>	<u>-</u>	<u>322,907</u>
<u>1,525,608</u>	<u>-</u>	<u>1,525,608</u>
140,716	(17,174)	123,542
<u>308,601</u>	<u>560,787</u>	<u>869,388</u>
<u>\$ 449,317</u>	<u>\$ 543,613</u>	<u>\$ 992,930</u>

THE POTOMAC CONSERVANCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Program Services			Supporting Services				Total Expenses
	Community Conservation	Land Protection	Public Policy	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related benefits	\$ 175,944	\$ 158,623	\$ 97,109	\$ 431,676	\$ 108,990	\$ 133,785	\$ 242,775	\$ 674,451
Occupancy	15,829	28,417	26,279	70,525	7,508	3,754	11,262	81,787
Professional fees	28,084	518,468	88,375	634,927	58,647	48,232	106,879	741,806
Insurance	3,014	6,515	3,014	12,543	3,014	753	3,767	16,310
Depreciation and amortization	1,013	1,522	1,522	4,057	761	254	1,015	5,072
Printing and production	18,033	2,996	6,911	27,940	5,122	75,205	80,327	108,267
Subscriptions and publications	-	9,635	1,443	11,078	2,784	222	3,006	14,084
Telecommunications	1,976	5,531	2,464	9,971	1,575	427	2,002	11,973
Travel and related expenses	2,591	5,015	3,406	11,012	10,393	4,207	14,600	25,612
Bank charges and other fees	-	-	-	-	7,041	-	7,041	7,041
Program materials and supplies	3,620	5,857	2,007	11,484	-	-	-	11,484
Equipment and rental	1,055	4,526	2,462	8,043	914	4,366	5,280	13,323
Licenses and fees	-	-	-	-	2,202	-	2,202	2,202
Supplies	3,269	3,319	1,699	8,287	1,907	3,950	5,857	14,144
Special events	774	736	500	2,010	20	24,987	25,007	27,017
Staff training and education	1,290	-	1,325	2,615	4,970	113	5,083	7,698
Interest	-	24,413	-	24,413	-	-	-	24,413
Other	2,968	767	152	3,887	5,031	-	5,031	8,918
Allocation of management and general	11,715	39,283	33,332	84,330	(84,330)	-	(84,330)	-
TOTAL	\$ 271,175	\$ 815,623	\$ 272,000	\$ 1,358,798	\$ 136,549	\$ 300,255	\$ 436,804	\$ 1,795,602

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Program Services			Total Program Services	Supporting Services			Total Expenses
	Community Conservation	Land Protection	Public Policy		Management and General	Fundraising	Total Supporting Services	
Salaries and related benefits	\$ 123,717	\$ 162,443	\$153,117	\$ 439,277	\$ 87,243	\$ 97,344	\$ 184,587	\$ 623,864
Occupancy	17,410	31,672	30,468	79,550	8,705	4,353	13,058	92,608
Professional fees	55,372	203,654	154,984	414,010	80,002	44,783	124,785	538,795
Insurance	2,978	5,211	2,978	11,167	2,978	744	3,722	14,889
Depreciation and amortization	1,349	2,023	2,023	5,395	1,013	337	1,350	6,745
Printing and production	12,923	457	21,910	35,290	7,956	59,709	67,665	102,955
Subscriptions and publications	1,250	2,055	274	3,579	1,886	136	2,022	5,601
Telecommunications	1,454	6,045	2,489	9,988	2,298	432	2,730	12,718
Travel and related expenses	6,160	6,740	6,998	19,898	9,626	439	10,065	29,963
Bank charges and other fees	-	-	-	-	-	4,407	4,407	4,407
Program materials and supplies	13,720	15,854	462	30,036	-	-	-	30,036
Equipment and rental	1,041	5,002	2,428	8,471	902	139	1,041	9,512
Licenses and fees	-	293	-	293	758	-	758	1,051
Supplies	2,198	3,225	2,616	8,039	1,291	1,869	3,160	11,199
Special events	2,552	1,000	100	3,652	1,650	-	1,650	5,302
Staff training and education	957	755	150	1,862	2,170	805	2,975	4,837
Moving expenses	-	-	-	-	17,204	-	17,204	17,204
Other	-	1,572	-	1,572	12,350	-	12,350	13,922
Allocation of management and general	15,018	74,686	40,918	130,622	(130,622)	-	(130,622)	-
TOTAL	\$ 258,099	\$ 522,687	\$421,915	\$ 1,202,701	\$ 107,410	\$ 215,497	\$ 322,907	\$1,525,608

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 414,371	\$ 123,542
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,072	6,745
Unrealized loss (gain) on investments	5,134	(5,849)
Realized (gain) loss on sales of investments	(47)	188
(Increase) decrease in:		
Grants receivable	(196,087)	(43,939)
Pledges receivable	5,000	24,500
Prepaid expenses	(1,127)	(6,753)
Other assets	-	(50,000)
Security deposits	-	(110)
Increase (decrease) in:		
Accounts payable and accrued liabilities	302,690	(55,322)
Deferred rent abatement	<u>3,867</u>	<u>25,748</u>
Net cash provided by operating activities	<u>538,873</u>	<u>18,750</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for leasehold improvements	-	(9,298)
Purchase of land	(2,797,957)	-
Purchase of equipment	(4,512)	-
Purchase of investments	<u>(5,233)</u>	<u>(5,217)</u>
Net cash used by investing activities	<u>(2,807,702)</u>	<u>(14,515)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	<u>2,170,000</u>	<u>-</u>
Net cash provided by financing activities	<u>2,170,000</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(98,829)	4,235
Cash and cash equivalents at beginning of year	<u>369,563</u>	<u>365,328</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 270,734</u>	<u>\$ 369,563</u>
SUPPLEMENTAL INFORMATION		
Application of Deposit for Land Purchase	<u>\$ 50,000</u>	<u>\$ -</u>
SCHEDULE OF NONCASH INVESTING TRANSACTIONS		
Donated Securities	<u>\$ 27,711</u>	<u>\$ 36,702</u>

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**

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.

The Conservancy purchased land during the year ended September 30, 2015, which was acquired and recorded at fair market value.

The Conservancy also holds several perpetual conservation easements, which were received as a donation and valued at \$1 per easement. 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.

Depreciation and amortization expense for the years ended September 30, 2015 and 2014 totaled \$5,072 and \$6,745, respectively.

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.

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

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

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.

Grants receivable represents amounts due from donors for reimbursable expenses incurred in accordance with the grant agreements. Grant funding received in advance of incurring the related expenses is recorded as a refundable advance.

In-kind contributions -

The Conservancy receives contributions in the form of donated 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 (as defined by FASB ASC 958).

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.

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.

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

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

Risks and uncertainties (continued) -

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.

2. **INVESTMENTS**

Investments consisted of the following at September 30, 2015 and 2014:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money Market Funds	\$ -	\$ -	\$ 28	\$ 28
Mutual Funds	<u>128,801</u>	<u>142,845</u>	<u>123,493</u>	<u>142,671</u>
TOTAL INVESTMENTS	<u>\$ 128,801</u>	<u>\$ 142,845</u>	<u>\$ 123,521</u>	<u>\$ 142,699</u>

Included in interest and investment income are the following for the years ended September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 6,838	\$ 6,684
Unrealized (loss) gain on investments	(5,134)	5,849
Realized gain (loss) on sales of investments	<u>47</u>	<u>(188)</u>
TOTAL INTEREST AND INVESTMENT INCOME	<u>\$ 1,751</u>	<u>\$ 12,345</u>

3. **NOTE PAYABLE**

During May 2015, the Conservancy entered into a \$2,170,000 note payable to the Conservation Fund for the purchase of White Horse Mountain. The note bears interest of 3%, however, principal and interest payments are not due and payable (optional) until the note matures on May 12, 2018.

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, 2015, the outstanding principal of the note payable was \$2,170,000. As of the date of this report, the Conservancy has secured approximately \$1,450,000 in pledges that will be used toward payment of principal on the note.

For the year ended September 30, 2015, interest expense of \$24,413 has been accrued and recorded as expense in the accompanying financial statements.

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

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**

4. LINE OF CREDIT

The Conservancy has a secured \$100,000 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, 2015 and 2014, there were no outstanding borrowings.

5. BOARD-DESIGNATED NET ASSETS

As of September 30, 2015 and 2014, net assets have been designated by the Board of Directors for the following purposes:

	2015	2014
Endowment Fund	\$ 63,236	\$ 63,040
Stewardship Fund	190,215	189,627
TOTAL BOARD-DESIGNATED NET ASSETS	<u>\$ 253,451</u>	<u>\$ 252,667</u>

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at September 30, 2015 and 2014:

	2015	2014
Stewardship Fund	\$ 183,713	\$ 182,636
Community Conservation	84,061	104,574
Land Protection	85,036	90,807
Public Policy	90,032	124,342
Time Restricted	-	5,644
Fundraising	24,066	35,610
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 466,908</u>	<u>\$ 543,613</u>

7. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions for the years ended September 30, 2015 and 2014, by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

	2015	2014
Stewardship Fund	\$ 13,238	\$ 14,119
Community Conservation	65,513	65,841
Land Protection	718,456	253,636
Public Policy	139,310	145,643
Passage of time	11,129	21,881
Fundraising	21,543	22,318
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 969,189</u>	<u>\$ 523,438</u>

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

8. **IN-KIND CONTRIBUTIONS**

During the year ended September 30, 2015, the Conservancy was the beneficiary of donated services, which allowed the Conservancy to provide greater resources toward various programs. Donated legal services were estimated at a fair value of \$7,650 and \$18,460 during the years ended September 30, 2015 and 2014, 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.

Additionally, in January, 2015, the Conservancy entered into a new lease for the Winchester Office. The lease term is for one year, commencing February 1, 2015, with a monthly rent payment of \$505.

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, 2015 and 2014, the total deferred rent liability aggregated \$29,615 and \$25,748, respectively.

The following is a schedule of the future minimum payments required under all office leases:

Year Ending September 30,

2016	\$	79,552
2017		79,845
2018		82,244
2019		84,712
2020		<u>28,514</u>
	\$	<u>354,867</u>

Occupancy expense, including real estate taxes and storage rental, for the years ended September 30, 2015 and 2014, totaled \$81,787 and \$92,608, 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, 2015 and 2014, totaled \$15,421 and \$13,946, 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.

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11. FAIR VALUE MEASUREMENT (Continued)

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, 2015.

- *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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
Mutual Funds:				
Balanced Fund	\$ 19,664	\$ -	\$ -	\$ 19,664
Growth and Income Fund	18,204	-	-	18,204
Bond Fund	82,451	-	-	82,451
Equity Income Fund	<u>22,526</u>	<u>-</u>	<u>-</u>	<u>22,526</u>
TOTAL	<u>\$ 142,845</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 142,845</u>

The table below summarizes, by level within the fair value hierarchy, the Conservancy's investments as of September 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
Money Market Funds	\$ 28	\$ -	\$ -	\$ 28
Mutual Funds:				
Balanced Fund	19,905	-	-	19,905
Growth and Income Fund	18,698	-	-	18,698
Bond Fund	80,582	-	-	80,582
Equity Income Fund	<u>23,486</u>	<u>-</u>	<u>-</u>	<u>23,486</u>
TOTAL	<u>\$ 142,699</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 142,699</u>

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12. PURCHASE OF LAND

During the fiscal year ended September 30, 2014, the Conservancy paid a non-refundable deposit to purchase a real estate option, in exchange for consideration of \$50,000, for the 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 'White Horse Mountain' land for a price of \$2,825,000. All option consideration payments made by the Conservancy were credited against the purchase price at closing.

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 1, 2016, the date the financial statements were issued.