

**Grand Traverse Regional Land Conservancy**

CONSOLIDATED FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2012

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors  
Grand Traverse Regional Land Conservancy

We have audited the accompanying consolidated statement of financial position of the **Grand Traverse Regional Land Conservancy** ("GTRLC") as of June 30, 2012 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the GTRLC's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from GTRLC's 2011 financial statements and, in our report dated November 17, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Grand Traverse Regional Land Conservancy as of June 30, 2012 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information on pages 24 - 26 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

*Dennis, Gartland & Niergarth*

November 14, 2012

**Grand Traverse Regional Land Conservancy**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

June 30, 2012  
(With Comparative Totals for 2011)

	2012	2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash (Note B)	\$ 1,304,088	\$ 1,420,614
Restricted cash (Note B)	1,581,385	615,317
Investments (Note C)	235,372	250,863
Pledges receivable (Note D)	481,742	821,439
Accounts receivable	-	21,527
Total current assets	<u>3,602,587</u>	<u>3,129,760</u>
<b>FIXED ASSETS</b> , net of accumulated depreciation (Note E)	<u>152,208</u>	<u>135,483</u>
<b>LAND UNDER PROTECTION</b>		
Nature preserves (Note F)	16,960,047	14,866,444
Development rights (Note G)	208	202
Options to purchase land (Note F)	53,000	141,500
Land held for transfer (Note F)	3,418,065	5,380,650
Total land under protection	<u>20,431,320</u>	<u>20,388,796</u>
<b>OTHER ASSETS</b>		
Restricted investments for endowments (Note C)	698,975	734,318
Restricted investments for stewardship (Note C)	4,738,964	3,575,971
Board designated investments (Note C)	2,524,479	2,652,520
Remainder interest in land (Note F)	348,000	348,000
Charitable gift annuity investment (Note C)	252,712	273,774
Pledges receivable, net of current portion (Note D)	176,508	177,830
Total other assets	<u>8,739,638</u>	<u>7,762,413</u>
Total assets	<u>\$ 32,925,753</u>	<u>\$ 31,416,452</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 20,179	\$ 48,882
Accrued liabilities	291,456	238,154
Deposits	5,001	5,001
Line of credit (Note J)	509,339	509,794
Land contract (Note K)	87,000	-
Total current liabilities	<u>912,975</u>	<u>801,831</u>
<b>OTHER LIABILITIES</b>		
Charitable gift annuity obligation, net of current portion (Note H)	214,077	196,534
Total liabilities	<u>1,127,052</u>	<u>998,365</u>
<b>NET ASSETS</b>		
Unrestricted		
Board designated		
Easement defense	378,040	378,999
Operating reserve	891,793	990,757
Undesignated	2,420,300	2,574,796
Temporarily restricted		
Specified use (Note L)	10,078,244	10,703,825
Expiration of time (Note L)	654,060	487,105
Permanently restricted		
Land under protection (Note M)	16,960,255	14,866,646
Endowment (Note M)	416,009	415,959
Total net assets	<u>31,798,701</u>	<u>30,418,087</u>
	<u>\$ 32,925,753</u>	<u>\$ 31,416,452</u>

The accompanying notes are an integral part of these financial statements.

# Grand Traverse Regional Land Conservancy

## CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012  
(With Comparative Totals for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2011 Totals
<b>REVENUE AND SUPPORT</b>					
Grants and contributions	\$ 1,495,295	\$ 5,325,178	\$ 50	\$ 6,820,523	\$ 4,995,630
Benefit proceeds	22,037	-	-	22,037	10,620
Gain (loss) from investments	(17,441)	(29,021)	-	(46,462)	1,205,749
Interest income	5,615	15,382	-	20,997	16,726
Other	26,027	64,254	-	90,281	145,794
Net assets released from restriction:					
Satisfaction of program restrictions	3,740,810	(3,740,810)	-	-	-
Liens released on nature preserves	<u>-</u>	<u>(2,093,609)</u>	<u>2,093,609</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>5,272,343</u>	<u>(458,626)</u>	<u>2,093,659</u>	<u>6,907,376</u>	<u>6,374,519</u>
<b>EXPENSES</b>					
Program services	4,633,943	-	-	4,633,943	3,543,891
Management and general	305,136	-	-	305,136	298,665
Fundraising	<u>587,683</u>	<u>-</u>	<u>-</u>	<u>587,683</u>	<u>491,479</u>
Total expenses	<u>5,526,762</u>	<u>-</u>	<u>-</u>	<u>5,526,762</u>	<u>4,334,035</u>
<b>CHANGES IN NET ASSETS</b>	(254,419)	(458,626)	2,093,659	1,380,614	2,040,484
<b>NET ASSETS, beginning of year</b>	<u>3,944,552</u>	<u>11,190,930</u>	<u>15,282,605</u>	<u>30,418,087</u>	<u>28,377,603</u>
<b>NET ASSETS, end of year</b>	<u>\$ 3,690,133</u>	<u>\$ 10,732,304</u>	<u>\$17,376,264</u>	<u>\$ 31,798,701</u>	<u>\$ 30,418,087</u>

The accompanying notes are an integral part of these financial statements.

# Grand Traverse Regional Land Conservancy

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2012  
(With Comparative Totals for 2011)

	Program Services	Management and General	Fund Raising	Total	2011 Total
Salaries	\$ 852,111	\$ 143,471	\$ 338,045	\$ 1,333,627	\$ 1,225,448
Employee benefits	139,373	23,466	55,292	218,131	166,148
Payroll taxes	60,072	10,115	23,832	94,019	86,545
Professional development	5,157	868	2,046	8,071	11,129
Interest (Note J)	49,191	-	-	49,191	47,977
Provision for doubtful pledges	11,716	952	908	13,576	3,554
Professional fees	299,408	65,532	-	364,940	228,308
Lease expense	-	3,751	3,751	7,502	7,344
Transfers to other organizations	1,078,059	-	-	1,078,059	349,834
Title work and recording fees	39,555	-	-	39,555	76,790
Property tax expenses	37,426	-	-	37,426	12,171
Repairs and maintenance	15,138	2,549	6,006	23,693	26,818
Other supplies	33,796	-	-	33,796	21,365
Travel	12,161	2,047	4,824	19,032	12,068
Rent (Note P)	55,237	9,300	21,913	86,450	93,678
Depreciation (Note E)	26,773	3,201	7,543	37,517	35,991
Insurance	23,053	3,882	9,146	36,081	24,283
Utilities	9,650	1,284	3,026	13,960	11,902
Office supplies	4,936	831	1,958	7,725	11,185
Telephone	8,280	1,394	3,285	12,959	13,387
Miscellaneous	73,973	2,190	10,978	87,141	63,587
Printing and publishing	68	13,365	40,095	53,528	52,503
Postage	-	15,302	15,302	30,604	27,330
Merchandise and fundraising events	333	56	33,907	34,296	32,372
Dues and subscriptions	9,381	1,580	3,722	14,683	17,261
Advertising	2,103	-	2,104	4,207	3,563
Extinguished development value on conservation easements					
	<u>1,786,993</u>	<u>-</u>	<u>-</u>	<u>1,786,993</u>	<u>1,671,494</u>
	<u>\$ 4,633,943</u>	<u>\$ 305,136</u>	<u>\$ 587,683</u>	<u>\$ 5,526,762</u>	<u>\$ 4,334,035</u>

The accompanying notes are an integral part of these financial statements.

# Grand Traverse Regional Land Conservancy

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012  
(With Comparative Totals for 2011)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 1,380,614	\$ 2,040,484
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	37,517	35,991
Development rights extinguished	1,786,993	1,671,494
Unrealized (gain) loss on investments	249,328	(1,006,598)
Realized gain on investments	(202,866)	(199,151)
Donated development rights	(1,489,499)	(1,015,208)
Donated investments	(27,851)	(103,213)
Land options exercised or expired	103,500	10,000
(Increase) decrease in pledges receivable	341,019	(31,287)
(Increase) decrease in accounts receivable	21,527	(21,527)
Increase in accounts payable and accrued liabilities	42,142	24,377
Net cash flows provided by operating activities	2,242,424	1,405,362
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of development rights	(297,500)	(656,292)
Acquisition of property and equipment	(54,242)	(24,730)
Proceeds from the sale of land held for transfers	-	188,010
Acquisition of land held for transfer	(44,018)	(1,302,500)
Payment on land options	(15,000)	(60,750)
Acquisition of investments	(1,346,671)	(228,049)
Proceeds from sale of investments	365,004	402,161
Net cash used by investing activities	(1,392,427)	(1,682,150)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from line of credit	-	509,794
Principal payments on debt	(455)	(789,631)
Net cash used by financing activities	(455)	(279,837)
<b>NET INCREASE (DECREASE) IN CASH</b>	849,542	(556,625)
Cash, beginning of year	2,035,931	2,592,556
Cash, end of year	\$ 2,885,473	\$ 2,035,931
 Cash per Statement of Financial Position		
Unrestricted	\$ 1,304,088	\$ 1,420,614
Restricted	1,581,385	615,317
	\$ 2,885,473	\$ 2,035,931

The accompanying notes are an integral part of these financial statements.

# Grand Traverse Regional Land Conservancy

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The Grand Traverse Regional Land Conservancy ("GTRLC") is committed to protecting significant natural, agricultural and scenic areas in Antrim, Benzie, Grand Traverse, Kalkaska and Manistee Counties in Michigan - now and for future generations. GTRLC relies on contributions from individuals, foundations and State and Federal grant programs.

The significant accounting policies used in the preparation of the consolidated financial statements are described below:

#### *Basis of Accounting*

The consolidated financial statements have been prepared on the accrual basis of accounting and otherwise in accordance with generally accepted accounting principles applicable to not-for-profit organizations in the United States of America.

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of Grand Traverse Regional Land Conservancy (a Michigan nonprofit corporation), and its wholly-owned subsidiary, Northern Lakes and Land Corporation (a Michigan nonprofit corporation). Northern Lakes and Land Corporation's primary purpose is to hold easements on land owned by the Grand Traverse Regional Land Conservancy. All material intercorporation accounts and transactions have been eliminated.

#### *Use of Estimates in the Preparation of Financial Statements*

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

#### *Cash Equivalents*

For the purposes of the statement of financial position classification and the statement of cash flows, GTRLC considers all restricted and unrestricted cash and other highly-liquid investments not held in trust with initial maturities of three months or less to be cash equivalents. Restricted cash is reported as a current asset on the statement of financial position. Cash is reported as restricted when it has been earmarked for a donor restricted project.

#### *Investments*

Investments in marketable securities are carried at fair market value. Unrealized increases or decreases resulting from changes in market value of investments are included annually in the statement of activities together with realized gains and losses. The realized gain or loss on sale of investments is the difference between the proceeds received and the cost basis of specific investments.



### *Land*

GTRLC records land at its appraised value at the date of gift, if contributed or purchased below market value, or at cost if purchased at market value. The preserved land is reported as nature preserves or land held for transfer on the statement of financial position, depending upon its intended disposition.

### *Conservation Easements*

A conservation easement is a legal agreement between a landowner and a qualified conservation organization (i.e. GTRLC) that permanently limits a property's use in order to protect its conservation values. Conservation easements, either purchased or donated, are initially valued at their appraised value. The difference between the purchase price and appraised value is reflected as grants and contributions in the Statement of Activities. Once the development rights for a specific conservation easement are extinguished, generally immediately after acquisition, a valuation allowance is established to reduce the value of the conservation easement to \$1. This value reflects the lack of marketability related to the easements. The reduction in value due to extinguishments of development rights is reflected as a program expense in the Statement of Activities and extinguished development value on conservation easements on the Statement of Functional Expenses.

### *Fixed Assets*

Fixed assets consist of equipment, leasehold improvements and preserve improvements (boardwalks, observation decks, etc.), which are recorded at cost. Expenditures for maintenance and repairs which do not improve or extend the lives of the respective assets are expensed as incurred. When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts and any gain or loss on retirement or disposal of the individual assets is recorded as revenue. Depreciation is provided using the straight-line method for all depreciable assets over their estimated future lives which have been estimated to be from five to fifteen years.

### *Net Assets*

Net assets consist of the following:

**Unrestricted:** These net assets are available for general obligations of GTRLC.

**Temporarily Restricted:** These net assets are restricted by donors, grantors or other outside parties to be used for some specific purpose or for use in a future period. Amounts received are reported as revenue upon receipt and are transferred to unrestricted net assets when the purpose restriction or time restriction has been met or to permanently restricted if used to permanently increase land under protection.

**Permanently Restricted:** These net assets represent amounts subject to restrictions of gift and trust instruments requiring that the principal be invested in perpetuity and the income only be used for particular purposes and for land under permanent protection. Investment income earned is reported as revenue in the unrestricted or temporarily restricted net assets until GTRLC has incurred expenses in compliance with the underlying gift or trust instruments or used to permanently increase land under protection. Financed acquisitions of land under protection are not considered as part of permanently restricted net assets until all liens are removed.

### ***Contributions***

Contributions, grants or other revenue received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor or grantor restrictions.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted and/or permanently restricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give are recognized as revenues or gains in the period received as assets, or decreases in liabilities or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

### ***Charitable Gift Annuities***

Receipts of charitable gift annuities are included in the general investments, the related obligation is carried at its net present value and the net difference is recorded as contribution revenue. The obligation is revalued annually based upon life expectancy tables and prevailing interest rates. The amortization of the obligation is reported annually as interest expense in the consolidated statement of activities.

### ***Contributed Services***

A portion of GTRLC's activities has been conducted by volunteers without compensation and by professional and business organizations at significantly reduced charges. Support for goods and services contributed has only been recognized to the extent such contributions (1) require specialized skills (and are provided by individuals possessing those skills) and would typically need to be purchased if not provided by donation or (2) create or enhance the non-financial assets of GTRLC.

### ***Income Taxes***

No provision for Federal and State income taxes has been made since GTRLC is exempt under Section 501(c)(3) of the Internal Revenue Code.

GTRLC files information returns in the U.S. Federal jurisdiction and these returns are no longer subject to examination by tax authorities for years before June 30, 2008. GTRLC has not had any business income unrelated to its exempt purpose and, therefore, has not filed income tax returns in any jurisdiction.

### ***Prior Year Information***

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Accordingly, such information should be read in conjunction with GTRLC's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

***Subsequent Events***

GTRLC has evaluated subsequent events and transactions for potential recognition and disclosure through November 14, 2012, the date the financial statements were available to be issued.

**NOTE B - DEPOSITS**

GTRLC maintains substantially all of its cash at two financial institutions. Separate accounts are maintained where required by funding sources. A summary of cash deposits in the consolidated statement of financial position consist of the following at June 30, 2012:

	<u>Bank Amount</u>	<u>Carrying Amount</u>
Insured (FDIC)	\$ 2,931,613	\$ 2,885,223
Uninsured and uncollateralized	<u>250</u>	<u>250</u>
	<u>\$ 2,931,863</u>	<u>\$ 2,885,473</u>
Financial Statement Presentation		
Cash		\$ 1,304,088
Restricted cash		<u>1,581,385</u>
		<u>\$ 2,885,473</u>

**NOTE C - INVESTMENTS**

GTRLC's investments are held in trust by financial institutions and consist of the following at June 30, 2012:

	<u>Cost</u>	<u>Market</u>
Cash equivalents and certificate of deposit	\$ 166,399	\$ 166,399
Mutual funds	3,701,406	3,941,099
Common stocks	2,422,989	2,804,795
Corporate bonds	1,372,558	1,417,609
U.S. government securities	<u>120,600</u>	<u>120,600</u>
Totals	<u>\$ 7,783,952</u>	<u>\$ 8,450,502</u>
Financial Statement Presentation		
Current investments		\$ 235,372
Restricted investments for endowments		698,975
Restricted investments for stewardship		4,738,964
Board designated investments		2,524,479
Charitable gift annuity investment		<u>252,712</u>
		<u>\$ 8,450,502</u>

***Concentration of Credit Risk - Investments***

Brokerage accounts have insurance of \$500,000 per broker, provided by the Securities Investor Protection Corporation. The balance of investments exceeded insured limits by \$6.5 million at June 30, 2012.

**NOTE D - PLEDGES RECEIVABLE**

Substantially all receivables are pledged over a three to five-year period. The pledges are initially recorded at fair value as determined by the present value of the future cash flows, utilizing a risk-adjusted interest rate. GTRLC amortizes imputed interest through a charge to pledge receivables and a credit to contributions.

During the year ended June 30, 2012, GTRLC received substantially all scheduled payments on a timely basis. However, GTRLC maintains allowances for doubtful pledges for estimated losses resulting from an inability of its donors to make pledged payments. Based on management's assessment, GTRLC provides for estimated uncollectible amounts through a charge to program services expense and a credit to a valuation allowance.

Pledge receivables, current	\$ 481,742
2014	118,010
2015	86,650
2016	81,300
2017	<u>24,300</u>
Total pledges receivable	792,002
Discount on pledges receivable	(94,152)
Allowance for doubtful pledges	<u>(39,600)</u>
	<u>\$ 658,250</u>

The allowance for doubtful pledges and discount rate used to record the net amortized value of pledges receivables are amounts that are based on management's best estimates and judgments. These estimates may be adjusted as more current information becomes available and any adjustment could be significant.

GTRLC holds conditional promises to give (pledges receivable) of \$1.3 million, of which \$250,000 was recognized as revenue in the year ended June 30, 2012, upon meeting donor conditions of raising matching contributions. Pledges receivable have not been recorded for the remaining \$1 million of conditional promises to give.

**NOTE E - FIXED ASSETS**

Fixed assets comprised of the following at June 30, 2012:

Office equipment	\$ 289,277
Leasehold improvements	49,035
Equipment	<u>122,686</u>
Total fixed assets, at cost	460,998
Less accumulated depreciation	<u>(308,790)</u>
Total fixed assets, net of accumulated depreciation	<u>\$ 152,208</u>

Total depreciation expense was \$37,517 for the year ended June 30, 2012.

**NOTE F - LAND**

***Remainder Interest in Land***

In 1992, GTRLC received a remainder trust in property with an appraised value of \$348,000 at the date of the gift. GTRLC will follow the donors' instructions that the land be sold with the proceeds to be used for the general purposes of GTRLC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

*Nature Preserves*

Nature preserves acquired by GTRLC are as follows:

	Acquired During the Year Ended <u>June 30, 2012</u>	Total Acquired Through <u>June 30, 2012</u>
Arcadia Dunes	- Acres	3,600.00 Acres
Arcadia Marsh	158.41	158.41
Bauer	-	356.53
Boardman	-	50.64
Brinkman Bog	-	51.10
Carter Strong Bird Sanctuary	-	6.27
Cosner	-	134.63
Criger Nature Preserve	-	5.28
Elizabeth Parr	-	4.70
Edwards, Howard and Mary Dunn	-	77.00
Fox Island	-	10.00
Fruithaven Orchards	-	177.08
Golden Days Loon Preserve	-	18.04
Green Point Dunes	-	241.84
Halladay Hicks Chowning	-	40.50
Herring Lake	-	180.15
Kewadin Wetlands	-	40.50
Lake St. Clair/Six Mile Lake	66.00	254.70
Maple Bay Farm	11.00	11.00
Medenbrook	-	37.00
Mitchell Creek Preserve	-	128.39
Misty Acres Preserve	584.37	584.37
North Skegemog	-	36.72
Palastra	-	35.55
Papoose Lake Preserve	-	46.00
Point Betsie	7.64	99.49
Polaczyk	-	5.00
Wilcox-Palmer-Sha	-	40.64
Pyatt Lake	-	158.60
Reffitt	-	87.19
Sagaser	-	20.00
Seven Bridges Cabin	-	5.60
South Island	-	13.80
Trapp Farm	-	139.84
	<u>827.42</u>	<u>6,856.56</u>
Total acres	<u>\$ 2,093,603</u>	<u>\$16,960,047</u>

During the year ended June 30, 2012, 827.42 acres of land valued at \$2,093,603 was acquired by purchase or donation and permanently protected.

***Options to Purchase Land***

Options to purchase land are held for projects GTRLC is assisting with or for properties to be added to the nature preserves in perpetuity for which the funding is not complete. Options, which are stated at cost, were held for the following projects as of June 30, 2012:

	<u>Purchase Price</u>
Girl Scout Property	\$ 35,000
Goodheart	3,000
Acme Shoreline	<u>15,000</u>
	<u>\$ 53,000</u>

During the year ended June 30, 2012, one option valued at \$103,500 was exercised and one option valued at \$15,000 was purchased.

***Land Held for Transfer***

Land held for transfer includes projects where the final disposition of the property is not completed. The land may be intended for sale with a conservation easement (or without in the case of portions of acquisitions not requiring protection), to become the property of a State or local government or be financed land acquisitions that, when paid in full, become a part of our nature preserves.

Land held for transfer consists of:

	<u>Beginning of Year</u>	<u>Purchase/ Donation</u>	<u>Transfers/ Sales</u>	<u>End of Year</u>
Arcadia/CMS	\$ 1,864,940	\$ -	\$ 107,983	\$ 1,756,957
Elberta Dunes	1,200,000	-	1,200,000	-
Maple Bay	529,730	-	369,222	160,508
Schmidt Outlet Project	250,000	-	-	250,000
Arcadia Marsh	250,000	92,000	250,000	92,000
Nehtawanta	156,108	-	-	156,108
Hersha	152,380	-	152,380	-
Deadstream Swamp	75,000	-	-	75,000
Boardman/McDonald	20,992	-	-	20,992
Reffitt	226,500	-	-	226,500
Railroad Point	<u>655,000</u>	<u>25,000</u>	<u>-</u>	<u>680,000</u>
	<u>\$ 5,380,650</u>	<u>\$ 117,000</u>	<u>\$ 2,079,585</u>	<u>\$ 3,418,065</u>

**NOTE G - DEVELOPMENT RIGHTS**

Development rights typically are donated through the gift of a conservation easement. The donation of a perpetual conservation easement which preserves the conservation values of a property deemed to be in the public benefit, such as agricultural land, scenic views, wetlands, forests and unique wildlife habitats, is recognized in the Federal Tax Code and may result in substantial income and estate tax benefits to the donor/landowner.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

In situations where charitable tax benefits do not provide sufficient incentives, development rights are purchased rather than donated. This is often the case with farmland preservation programs. The amount paid to the landowner is determined by a "before and after" appraisal of the fair market value of the subject land. The amount recorded as development rights reflects only the purchase price. Other costs, such as appraisals, surveys, title work and personnel expenditures for securing the easement, are expensed.

When GTRLC receives a conservation easement, it takes on the permanent responsibility and legal right to enforce the terms of the easement. GTRLC monitors easements by inspecting the land regularly (yearly in most cases) and maintaining communications with the landowner about future plans in order to avoid conflict with the easement. If a future owner or someone else violates the easement, for example by erecting a building that the easement does not allow, GTRLC will take action to have the violation corrected, including going to court if necessary. These permanent responsibilities are a long-term cost to GTRLC.

From its inception, GTRLC has secured (by purchase and donation) the following easements:

<u>County</u>	<u>Secured During the Year Ended June 30, 2012</u>		<u>Total Secured Through June 30, 2012</u>	
	<u>Number of Easements</u>	<u>Acres Protected</u>	<u>Number of Easements</u>	<u>Acres Protected</u>
Antrim	1	188.90	36	3,006.72
Benzie	-	(15.00)	28	2,059.93
Grand Traverse	1	39.00	95	6,349.93
Kalkaska	-	-	34	3,605.09
Leelanau	-	-	1	80.00
Manistee	<u>4</u>	<u>679.17</u>	<u>14</u>	<u>1,763.58</u>
Total	<u>6</u>	<u>892.07</u>	<u>208</u>	<u>16,865.25</u>

The total value of development rights acquired during the year is estimated to be \$2,082,993 of which \$1,786,993 has been extinguished and reported as an expense, and \$295,993 was transferred from land held for transfer.

At June 30, 2012, the total value of development rights acquired by GTRLC was \$49,533,277, of which \$49,533,069 has been extinguished.



**NOTE H - GIFT ANNUITIES**

GTRLC has received \$391,237 in charitable gift annuity agreement proceeds which have been added to the general investments of GTRLC. In consideration of the proceeds, GTRLC is obligated to make agreed upon quarterly payments for the remainder of the donors' lives. During the year ended June 30, 2012, GTRLC received one new annuity of \$10,000 and made payments totaling \$32,395. The obligation is initially recorded at fair value as determined by the net present value of future cash outflows, utilizing life expectancy tables as provided in IRS section 1.401(a)(9)-9 and a discount rate which reflects the level of assessed risk related to future payments and the borrowing rate available to GTRLC.

Financial Statement Presentation

Accrued current liabilities	\$ 32,395
Charitable gift annuity obligation	<u>214,077</u>
	<u>\$ 246,472</u>

**NOTE I - JOINT VENTURES**

*Little Traverse Conservancy*

GTRLC entered into a cooperative agreement with the Little Traverse Conservancy, which involved a joint fundraising effort for the purchase of the Lake St. Clair/Six Mile Lake Natural Area Project. The project's activities are accounted for by GTRLC, with the land included in nature preserves. The Little Traverse Conservancy retains an undivided 50% interest in the total nature preserve, valued at \$194,310 on June 30, 2012.

*Assist Projects*

GTRLC also works with units of government to assist communities in creating public natural areas and parks. In addition to local public and private sources of funding, the Michigan Natural Resources Trust Fund (MNRTF) is a frequent source of competitive funding for these types of projects. Since its inception in 1991, GTRLC has spearheaded efforts to work with both the Michigan Department of Natural Resources and local units of government in securing \$40.0 million in grants from the MNRTF. GTRLC has helped assist local units of government with 42 MNRTF projects, featuring over 16,840 acres and over 30 miles of shoreline across its service region. GTRLC also owns and manages 33 nature preserves which are open to the public.

**NOTE J - LINE OF CREDIT**

During the year ended June 30, 2012, GTRLC had a revolving line of credit with a financial institution that is secured by investments.

**Line of Credit**

Revolving line of credit with financial institution with interest at prime rate minus 1/2% floating, currently 2.75% at June 30, 2012, with a rate floor of 3.25%; secured by investments; due on October 10, 2013.

\$ 509,339

Interest expense on the line of credit was \$31,068 for the year ended June 30, 2012.

**NOTE K - LAND CONTRACT**

During the year ended June 30, 2012, GTRLC entered into a land contract with a landowner that is secured by the land.

Land contract with landowner with interest at 5%; secured by land; due May 2014.

\$ 87,000

**NOTE L - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consists of the following at June 30, 2012:

Net assets restricted for specific use:

Land Protection and Stewardship	\$ 9,776,353
Spendable endowment income reinvested	<u>301,891</u>

\$ 10,078,244

Net assets restricted by the expiration of time:

Conservancy Fund Pledges receivable	\$ 306,060
Remainder interest in land (Note F)	<u>348,000</u>

\$ 654,060

**NOTE M - PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consists of the following at June 30, 2012:

Net assets restricted for land under protection:	
Preserves	\$ 16,960,047
Development rights	<u>208</u>
	<u>\$ 16,960,255</u>
Net assets restricted for endowment:	
Restricted cash for endowment	\$ 18,925
Restricted investments for endowment	698,975
Spendable endowment income	<u>(301,891)</u>
	<u>\$ 416,009</u>

**NOTE N - ENDOWMENT**

GTRLC's endowment consists of donor restricted donations, and realized and unrealized losses. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net assets are classified as the following as of June 30, 2012:

Temporarily restricted (Note L)	\$ 301,891
Permanently restricted (Note M)	<u>416,009</u>
	<u>\$ 717,900</u>

The net changes in endowment net assets are as follows for June 30, 2012:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 337,234	\$ 415,959	\$ 753,193
Investment return			
Investment income	21,612	-	21,612
Net depreciation (realized and unrealized)	<u>(26,394)</u>	<u>-</u>	<u>(26,394)</u>
Total investment return	<u>(4,782)</u>	<u>-</u>	<u>(4,782)</u>
Contributions	-	50	50
Appropriation and expenditure of endowment assets	<u>(30,561)</u>	<u>-</u>	<u>(30,561)</u>
	<u>\$ 301,891</u>	<u>\$ 416,009</u>	<u>\$ 717,900</u>

***Return Objectives and Risk Parameters***

GTRLC has adopted investment and spending policies for endowment assets that attempt to provide for consistent long-term financial stability of GTRLC. Endowment assets include donor-restricted assets that GTRLC must hold in perpetuity or for a donor-specified period.

***Strategies Employed for Achieving Objectives***

To meet its investment objectives, the Endowment Fund shall be invested in long-term investments. The goal of the Endowment Fund investments will be to provide a high total return on investments, consistent with the security of principal and prudent investment management coordinated by an Investment Consultant selected by the Board.

***Spending Policy and How the Investment Objectives Relate to Spending Policy***

GTRLC has a policy of appropriating for distribution each year. Income from interest and dividends not representing a return of capital (income) is accounted for separately from principal and capital gains and return of capital (principal). Income of the general endowment is available for the use of the Conservancy Fund for ongoing activities. Income of the Stewardship Endowment Fund is available for the use of the Land Protection and Stewardship Fund for current and future stewardship obligations related to any and all lands under protection by GTRLC, including easements and lands held in fee. To the extent that income is not sufficient to meet the yearly goal of Endowment Fund earnings available for operations and stewardship activities, the realized and unrealized capital gains may be used to fund the difference. Access to the available Endowment Fund income occurs through the budgeting process for the Conservancy Fund, and Land Protection and Stewardship Funds. The projected income from the current budget year and the budgeted but unused income from the previous budget year can be used in the budgeting process of the current year. When Endowment Fund income levels decrease below estimated amounts, the Conservancy Fund budget is revised accordingly. The Executive Director is authorized to transfer budgeted amounts of income from the Endowment Fund to the Conservancy Fund, and Land Protection and Stewardship Funds as the need exists. In the event that available income after two years is not utilized in ongoing operations, it is added to principal.

**NOTE O - FAIR VALUE MEASUREMENTS**

GTRLC uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that GTRLC has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2012.

*U.S. government bonds, municipal bonds and corporate bonds:* Valued at fair value based on quoted market prices.

*Equity securities:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Mutual funds:* Valued at the net asset value ("NAV") of shares held by GTRLC at year-end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while GTRLC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, GTRLC's assets and liabilities at fair value as of June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Mutual funds - index funds	\$ 413,259	\$ -	\$ -	\$ 413,259
Mutual funds - balanced funds	99,061	-	-	99,061
Mutual funds - growth funds	1,164,765	-	-	1,164,765
Mutual funds - fixed income funds	1,460,740	-	-	1,460,740
Mutual funds - other funds	803,274	-	-	803,274
Common stocks	2,804,795	-	-	2,804,795
Corporate bonds	1,417,609	-	-	1,417,609
U.S. government securities	<u>120,600</u>	<u>-</u>	<u>-</u>	<u>120,600</u>
	<u>\$ 8,284,103</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,284,103</u>

**NOTE P - OFFICE LEASE**

GTRLC entered into a five-year operating lease for office space beginning May 1, 2012 and ending April 30, 2017. The lease requires GTRLC to pay utilities, insurance covering personal property and all personal property and property taxes. The landlord is obligated for insurance covering the building. Rent was \$86,450 for the year ended June 30, 2012.

Future minimal rentals are as follows:

<u>Years Ending June 30,</u>	<u>Annual Minimum Lease Payment</u>
2013	\$ 48,160
2014	49,124
2015	50,110
2016	51,110
2017	43,300

**NOTE Q - RETIREMENT PLAN**

GTRLC's employees are eligible after one year of service to participate in the Grand Traverse Regional Land Conservancy Retirement Plan (the "Plan"). The Plan was established under the provisions of Section 403(b) of the Internal Revenue Code. An employer discretionary contribution, if approved by the Board of Directors, is contributed throughout the year based on percentages of salary as specified in the Plan document which takes into consideration years of service. GTRLC's total contribution to the Plan for the year ended June 30, 2012 was \$35,015.

**NOTE R - GRAND TRAVERSE REGIONAL COMMUNITY FOUNDATION**

Through its fundraising projects, GTRLC accepts donations directly or encourages donors to contribute to the Grand Traverse Regional Land Conservancy Agency Fund, the Evelyn A. and Charles H. Drummond Skegemog Lake Wildlife Area Education Fund and the Grand Traverse Regional Land Conservancy Environmental Education Fund, maintained by the Grand Traverse Regional Community Foundation. GTRLC is the named beneficiary of all these endowment funds. The ending net assets of the fund were \$623,368 at June 30, 2012. GTRLC received distributions of \$24,132 from the fund for the year ended June 30, 2012, in accordance with the Grand Traverse Regional Community Foundation spending policy.

These assets are reported exclusively on the books of the Grand Traverse Regional Community Foundation. Distributions to the GTRLC from the endowment funds are reported in the Statement of Activities as grants and contributions.

**NOTE 5 - SUPPLEMENTAL CASH FLOWS INFORMATION**

*Non-Cash Investing and Financing Activities*

GTRLC paid interest of \$49,191 and \$48,787, for the years ended June 30, 2012 and 2011, respectively.

GTRLC purchased seven conservation easements below fair market value as determined by a State certified appraiser. GTRLC recorded the conservation easements at their fair market value as of the date of the purchase and recognized \$1,192,000 in non-cash contribution revenues.

Land of \$2,093,609 was transferred to nature preserves.

Land held for transfer of \$87,000 was purchased with land contract proceeds.

**SUPPLEMENTAL INFORMATION**



## Grand Traverse Regional Land Conservancy

### CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2012  
(With Comparative Totals for 2011)

	Conservancy Fund	Land Protection and Stewardship Fund	Endowment Fund	Total	2011 Total
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	\$ 1,304,088	\$ -	\$ -	\$ 1,304,088	\$ 1,420,614
Restricted cash	-	1,562,460	18,925	1,581,385	615,317
Investments	-	235,372	-	235,372	250,863
Pledges receivable	183,250	298,492	-	481,742	821,439
Accounts receivable	-	-	-	-	21,527
Total current assets	<u>1,487,338</u>	<u>2,096,324</u>	<u>18,925</u>	<u>3,602,587</u>	<u>3,129,760</u>
<b>FIXED ASSETS</b> , net of accumulated depreciation	<u>129,598</u>	<u>22,610</u>	<u>-</u>	<u>152,208</u>	<u>135,483</u>
<b>LAND UNDER PROTECTION</b>					
Nature preserves	-	16,960,047	-	16,960,047	14,866,444
Development rights	-	208	-	208	202
Options to purchase land	-	53,000	-	53,000	141,500
Land held for transfer	-	3,418,065	-	3,418,065	5,380,650
Total land under protection	<u>-</u>	<u>20,431,320</u>	<u>-</u>	<u>20,431,320</u>	<u>20,388,796</u>
<b>OTHER ASSETS</b>					
Restricted investments for endowments	-	-	698,975	698,975	734,318
Restricted investments for stewardship	-	4,738,964	-	4,738,964	3,575,971
Board designated investments	2,524,479	-	-	2,524,479	2,652,520
Remainder interest in land	348,000	-	-	348,000	348,000
Charitable gift annuity investment	-	252,712	-	252,712	273,774
Pledges receivable, net of current portion	122,810	53,698	-	176,508	177,830
Total other assets	<u>2,995,289</u>	<u>5,045,374</u>	<u>698,975</u>	<u>8,739,638</u>	<u>7,762,413</u>
	<u>\$ 4,612,225</u>	<u>\$ 27,595,628</u>	<u>\$ 717,900</u>	<u>\$ 32,925,753</u>	<u>\$ 31,416,452</u>

## Grand Traverse Regional Land Conservancy

### CONSOLIDATING STATEMENT OF FINANCIAL POSITION - Continued

June 30, 2012 (With Comparative Totals for 2011)						
	Conservancy Fund	Land Protection and Stewardship Fund	Endowment Fund	Total	2011 Total	
<b>LIABILITIES AND NET ASSETS</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable	\$ 8,971	\$ 11,208	\$ -	\$ 20,179	\$ 48,882	
Accrued liabilities	259,061	32,395	-	291,456	238,154	
Deposits	-	5,001	-	5,001	5,001	
Line of credit	-	509,339	-	509,339	509,794	
Land contract	-	87,000	-	87,000	-	
	268,032	644,943	-	912,975	801,831	
<b>OTHER LIABILITIES</b>						
Charitable gift annuity obligation	-	214,077	-	214,077	196,534	
	268,032	859,020	-	1,127,052	998,365	
<b>NET ASSETS</b>						
Unrestricted						
Board designated						
Easement defense	378,040	-	-	378,040	378,999	
Operating reserve	891,793	-	-	891,793	990,757	
Undesignated	2,420,300	-	-	2,420,300	2,574,796	
Temporarily restricted						
Specified use	-	9,776,353	301,891	10,078,244	10,703,825	
Expiration of time	654,060	-	-	654,060	487,105	
Permanently restricted						
Land under protection	-	16,960,255	-	16,960,255	14,866,646	
Endowment	-	-	416,009	416,009	415,959	
	4,344,193	26,736,608	717,900	31,798,701	30,418,087	
	Total net assets					
	\$ 4,612,225	\$ 27,595,628	\$ 717,900	\$ 32,925,753	\$ 31,416,452	

# Grand Traverse Regional Land Conservancy

## CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012  
(With Comparative Totals for 2011)

	Conservancy Fund	Land Protection and Stewardship Fund	Endowment Fund	Total	2011 Total
<b>REVENUE AND SUPPORT</b>					
Grants and contributions	\$ 1,495,295	\$ 5,325,178	\$ 50	\$ 6,820,523	\$ 4,995,630
Benefit proceeds	19,022	3,015	-	22,037	10,620
Gain (loss) from investments	(17,428)	(24,252)	(4,782)	(46,462)	1,205,749
Interest income	5,615	15,382	-	20,997	16,726
Other	29,207	61,074	-	90,281	145,794
Total revenue and support	<u>1,531,711</u>	<u>5,380,397</u>	<u>(4,732)</u>	<u>6,907,376</u>	<u>6,374,519</u>
<b>EXPENSES</b>					
Salaries	1,333,627	-	-	1,333,627	1,225,448
Employee benefits	218,131	-	-	218,131	166,148
Payroll taxes	94,019	-	-	94,019	86,545
Professional development	8,071	-	-	8,071	11,129
Interest	-	49,191	-	49,191	47,977
Provision for doubtful pledges	5,000	8,576	-	13,576	3,554
Professional fees	166,835	198,105	-	364,940	228,308
Lease expense	7,502	-	-	7,502	7,344
Transfers to other organizations	-	1,078,059	-	1,078,059	349,834
Title work and recording fees	-	39,555	-	39,555	76,790
Property tax expenses	-	37,426	-	37,426	12,171
Repairs and maintenance	23,693	-	-	23,693	26,818
Other supplies	25,190	8,606	-	33,796	21,365
Travel	19,032	-	-	19,032	12,068
Rent	86,450	-	-	86,450	93,678
Depreciation	29,756	7,761	-	37,517	35,991
Insurance	36,081	-	-	36,081	24,283
Utilities	11,938	2,022	-	13,960	11,902
Office supplies	7,725	-	-	7,725	11,185
Telephone	12,959	-	-	12,959	13,387
Miscellaneous	26,177	57,372	3,592	87,141	63,587
Printing and publishing	53,460	68	-	53,528	52,503
Postage	30,604	-	-	30,604	27,330
Merchandise and fundraising events	34,296	-	-	34,296	32,372
Dues and subscriptions	14,683	-	-	14,683	17,261
Advertising	4,207	-	-	4,207	3,563
Conservation easement valuation	-	1,786,993	-	1,786,993	1,671,494
Total expenses	<u>2,249,436</u>	<u>3,273,734</u>	<u>3,592</u>	<u>5,526,762</u>	<u>4,334,035</u>
<b>REVENUES OVER (UNDER) EXPENSES</b>	(717,725)	2,106,663	(8,324)	1,380,614	2,040,484
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in (out)	630,263	(603,294)	(26,969)	-	-
<b>CHANGE IN NET ASSETS</b>	(87,462)	1,503,369	(35,293)	1,380,614	2,040,484
<b>NET ASSETS, beginning of year</b>	<u>4,431,655</u>	<u>25,233,239</u>	<u>753,193</u>	<u>30,418,087</u>	<u>28,377,603</u>
<b>NET ASSETS, end of year</b>	<u>\$ 4,344,193</u>	<u>\$ 26,736,608</u>	<u>\$ 717,900</u>	<u>\$ 31,798,701</u>	<u>\$ 30,418,087</u>