

FINANCIAL STATEMENTS



**FOR THE YEARS ENDED
SEPTEMBER 30, 2016 AND 2015**

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, 2016 and 2015, 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, 2016 and 2015, 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 8, 2017

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THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 256,881	\$ 270,734
Investments	155,046	142,845
Grants receivable	140,426	434,021
Prepaid expenses	<u>10,954</u>	<u>11,503</u>
Total current assets	<u>563,307</u>	<u>859,103</u>
PROPERTY AND EQUIPMENT		
Equipment	59,385	59,385
Leasehold improvements	<u>9,298</u>	<u>9,298</u>
	68,683	68,683
Less: Accumulated depreciation and amortization	<u>(58,625)</u>	<u>(55,461)</u>
Net property and equipment	<u>10,058</u>	<u>13,222</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>\$ 3,693,456</u>	<u>\$ 3,992,416</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	\$ 70,000	\$ -
Accounts payable and accrued liabilities	280,123	385,500
Deferred rent liability, current portion	<u>5,418</u>	<u>-</u>
Total current liabilities	<u>355,541</u>	<u>385,500</u>
NONCURRENT LIABILITIES		
Note payable	2,170,000	2,170,000
Deferred rent liability, net of current portion	<u>21,058</u>	<u>29,615</u>
Total noncurrent liabilities	<u>2,191,058</u>	<u>2,199,615</u>
Total liabilities	<u>2,546,599</u>	<u>2,585,115</u>
NET ASSETS		
Unrestricted:		
Undesignated	521,009	686,942
Board-designated Reserve Fund	63,395	63,236
Board-designated Stewardship Fund	<u>190,693</u>	<u>190,215</u>
Total unrestricted net assets	775,097	940,393
Temporarily restricted	<u>371,760</u>	<u>466,908</u>
Total net assets	<u>1,146,857</u>	<u>1,407,301</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,693,456</u>	<u>\$ 3,992,416</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, 2016 AND 2015**

	2016		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grants and contributions	\$ 1,047,870	\$ 288,574	\$ 1,336,444
Interest and investment revenue	12,868	-	12,868
In-kind contributions	7,016	-	7,016
Other income	1,500	-	1,500
Net assets released from donor restrictions - satisfaction of donor restrictions	<u>383,722</u>	<u>(383,722)</u>	<u>-</u>
Total support and revenue	<u>1,452,976</u>	<u>(95,148)</u>	<u>1,357,828</u>
EXPENSES			
Program Services:			
Land Protection	628,763	-	628,763
Public Policy	174,282	-	174,282
Community Conservation	266,265	-	266,265
Communications	<u>176,853</u>	<u>-</u>	<u>176,853</u>
Total program services	<u>1,246,163</u>	<u>-</u>	<u>1,246,163</u>
Supporting Services:			
Management and General	96,496	-	96,496
Fundraising	<u>275,613</u>	<u>-</u>	<u>275,613</u>
Total supporting services	<u>372,109</u>	<u>-</u>	<u>372,109</u>
Total expenses	<u>1,618,272</u>	<u>-</u>	<u>1,618,272</u>
Changes in net assets	(165,296)	(95,148)	(260,444)
Net assets at beginning of year	<u>940,393</u>	<u>466,908</u>	<u>1,407,301</u>
NET ASSETS AT END OF YEAR	<u>\$ 775,097</u>	<u>\$ 371,760</u>	<u>\$ 1,146,857</u>

2015		
Unrestricted	Temporarily Restricted	Total
\$ 1,308,088	\$ 892,484	\$ 2,200,572
1,751	-	1,751
7,650	-	7,650
-	-	-
<u>969,189</u>	<u>(969,189)</u>	<u>-</u>
<u>2,286,678</u>	<u>(76,705)</u>	<u>2,209,973</u>
815,623	-	815,623
272,000	-	272,000
271,175	-	271,175
<u>-</u>	<u>-</u>	<u>-</u>
<u>1,358,798</u>	<u>-</u>	<u>1,358,798</u>
136,549	-	136,549
<u>300,255</u>	<u>-</u>	<u>300,255</u>
<u>436,804</u>	<u>-</u>	<u>436,804</u>
<u>1,795,602</u>	<u>-</u>	<u>1,795,602</u>
491,076	(76,705)	414,371
<u>449,317</u>	<u>543,613</u>	<u>992,930</u>
<u>\$ 940,393</u>	<u>\$ 466,908</u>	<u>\$ 1,407,301</u>

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
Contractual and professional fees	359,822	36,730	41,109	33,820	471,481	23,115	68,415	91,530	563,011
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
Printing and production	144	1,430	2,378	12,757	16,709	2,383	63,199	65,582	82,291
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.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (260,444)	\$ 414,371
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	3,164	5,072
Unrealized (gain) loss on investments	(7,368)	5,134
(Increase) decrease in:		
Grants receivable	293,595	(196,087)
Pledges receivable	-	5,000
Prepaid expenses	549	(1,127)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(105,377)	302,690
Deferred rent liability	<u>(3,139)</u>	<u>3,867</u>
Net cash (used) provided by operating activities	<u>(79,020)</u>	<u>538,920</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land	-	(2,797,957)
Purchase of equipment	-	(4,512)
Purchase of investments	<u>(4,833)</u>	<u>(5,280)</u>
Net cash used by investing activities	<u>(4,833)</u>	<u>(2,807,749)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from line of credit	70,000	-
Proceeds from note payable	<u>-</u>	<u>2,170,000</u>
Net cash provided by financing activities	<u>70,000</u>	<u>2,170,000</u>
Net decrease in cash and cash equivalents	(13,853)	(98,829)
Cash and cash equivalents at beginning of year	<u>270,734</u>	<u>369,563</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 256,881</u>	<u>\$ 270,734</u>
SUPPLEMENTAL INFORMATION		
Application of Deposit for Land Purchase	<u>\$ -</u>	<u>\$ 50,000</u>
Interest Paid	<u>\$ 1,436</u>	<u>\$ -</u>
SCHEDULE OF NONCASH INVESTING TRANSACTIONS		
Donated Securities	<u>\$ 23,507</u>	<u>\$ 27,711</u>

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

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, 2016 and 2015 totaled \$3,164 and \$5,072, 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, 2016 AND 2015

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.

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.

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.

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

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

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.

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, 2016 and 2015:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Mutual Funds	<u>\$ 133,634</u>	<u>\$ 155,046</u>	<u>\$ 128,801</u>	<u>\$ 142,845</u>

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

2. INVESTMENTS (Continued)

Interest and investment income, during the years ended September 30, 2016 and 2015, is comprised of the following:

	2016	2015
Interest and dividends	\$ 5,613	\$ 6,885
Unrealized gain (loss) on investments	7,255	(5,134)
TOTAL INTEREST AND INVESTMENT INCOME	\$ 12,868	\$ 1,751

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, 2016 and 2015, the outstanding principal balance aggregated \$2,170,000.

During the years ended September 30, 2016 and 2015, interest expense of \$65,100 and \$24,413, respectively, has been expensed in the accompanying financial statements. As of September 30, 2016 and 2015, the accrued interest liability aggregated \$89,513 and \$24,413, 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 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, 2016 the balance due under the line of credit aggregated \$70,000. There were no outstanding borrowings as of September 30, 2015.

5. BOARD-DESIGNATED NET ASSETS

As of September 30, 2016 and 2015, net assets have been designated by the Board of Directors for the following purposes:

	2016	2015
Endowment Fund	\$ 63,395	\$ 63,236
Stewardship Fund	190,693	190,215
TOTAL BOARD-DESIGNATED NET ASSETS	\$ 254,088	\$ 253,451

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Stewardship Fund	\$ 174,402	\$ 183,713
Community Conservation	116,321	84,061
Land Protection	54,172	85,036
Public Policy	26,865	90,032
Fundraising	<u>-</u>	<u>24,066</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ <u>371,760</u>	\$ <u>466,908</u>

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:

	<u>2016</u>	<u>2015</u>
Stewardship Fund	\$ 17,023	\$ 13,238
Community Conservation	144,565	65,513
Communications	21,883	-
Land Protection	98,019	718,456
Public Policy	78,166	139,310
Passage of time	-	11,129
Fundraising	<u>24,066</u>	<u>21,543</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ <u>383,722</u>	\$ <u>969,189</u>

8. IN-KIND CONTRIBUTIONS

During the years ended September 30, 2016 and 2015, 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 \$7,016 and \$7,650 during the years ended September 30, 2016 and 2015, 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.

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

9. LEASE COMMITMENTS (Continued)

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, 2016 and 2015, the total deferred rent liability aggregated \$26,476 and \$29,615, 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.

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

Year Ending September 30,

2017	\$	81,945
2018		82,244
2019		84,712
2020		<u>28,514</u>
	\$	<u>277,415</u>

Occupancy expense, including real estate taxes and storage rental, for the years ended September 30, 2016 and 2015, totaled \$85,860 and \$81,787, 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, 2016 and 2015, totaled \$12,271 and \$15,421, 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.

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11. FAIR VALUE MEASUREMENT (Continued)

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, 2016.

- *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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
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>

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>

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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 8, 2017, the date the financial statements were issued.