

**SKAGIT LAND TRUST**

**INDEPENDENT AUDITORS' REPORT AND  
FINANCIAL STATEMENTS WITH SINGLE AUDIT  
REPORTS AND SUPPLEMENTAL INFORMATION**

**MARCH 31, 2018 AND 2017**

**SKAGIT LAND TRUST  
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## 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, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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## ***Other Matters***

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2018, on our consideration of Skagit Land Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Skagit Land Trust's internal control over financial reporting and compliance.



Jones & Associates PLLC, CPAs  
September 13, 2018

**SKAGIT LAND TRUST**  
**STATEMENTS OF FINANCIAL POSITION**  
**MARCH 31, 2018 AND 2017**

	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 875,702	\$ 768,534
Accounts receivable	1,076,644	117,384
Pledges receivable	106,400	25,000
Prepaid expenses and other	5,630	30,484
Total current assets	2,064,376	941,402
Pledges receivable, noncurrent	50,423	75,000
Investments	4,082,002	2,373,481
Property and equipment, net	10,829,526	8,636,973
	\$ 17,026,327	\$ 12,026,856
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 21,611	\$ 30,496
Payroll related liabilities	51,653	38,624
Total current liabilities	73,264	69,120
Note and interest payable	985,181	-
Liability for acquisition of Salmon Recovery Funding Board replacement land	104,500	104,500
Total liabilities	1,162,945	173,620
 <b>NET ASSETS</b>		
Unrestricted		
Undesignated	853,429	754,560
Expended on conserved property	10,536,000	8,341,183
Board designated	948,391	738,305
	12,337,820	9,834,048
Temporarily restricted	2,186,220	1,979,846
Permanently restricted endowment	1,339,342	39,342
Total net assets	15,863,382	11,853,236
	\$ 17,026,327	\$ 12,026,856

**SKAGIT LAND TRUST**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED MARCH 31, 2018**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING SUPPORT AND REVENUE</b>				
Public Support				
Contributions	\$ 525,341	\$ 853,050	\$ 1,300,000	\$ 2,678,391
Grants and fees	1,519,493	-	-	1,519,493
Special events, net	49,389	-	-	49,389
In-kind contributions	483,610	-	-	483,610
Total public support	<u>2,577,833</u>	<u>853,050</u>	<u>1,300,000</u>	<u>4,730,883</u>
Revenue				
Investment return	171,936	(4,821)	-	167,115
Rental and other	32,020	-	-	32,020
Total revenue	<u>203,956</u>	<u>(4,821)</u>	<u>-</u>	<u>199,135</u>
Net assets released from restrictions				
Satisfaction of program requirements	641,855	(641,855)	-	-
Total support and revenue	<u>3,423,644</u>	<u>206,374</u>	<u>1,300,000</u>	<u>4,930,018</u>
<b>OPERATING EXPENSES</b>				
Program services	769,555	-	-	769,555
Supporting services				
Management and general	66,546	-	-	66,546
Fundraising	83,771	-	-	83,771
Total expenses	<u>919,872</u>	<u>-</u>	<u>-</u>	<u>919,872</u>
Change in net assets	2,503,772	206,374	1,300,000	4,010,146
<b>NET ASSETS</b>				
Beginning of the year	<u>9,834,048</u>	<u>1,979,846</u>	<u>39,342</u>	<u>11,853,236</u>
End of the year	<u>\$ 12,337,820</u>	<u>\$ 2,186,220</u>	<u>\$ 1,339,342</u>	<u>\$ 15,863,382</u>
Note: Costs capitalized for conservation land				<u>\$ 2,214,817</u>

**SKAGIT LAND TRUST**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED MARCH 31, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING SUPPORT AND REVENUE</b>				
Public Support				
Contributions	\$ 317,487	\$ 937,293	\$ 39,342	\$ 1,294,122
Grants and fees	553,181	-	-	553,181
Special events, net	42,359	-	-	42,359
In-kind contributions	1,444,731	-	-	1,444,731
Total public support	<u>2,357,758</u>	<u>937,293</u>	<u>39,342</u>	<u>3,334,393</u>
Revenue				
Investment return	160,515	169	-	160,684
Rental and other	31,175	-	-	31,175
Total revenue	<u>191,690</u>	<u>169</u>	<u>-</u>	<u>191,859</u>
Net assets released from restrictions				
Satisfaction of program requirements	94,961	(94,961)	-	-
Total net assets released from restrictions	<u>94,961</u>	<u>(94,961)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,644,409</u>	<u>842,501</u>	<u>39,342</u>	<u>3,526,252</u>
<b>OPERATING EXPENSES</b>				
Program services	656,829	-	-	656,829
Supporting services				
Management and general	74,948	-	-	74,948
Fundraising	65,433	-	-	65,433
Total expenses	<u>797,210</u>	<u>-</u>	<u>-</u>	<u>797,210</u>
Change in net assets	1,847,199	842,501	39,342	2,729,042
<b>NET ASSETS</b>				
Beginning of the year	7,986,849	1,137,345	-	9,124,194
End of the year	<u>\$ 9,834,048</u>	<u>\$ 1,979,846</u>	<u>\$ 39,342</u>	<u>\$ 11,853,236</u>
Note: Costs capitalized for conservation land				<u>\$ 1,581,695</u>

**SKAGIT LAND TRUST**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED MARCH 31, 2018**

	Program Services				Supporting Services		
	Education and Outreach	Stewardship	Land	Total	Management and General	Fundraising	Total
Salaries and wages	\$ 88,786	\$ 116,867	\$ 120,128	\$ 325,781	\$ 34,723	\$ 45,199	\$ 405,703
Payroll tax and benefits	19,302	20,876	24,904	65,082	788	10,295	76,165
Total payroll and related	108,088	137,743	145,032	390,863	35,511	55,494	481,868
Bank charges	-	-	20	20	39	7,167	7,226
Commercial insurance	787	4,404	1,574	6,765	1,575	787	9,127
Community outreach	8,553	255	109	8,917	-	1,968	10,885
Conferences and training	1,414	2,481	4,058	7,953	76	-	8,029
Contract services	7,631	127,599	13,311	148,541	63	31	148,635
Copying and printing	8,452	496	1,235	10,183	289	5,218	15,690
Depreciation	-	-	-	-	13,229	-	13,229
Grants	-	-	34,500	34,500	-	-	34,500
Interest	-	-	5,181	5,181	32	-	5,213
Land transaction costs	-	5,939	72,931	78,870	-	-	78,870
Maintenance and repair	601	1,224	1,202	3,027	2,679	601	6,307
Mileage and travel	1,918	5,254	1,031	8,203	16	93	8,312
Miscellaneous	1,972	2,281	1,972	6,225	1,722	1,588	9,535
Occupancy	592	1,466	1,543	3,601	1,361	592	5,554
Postage	1,878	728	697	3,303	814	833	4,950
Professional services	3,369	6,739	13,912	24,020	6,738	3,369	34,127
Property taxes and fees	513	9,623	1,011	11,147	1,025	513	12,685
Supplies	3,010	13,699	1,527	18,236	1,377	5,517	25,130
	<u>\$ 148,778</u>	<u>\$ 319,931</u>	<u>\$ 300,846</u>	<u>\$ 769,555</u>	<u>\$ 66,546</u>	<u>\$ 83,771</u>	<u>\$ 919,872</u>



**SKAGIT LAND TRUST**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED MARCH 31, 2017**

	Program Services				Supporting Services		
	Education and Outreach	Stewardship	Land	Total	Management and General	Fundraising	Total
Salaries and wages	\$ 49,224	\$ 108,595	\$ 105,256	\$ 263,075	\$ 33,098	\$ 42,618	\$ 338,791
Payroll tax and benefits	7,783	18,099	12,147	38,029	10,866	5,043	53,938
Total payroll and related	57,007	126,694	117,403	301,104	43,964	47,661	392,729
Bank charges	-	-	40	40	32	4,443	4,515
Commercial insurance	466	3,806	933	5,205	933	466	6,604
Community outreach	6,895	80	90	7,065	-	2,975	10,040
Conferences and training	2,301	955	508	3,764	-	-	3,764
Contract services	3,602	88,012	9,782	101,396	-	-	101,396
Copying and printing	4,166	625	824	5,615	598	1,897	8,110
Depreciation	-	-	-	-	14,072	-	14,072
Grants	-	-	25,000	25,000	-	-	25,000
Land transaction costs	-	-	115,043	115,043	-	-	115,043
Maintenance and repair	863	1,708	1,709	4,280	1,896	854	7,030
Mileage and travel	2,242	4,912	1,502	8,656	74	27	8,757
Miscellaneous	1,585	1,587	1,209	4,381	1,256	1,209	6,846
Occupancy	640	1,403	1,373	3,416	1,280	640	5,336
Postage	1,545	470	506	2,521	475	632	3,628
Professional services	2,870	5,740	29,056	37,666	5,740	2,870	46,276
Property taxes and fees	1,011	13,758	2,020	16,789	2,020	810	19,619
Supplies	1,327	10,205	3,356	14,888	2,608	949	18,445
	<u>\$ 86,520</u>	<u>\$ 259,955</u>	<u>\$ 310,354</u>	<u>\$ 656,829</u>	<u>\$ 74,948</u>	<u>\$ 65,433</u>	<u>\$ 797,210</u>

*See accompanying notes to financial statements.*

**SKAGIT LAND TRUST**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED MARCH 31, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 4,010,146	\$ 2,729,042
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated property	(436,750)	(1,385,100)
Transfer of property	20,000	25,000
Depreciation	13,229	14,072
Unrealized loss/(gain) on investments	7,622	(79,348)
Net changes in operating assets and liabilities:		
Accounts receivable	(959,260)	(15,831)
Pledges receivable	(56,823)	(77,000)
Prepaid expenses and other	24,854	7,407
Accounts payable	(8,885)	24,419
Payroll related liabilities	13,029	2,303
Interest payable	5,181	-
Other liabilities	-	28,000
	2,632,343	1,272,964
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(1,716,143)	(994,254)
Purchase of property	(809,032)	(206,143)
	(2,525,175)	(1,200,397)
NET CHANGE IN CASH AND CASH EQUIVALENTS	107,168	72,567
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of the year	768,534	695,967
End of the year	\$ 875,702	\$ 768,534
<b>Supplemental Cash Flow Information</b>		
Non-cash investing and financing activities		
Purchase of Kelly's Point with debt	\$ 980,000	\$ -
	\$ 980,000	\$ -

**SKAGIT LAND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MARCH 31, 2018 AND 2017**

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**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, 17 board members and 450 active volunteers are joined by over 1,200 family and business members to protect and steward the most important and beloved lands in Skagit County. The Trust also runs outreach and citizen science programs for youth and the general public. The Trust has directly protected more than 8242 acres of land including over 40 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.

**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 6. 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**  
**YEARS ENDED MARCH 31, 2018 AND 2017**

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

**Fair Value Measurements (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. Contained in accounts receivable is a government grant in the amount of \$980,000, from which \$948,371 will be paid on the note payable described in Note 5.

**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. Pledges receivable that are expected to be collected in more than one year are recorded as the present value of estimated cash flows using a discount rate of 2%. All receivables are unsecured. 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 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, 2018 AND 2017**

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**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 \$4,480 and \$20,867 for the years ended March 31, 2018 and 2017, 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).

**Subsequent Events** – Subsequent events were evaluated through September 13, 2018, which is the date the financial statements were available to be issued.

**SKAGIT LAND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

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**Note 2 – Investments**

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

	<u>2018</u>	<u>2017</u>
Equities	\$ 3,087,810	\$ 1,105,346
Government securities	413,295	267,166
Corporate bonds	397,098	217,150
Commodities	-	47,873
Cash and money market funds	183,799	735,946
	<u>\$ 4,082,002</u>	<u>\$ 2,373,481</u>

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

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 98,872	\$ 48,320
Realized gain	89,475	43,970
Unrealized (loss)/gain	(7,622)	79,348
Investment fees	(13,610)	(10,954)
	<u>\$ 167,115</u>	<u>\$ 160,684</u>

**Note 3 – Pledges Receivable**

Pledges receivable consist of the following at March 31:

	<u>2018</u>	<u>2017</u>
Due in one year or less	\$ 106,400	\$ 25,000
Due in one to five years	52,950	75,000
	<u>\$ 159,350</u>	<u>\$ 100,000</u>
Less discount to net present value	(2,527)	-
	<u>\$ 156,823</u>	<u>\$ 100,000</u>

**SKAGIT LAND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

**Note 4 – Property and Equipment**

Property consists of the following at March 31:

	<u>2018</u>	<u>2017</u>
Office building	\$ 231,758	\$ 220,793
Infrastructure on land held for conservation	39,047	39,047
Equipment	5,663	5,663
Furniture and fixtures	3,257	3,257
	<u>279,725</u>	<u>268,760</u>
Less accumulated depreciation	<u>(78,949)</u>	<u>(65,720)</u>
	200,776	203,040
Land held for conservation	10,536,000	8,341,183
Land held for office building	92,750	92,750
	<u>\$ 10,829,526</u>	<u>\$ 8,636,973</u>

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

	<u>2018</u>	<u>2017</u>
Acres of land	2,969	2,780
Acres protected by conservation easements	3,629	3,607
Acres in Trust assisted projects	1,644	1,587
Total acres protected	<u>8,242</u>	<u>7,974</u>

**Note 5 – Note Payable**

Note payable consists of the following at March 31:

	<u>2018</u>	<u>2017</u>
Promissory note dated February 12, 2018 for \$980,000 maturing in February 2020. Interest accrues at a rate of 4.02%. Principal and interest are payable in full upon maturity. The note is secured by a deed of trust.	\$ 985,181	\$ -
	<u>\$ 985,181</u>	<u>\$ -</u>

As described in Note 1, accounts receivable of \$948,371 will be used to pay down this note when received.

**SKAGIT LAND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

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**Note 6 – Board Designated and Temporarily Restricted 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>2018</u>	<u>2017</u>
Ralph Heft Stewardship Reserve Fund	\$ 411,635	\$ 375,635
Founder's Visionary Fund	284,132	55,896
Operating Reserve Fund	162,090	162,090
Skagit Parks Fund	27,172	27,172
Land Fund	26,165	85,655
Stewardship Management Fund	20,470	20,470
Office Maintenance Fund	16,727	11,387
	<u>\$ 948,391</u>	<u>\$ 738,305</u>



**SKAGIT LAND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

**Note 6 – Board Designated and Temporarily Restricted 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:

	<u>2018</u>	<u>2017</u>
TNC Stewardship Reserve Fund	\$ 735,658	\$ 735,658
Land Opportunity Fund	276,218	295,718
Barney Lake Fund	253,099	157,782
Kelly’s Point Fund	187,528	-
Conservation Easement Stewardship Fund	109,608	109,608
Guemes Mountain Fund	103,917	105,297
Restricted for future years	100,000	100,000
Ralph Heft Stewardship Reserve Fund	88,664	76,130
Guemes Island Fund	83,921	106,349
Stewardship projects related to youth	53,124	46,413
Bell Acquisition Fund	47,435	48,112
Barr Creek property stewardship	44,549	62,708
Samish Island Fund	35,178	18,818
Lake Creek Wetlands Fund	25,365	25,365
Sumner Lake Fund	13,085	13,085
Tursi Trail Fund	11,981	12,000
Dream Fields Fund	9,390	9,390
Hurn Field property stewardship	6,566	6,710
Heronry Camera Fund	6,557	12,311
Stewardship Maintenance Fund	2,758	7,324
TNC Endowment Earnings	2,554	169
Mud Lake property stewardship	1,645	1,645
Technology Fund	1,432	2,723
TNC Stewardship Fund	433	24,575
Interpretive signage project	-	417
Rose Foundation Fund	(2,775)	1,539
Guemes Endowment Earnings	(11,670)	-
	<u>\$ 2,186,220</u>	<u>\$ 1,979,846</u>

**SKAGIT LAND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

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**Note 7 – Permanently Restricted Net Assets**

**Nature of Endowments and Applicable Laws** – Permanently restricted net assets consist of two donor restricted endowments in which the investment return is to be used for long-term stewardship, monitoring, management, protection expenses, and enforcement for their respective properties.

Absent of explicit donor stipulations to the contrary, the Board of Trustees of the Trust has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds. As a result of this interpretation, the Trust classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Trust in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Trust considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Trust, and (7) the Trust's investment policies.

**Investment Return Objectives, Risk Parameters and Strategies** – The Trust has adopted investment and spending policies for endowment assets. Those policies attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, which is intended to result in a consistent inflation-protected rate of return. Investment risk is measured in terms of the total endowment fund. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

**Spending Policy** – Trust spending policies have been adopted to balance the objective of maintaining the purchasing power of the endowments through investment return and providing current funds for the endowed projects. In order to maximize sustainable income from current Trust endowments, Skagit Land Trust's Board of Directors may select to have only the investment fee expenditures charged to the endowment for an initial period of one to three years. The Board determines the fair value of the general endowment earnings that should be transferred for current expenditure. Distributions of available earnings may be no greater than four percent of the average annual net fair market value of the endowment assets averaged over the three preceding years, and shall not exceed actual earnings averaged over the three preceding years.

**SKAGIT LAND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

**Note 7 – Permanently Restricted Net Assets (Continued)**

**Funds with Deficiencies** – From time to time, the fair value of assets associated with individual donor-restricted endowments may fall below the level that the donor or UPMIFA requires the Trust to retain as a fund of perpetual duration. The aggregated deficiencies of this nature for all donor-restricted endowment funds totaled \$11,670 as of March 31, 2018. There was no deficiency as of March 31, 2017.

Endowment net assets composition by type of fund at March 31, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Guemes Stewardship Endowment	\$ -	\$ (11,670)	\$ 1,300,000	\$1,288,330
TNC Stewardship Endowment	-	2,554	39,342	41,896
	<u>\$ -</u>	<u>\$ (9,116)</u>	<u>\$ 1,339,342</u>	<u>\$ 1,330,226</u>

Endowment net assets composition by type of fund at March 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
TNC Stewardship Endowment	\$ -	\$ 169	\$ 39,342	\$ 39,511
	<u>\$ -</u>	<u>\$ 169</u>	<u>\$ 39,342</u>	<u>\$ 39,511</u>

Changes in endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, March 31, 2016	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	39,342	39,342
Investment income, net of fees	-	169	-	169
Net appreciation	-	-	-	-
Amounts appropriated	-	-	-	-
Endowment net assets, March 31, 2017	<u>\$ -</u>	<u>\$ 169</u>	<u>\$ 39,342</u>	<u>\$ 39,511</u>
Contributions	-	-	1,300,000	1,300,000
Investment income, net of fees	-	2,385	-	2,385
Net appreciation	-	(7,206)	-	(7,206)
Amounts appropriated	-	(4,464)	-	(4,464)
Endowment net assets, March 31, 2018	<u>\$ -</u>	<u>\$ (9,116)</u>	<u>\$ 1,339,342</u>	<u>\$ 1,330,226</u>

**SKAGIT LAND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

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**Note 8 – Special Events**

Special events revenue is reported in the statements of activities net of consumable costs that directly benefit the participants of the event. Contributions made at an event are not noted in this revenue. The net revenue is as follows for the years ended March 31:

	2018	2017
Auction revenue	\$ 85,972	\$ 76,873
Direct expense	(36,583)	(34,514)
	\$ 49,389	\$ 42,359

**Note 9 – In-kind Contributions**

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

	2018	2017
Donated property	\$ 436,750	\$ 1,385,100
Donated stock	42,380	38,764
Donated legal and other services	4,480	20,867
	\$ 483,610	\$ 1,444,731

**Note 10 – Concentration**

Two governmental sources composed 29% of total operating support and revenue for the year ended March 31, 2018. One governmental source comprised of 9% of total operating support for the year ended March 31, 2017.

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, 2018 and 2017.

In addition, for the year ended March 31, 2017, revenue from one nonprofit organization composed 57% of total operating support and revenue. This is due to conservation land and stewardship funds transferred to the Trust from The Nature Conservancy during the year.

At March 31, 2018 and 2017, 79% and 46% of total accounts and pledges receivable were due Washington State Department of Ecology and The Nature Conservancy, respectively.

**SUPPLEMENTAL INFORMATION**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Skagit Land Trust (a nonprofit organization), which comprise the statement of financial position as of March 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 13, 2018.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Skagit Land Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Skagit Land Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Skagit Land Trust's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Skagit Land Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Skagit Land Trust's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Skagit Land Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Jones & Associates PLLC, CPAs*

Jones & Associates PLLC, CPAs  
September 13, 2018



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

***Report on Compliance for Each Major Federal Program***

We have audited Skagit Land Trust's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Skagit Land Trust's major federal program for the year ended March 31, 2018. Skagit Land Trust's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for Skagit Land Trust's major federal program based on our audit on the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Skagit Land Trust's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion for the major federal program. However, our audit does not provide a legal determination of Skagit Land Trust's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Skagit Land Trust's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2018.

***Report on Internal Control over Compliance***

Management of Skagit Land Trust is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Skagit Land Trust's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but



not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Skagit Land Trust's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Skagit Land Trust's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Skagit Land Trust's response was not subjected to the audit procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purposes.



Jones & Associates PLLC, CPAs  
September 13, 2018

**SKAGIT LAND TRUST  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED MARCH 31, 2018**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Federal Identifier	Federal Expenditures
<u>Department of Interior</u>			
National Coastal Wetlands Conservation Grant Program			
<i>Pass-through funding from:</i>			
WA State Department of Ecology	15.614	SEANCWCP-2018- SkagLT-00014	\$ <u>968,000</u>
			<u>968,000</u>
<u>Environmental Protection Agency</u>			
National Estuary Program			
<i>Pass-through funding from:</i>			
WA State Department of Ecology	66.123	SEANEP-2015- SkagLT-00011	\$ <u>16,065</u>
			<u>16,065</u>
Total Expenditures of Federal Awards			<u>\$ 984,065</u>

**SKAGIT LAND TRUST**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED MARCH 31, 2018**

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**Note 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Skagit Land Trust (the Trust) under programs of the federal government for the year ended March 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Trust, it is not intended to and does not present the financial position, changes in net assets, or cash flow of the Trust.

**Note 2 – Summary of Significant Accounting Policies**

**Expenditures** – Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Pass-Through Entities** – Pass-through entity identifying numbers are presented where available.

**Note 3 – Indirect Cost Rate**

The Organization has elected to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

**Note 4 – Subrecipients**

No awards were passed through to subrecipients.

**SKAGIT LAND TRUST  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED MARCH 31, 2018**

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**Summary of Auditors' Results**

1. The auditors' report expresses an unmodified opinion on the financial statements of Skagit Land Trust.
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements were reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters.
3. No instances of noncompliance material to the financial statements of Skagit Land Trust, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal award programs were reported in the Report on Compliance for Each Major Program and on Internal Control over Compliance.
5. The auditors' report on compliance for Skagit Land Trust expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The programs tested as major programs were:
  - 15.614 Department of the Interior/U.S. Fish & Wildlife Services (FWS) – Coastal Wetlands Planning, Protection and Restoration Program (National Coastal Wetlands Conservation Grants).
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Skagit Land Trust was not determined to be a low-risk auditee.