

SKAGIT LAND TRUST

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

MARCH 31, 2016 AND 2015



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Skagit Land Trust
Mount Vernon, Washington

We have audited the accompanying financial statements of Skagit Land Trust (a nonprofit organization), which comprise the statements of financial position as of March 31, 2016 and 2015, and the related statements of activities, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Skagit Land Trust as of March 31, 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.

A handwritten signature in black ink that reads "Jones & Associates LLC, CPAs". The signature is written in a cursive, flowing style.

Jones & Associates, LLC CPAs
August 4, 2016

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SKAGIT LAND TRUST
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2016 AND 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 695,967	\$ 637,816
Accounts receivable	101,553	25,460
Pledges receivable	23,000	23,000
Prepaid expenses and other	37,891	24,035
Total current assets	858,411	710,311
Pledges receivable, noncurrent	-	23,000
Investments	1,299,879	1,228,944
Property and equipment, net	7,084,802	6,533,062
	\$ 9,243,092	\$ 8,495,317
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 6,077	\$ 3,674
Payroll related liabilities	36,321	35,350
Total current liabilities	42,398	39,024
Liability for acquisition of Salmon Recovery Funding Board replacement land	76,500	76,500
Total liabilities	118,898	115,524
 NET ASSETS		
Unrestricted		
Undesignated	493,436	557,273
Expended on conserved property	6,784,488	6,219,153
Board designated	708,925	530,406
	7,986,849	7,306,832
Temporarily restricted	1,137,345	1,072,961
Total net assets	9,124,194	8,379,793
	\$ 9,243,092	\$ 8,495,317

SKAGIT LAND TRUST
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2016

	Unrestricted	Temporarily Restricted	Total
OPERATING SUPPORT AND REVENUE			
Public Support			
Contributions	\$ 266,395	\$ 243,090	\$ 509,485
Grants and fees	494,958	-	494,958
Special events, net	43,437	-	43,437
In-kind contributions	334,910	-	334,910
Total public support	<u>1,139,700</u>	<u>243,090</u>	<u>1,382,790</u>
Revenue			
Investment return	(51,999)	-	(51,999)
Rental and other	26,846	-	26,846
Total revenue	<u>(25,153)</u>	<u>-</u>	<u>(25,153)</u>
Net assets released from restrictions			
Satisfaction of program requirements	<u>178,706</u>	<u>(178,706)</u>	<u>-</u>
Total operating support and revenue	<u>1,293,253</u>	<u>64,384</u>	<u>1,357,637</u>
OPERATING EXPENSES			
Program services	448,028	-	448,028
Supporting services			
Management and general	63,372	-	63,372
Fundraising	61,182	-	61,182
Total operating expenses	<u>572,582</u>	<u>-</u>	<u>572,582</u>
Operating change in net assets	720,671	64,384	785,055
NONOPERATING ACTIVITY			
Net loss on sale of property	<u>(40,654)</u>	<u>-</u>	<u>(40,654)</u>
Change in net assets	680,017	64,384	744,401
NET ASSETS			
Beginning of the year	<u>7,306,832</u>	<u>1,072,961</u>	<u>8,379,793</u>
End of the year	<u>\$ 7,986,849</u>	<u>\$ 1,137,345</u>	<u>\$ 9,124,194</u>
Note: Costs capitalized for conservation land			<u>\$ 760,335</u>

SKAGIT LAND TRUST
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2015

	Unrestricted	Temporarily Restricted	Total
OPERATING SUPPORT AND REVENUE			
Public Support			
Contributions	\$ 232,792	\$ 249,785	\$ 482,577
Grants and fees	507,762	-	507,762
Special events, net	41,917	-	41,917
In-kind contributions	20,354	-	20,354
Total operating public support	<u>802,825</u>	<u>249,785</u>	<u>1,052,610</u>
Revenue			
Investment return	12,103	-	12,103
Rental and other	28,731	-	28,731
Total operating revenue	<u>40,834</u>	<u>-</u>	<u>40,834</u>
Net assets released from restrictions			
Satisfaction of program requirements	227,747	(227,747)	-
Satisfaction of time restrictions	9,838	(9,838)	-
Total net assets released from restrictions	<u>237,585</u>	<u>(237,585)</u>	<u>-</u>
 Total operating support and revenue	 <u>1,081,244</u>	 <u>12,200</u>	 <u>1,093,444</u>
OPERATING EXPENSES			
Program services	685,470	-	685,470
Supporting services			
Management and general	57,493	-	57,493
Fundraising	60,717	-	60,717
Total operating expenses	<u>803,680</u>	<u>-</u>	<u>803,680</u>
 Change in net assets	 277,564	 12,200	 289,764
NET ASSETS			
Beginning of the year	<u>7,029,268</u>	<u>1,060,761</u>	<u>8,090,029</u>
End of the year	<u>\$ 7,306,832</u>	<u>\$ 1,072,961</u>	<u>\$ 8,379,793</u>
 Note: Costs capitalized for conservation land			 <u>\$ 270,265</u>

SKAGIT LAND TRUST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MARCH 31, 2016

	Program Services				Supporting Services		
	Education and Outreach	Stewardship	Land	Total	Management and General	Fundraising	Total
Salaries and wages	\$ 50,035	\$ 91,215	\$ 113,620	\$ 254,870	\$ 28,494	\$ 42,885	\$ 326,249
Payroll tax and benefits	6,365	14,664	12,091	33,120	5,980	4,687	43,787
Total payroll and related	56,400	105,879	125,711	287,990	34,474	47,572	370,036
Bank charges	-	-	-	-	43	3,688	3,731
Commercial insurance	682	2,947	1,363	4,992	1,363	682	7,037
Community outreach	3,780	292	95	4,167	6	569	4,742
Conferences and training	395	710	500	1,605	25	-	1,630
Contract services	-	44,294	30	44,324	-	-	44,324
Copying and printing	6,026	500	390	6,916	222	1,608	8,746
Depreciation	-	-	-	-	13,595	-	13,595
Interest	-	-	-	-	52	-	52
Land transaction costs	-	12,246	7,311	19,557	-	-	19,557
Maintenance and repair	818	1,636	1,636	4,090	1,741	818	6,649
Mileage and travel	1,675	4,995	2,787	9,457	255	302	10,014
Miscellaneous	1,932	1,638	1,268	4,838	487	686	6,011
Occupancy	601	1,322	1,202	3,125	1,157	601	4,883
Postage	1,068	503	529	2,100	616	738	3,454
Professional services	2,882	5,763	24,363	33,008	6,936	2,882	42,826
Property taxes and fees	501	2,878	3,490	6,869	1,001	501	8,371
Supplies	1,206	12,903	881	14,990	1,399	535	16,924
	<u>\$ 77,966</u>	<u>\$ 198,506</u>	<u>\$ 171,556</u>	<u>\$ 448,028</u>	<u>\$ 63,372</u>	<u>\$ 61,182</u>	<u>\$ 572,582</u>

See accompanying notes to financial statements.

SKAGIT LAND TRUST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MARCH 31, 2015

	Program Services				Supporting Services		
	Education and Outreach	Stewardship	Land	Total	Management and General	Fundraising	Total
Salaries and wages	\$ 64,748	\$ 79,654	\$ 134,773	\$ 279,175	\$ 26,945	\$ 42,388	\$ 348,508
Payroll tax and benefits	6,622	12,551	11,961	31,134	2,945	4,164	38,243
Total payroll and related	71,370	92,205	146,734	310,309	29,890	46,552	386,751
Bank charges	-	-	-	-	-	3,353	3,353
Commercial insurance	817	3,218	1,634	5,669	1,617	817	8,103
Community outreach	2,683	623	80	3,386	-	1,487	4,873
Conferences and training	130	120	-	250	-	30	280
Contract services	1,630	35,290	1,635	38,555	10	5	38,570
Copying and printing	4,090	349	455	4,894	56	1,779	6,729
Depreciation	-	-	-	-	13,595	-	13,595
Land transaction costs	-	-	255,737	255,737	-	-	255,737
Maintenance and repair	790	1,580	1,580	3,950	1,786	790	6,526
Mileage and travel	840	5,029	2,199	8,068	171	99	8,338
Miscellaneous	917	1,169	1,177	3,263	1,566	582	5,411
Occupancy	766	1,725	1,725	4,216	1,616	766	6,598
Postage	1,533	175	162	1,870	158	654	2,682
Professional services	2,467	4,934	23,717	31,118	5,127	2,467	38,712
Property taxes and fees	503	4,375	1,747	6,625	1,007	503	8,135
Supplies	1,357	4,364	1,839	7,560	894	833	9,287
	<u>\$ 89,893</u>	<u>\$ 155,156</u>	<u>\$ 440,421</u>	<u>\$ 685,470</u>	<u>\$ 57,493</u>	<u>\$ 60,717</u>	<u>\$ 803,680</u>

See accompanying notes to financial statements.

SKAGIT LAND TRUST
STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 744,401	\$ 289,764
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated property	(314,200)	-
Depreciation	13,595	13,595
Unrealized loss (gain) on investments	47,704	29,369
Net changes in operating assets and liabilities:		
Accounts receivable	(76,093)	2,504
Pledges receivable	23,000	(36,162)
Prepaid expenses and other	(13,856)	(3,589)
Accounts payable	2,403	(248)
Payroll related liabilities	971	(2,132)
	427,925	293,101
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(118,639)	(64,636)
Purchase of property	(446,135)	(270,265)
Sale of property	195,000	-
	(369,774)	(334,901)
 NET CHANGE IN CASH AND CASH EQUIVALENTS	58,151	(41,800)
 CASH AND CASH EQUIVALENTS		
Beginning of the year	637,816	679,616
End of the year	\$ 695,967	\$ 637,816

SKAGIT LAND TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

Note 1 – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities – Skagit Land Trust (the Trust) is a not-for-profit corporation organized in 1992 by three visionary leaders and 31 Charter Members to help protect the natural lands, open space and wildlife habitat of Skagit County for the benefit of this and future generations. The Trust is a respected community organization with strong local support and is recognized as an innovative leader in conservation. The nine staff, 18 board members and 350 active volunteers are joined by over 1,000 members to protect the most important and beloved lands and landscapes in Skagit County. The Trust has directly protected more than 7,000 acres of land including over 32 miles of shoreline. Skagit Land Trust also assists other organizations to conserve and steward conservation properties throughout Skagit County. The Trust is currently working on a dozen new projects under the guidance of a Conservation Strategy that helps protect the best, most at-risk lands first. Skagit Land Trust holds the national distinction of land trust accreditation from the Land Trust Accreditation Commission, an independent program of the Land Trust Alliance.

Basis of Accounting and Presentation – The financial statements have been prepared on the accrual basis of accounting and report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. It is the Trust’s policy to recognize restricted contributions in the unrestricted net asset class if the restrictions have been met in the same year. The Trust had no permanently restricted net assets at March 31, 2016 and 2015.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Trust considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents consist of checking and money market accounts. Certain balances of cash and cash equivalents and investments are limited to board designations and donor restrictions as described in Note 4. The Trust maintains certain cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. The Trust has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Investments – The Trust carries investments with readily determinable values at their fair value in the statements of financial position. Investment return is included in unrestricted net assets in the accompanying statements of activities. Investments are subject to market fluctuation. Management believes that market risk for these investments is moderate.

Fair Value Measurements – Fair value is defined as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Accounting standards establish a hierarchy for measuring fair value that gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

Level 1 Unadjusted quoted prices for identical assets or liabilities in active markets.

SKAGIT LAND TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Level 2 Quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, or other inputs that can be corroborated by observable market data.

Level 3 Inputs that are not observable that reflect management's assumptions and estimates.

Fair value measurements apply to the Trust's equities, commodities, government securities, and corporate bonds, which are classified within level 1 of the fair value hierarchy.

Accounts Receivable – Accounts receivable consist primarily of amounts due from governmental agencies and other organizations. All account balances are unsecured, due in less than one year and are considered fully collectible by management.

Pledges Receivable – Pledges receivable are unconditional promises to give that are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of benefits received. All account balances are unsecured and due in less than one year at March 31, 2016. No allowance for uncollectible amounts has been established as management considers all pledges to be fully collectible.

Property and Equipment – Purchased property (other than land) is stated at cost. Donated property (other than land) is recognized as revenue and capitalized at its estimated fair value at the date of receipt. The Trust capitalizes assets that have a useful life greater than one year and a value greater than \$1,000. Depreciation is computed using the straight-line method based on estimated useful lives of five to seven years for equipment and furniture and fixtures and ten to 30 years for buildings and improvements.

The Trust records gifts of land at their appraised value. Although the value of conservation easements can be determined by appraisal, it is generally accepted that land trusts carry easements at a nominal value for financial recording purposes. Conservation easements are currently valued at zero dollar value in the Trust's financial records as they carry no rights or affirmative use or access except for monitoring purposes, and constitute an obligation of the Trust to maintain and defend them. Conservation easements are expensed in the year acquired.

Acquisition Liability – The Trust received \$104,500 from a government agency to allow a flowage easement through conservation lands under its control. The flowage easement reduced the value of the land by \$104,500. As part of the agreement, the Trust is required by the Salmon Recovery Funding Board (SRFB) to use \$76,500 of the funds received to purchase new conservation land. This amount is included as a noncurrent liability on the statement of financial position until the land is acquired at which time the funds will be included in revenue.

SKAGIT LAND TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Support and Revenue Recognition – Contributions and grants are recorded as increases in unrestricted or temporarily restricted net assets, depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restriction.

In-kind Contributions – Donations of property, goods and services are recorded as support at the estimated fair value at the date of donation if they meet the criteria for recognition.

Donated services are recognized as revenue and corresponding expense when (a) the services received create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Trust. The Trust received donated services for legal services related to land transactions at an estimate of \$18,600 and \$18,240 for the years ended March 31, 2016 and 2015, respectively. These transactions met the criteria for recognition and are recorded in the statements of activities.

Additionally, volunteers have made significant contributions of time to the Trust's program, policy-making, fundraising, and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services under accounting principles generally accepted in the United States of America, and, accordingly, is not reflected in the accompanying financial statements.

Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income Tax Status – The Trust is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Trust qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

Skagit Land Trust files information and tax returns in the U.S. federal jurisdiction, and state and local jurisdictions. The Trust is subject to U.S. federal, state and local examinations by tax authorities for the current year and certain prior years based on applicable laws and regulations.

Subsequent Events – Subsequent events were evaluated through the independent auditors' report date, which is the date the financial statements were available to be issued.

SKAGIT LAND TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

Note 2 – Investments

The Trust's investments consist of the following at March 31:

	2016	2015
Equities	\$ 822,553	\$ 815,217
Corporate bonds	376,762	335,670
Government securities	42,552	34,864
Commodities	41,749	28,253
Cash and money market funds	16,263	14,940
	<u>\$ 1,299,879</u>	<u>\$ 1,228,944</u>

The following schedule summarizes the investment return in the statement of activities for the years ended March 31:

	2016	2015
Interest and dividends	\$ 40,388	\$ 37,455
Realized (loss) gain	(34,139)	14,536
Unrealized (loss) gain	(47,704)	(29,369)
Investment fees	(10,544)	(10,519)
	<u>\$ (51,999)</u>	<u>\$ 12,103</u>

Note 3 – Property and Equipment and Easements

Property consists of the following at March 31:

	2016	2015
Office building	\$ 211,245	211,245
Infrastructure on land held for conservation	39,047	39,047
Equipment	5,663	5,663
Furniture and fixtures	3,257	3,257
	<u>259,212</u>	<u>259,212</u>
Less accumulated depreciation	(51,648)	(38,053)
	<u>207,564</u>	<u>221,159</u>
Land held for conservation	6,784,488	6,219,153
Land held for office building	92,750	92,750
	<u>\$ 7,084,802</u>	<u>\$ 6,533,062</u>

SKAGIT LAND TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

Note 3 – Property and Equipment (Continued)

Land and conservation easements owned by the Trust are summarized as follows at March 31:

	<u>2016</u>	<u>2015</u>
Acres of land	1,683	1,617
Acres protected by conservation easements	3,607	3,538
Acres in Trust assisted projects	1,706	1,706
Total acres protected	<u>6,996</u>	<u>6,861</u>

Note 4 – Designations and Restrictions on Net Assets

The Trust's Board of Directors has designated a portion of the unrestricted net assets, composed of cash and cash equivalents and investments, for the following purposes at March 31:

	<u>2016</u>	<u>2015</u>
Ralph Heft Stewardship Reserve Fund	\$ 339,635	\$ 258,942
Operating Reserve Fund	162,090	162,090
Land Fund	85,698	41,005
Founder's Visionary Fund	55,896	11,203
Skagit Parks Fund	27,172	27,172
Stewardship Management Fund	20,470	20,470
Office Maintenance Fund	17,964	9,524
	<u>\$ 708,925</u>	<u>\$ 530,406</u>

SKAGIT LAND TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

Note 4 – Designations and Restrictions on Net Assets (Continued)

The Trust's temporarily restricted net assets are composed of cash and cash equivalents, pledges receivable and investments and are restricted for the following purposes at March 31:

	2016	2015
Land Opportunity Fund	\$ 295,718	\$ 295,718
Barney Lake Fund	162,446	165,391
Guemes Island Fund	119,575	81,431
Guemes Mountain Fund	109,794	113,385
Conservation Easement Stewardship Fund	103,108	103,108
Ralph Heft Stewardship Reserve Fund	72,030	63,030
Bell Acquisition Fund	52,244	52,902
Barr Creek property stewardship	50,416	51,135
Stewardship projects related to youth	40,419	20,921
Lake Creek Wetlands Fund	24,375	-
Restricted for future years	23,000	46,000
Heronry Camera Fund	16,633	1,505
Rose Foundation Fund	15,118	31,029
Stewardship Maintenance Fund	13,638	3,863
Sumner Lake Fund	13,085	12,585
Dream Fields Fund	9,390	9,390
Hurn Field property stewardship	6,955	7,076
Technology Fund	5,308	6,689
Interpretive signage project	2,227	4,105
Mud Lake property stewardship	1,866	1,948
Other	-	1,750
	<u>\$ 1,137,345</u>	<u>\$ 1,072,961</u>

Note 5 – Special Events

Special events revenue is reported in the statements of activities net of consumable costs that directly benefit the participants of the event. The net revenue is as follows for the years ended March 31:

	2016	2015
Auction revenue	\$ 69,950	\$ 64,443
Direct expense	(26,513)	(22,526)
	<u>\$ 43,437</u>	<u>\$ 41,917</u>

SKAGIT LAND TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

Note 6 – In-kind Contributions

In-kind contributions consist of the following for the years ended March 31:

	<u>2016</u>	<u>2015</u>
Donated property	\$ 314,200	\$ -
Donated legal services	18,600	18,240
Other	2,110	2,114
	<u>\$ 334,910</u>	<u>\$ 20,354</u>

Note 7 – Concentration

One governmental source composed 30% and 35% of total operating support and revenue for the years ended March 31, 2016 and 2015, respectively. Revenue from governmental sources is subject to audits that could result in adjustments. The adjustments are recorded at the time that such amounts can first be reasonably determined, normally upon notification by the government agency. There were no adjustments resulting from governmental audits during the years ended March 31, 2016 and 2015.