

Grand Traverse Regional Land Conservancy

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Grand Traverse Regional Land Conservancy

Report on Financial Statements

We have audited the accompanying financial statements of the *Grand Traverse Regional Land Conservancy* ("GTRLC"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 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 GTRLC'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 GTRLC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grand Traverse Regional Land Conservancy as of June 30, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited GTRLC's 2015 financial statements, and our report dated October 16, 2015 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the 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 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.

Dennis, Gartland & Niergarth

October 19, 2016

Grand Traverse Regional Land Conservancy

STATEMENT OF FINANCIAL POSITION

June 30, 2016

(With Comparative Totals for 2015)

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash (Note B)	\$ 1,888,289	\$ 1,726,355
Restricted cash (Note B)	1,348,284	1,262,538
Investments (Note C)	336,968	364,875
Pledges receivable, net (Note D)	572,748	534,897
Accounts receivable	<u>72,940</u>	<u>-</u>
Total current assets	<u>4,219,229</u>	<u>3,888,665</u>
FIXED ASSETS , net of accumulated depreciation (Note E)	<u>160,308</u>	<u>154,922</u>
LAND UNDER PROTECTION		
Nature preserves (Note F)	17,867,736	17,718,947
Development rights (Note G)	221	220
Options to purchase land (Note H)	153,500	136,400
Land held for transfer (Note I)	4,184,643	4,210,043
Term easements	<u>4,050</u>	<u>1,857</u>
Total land under protection	<u>22,210,150</u>	<u>22,067,467</u>
OTHER ASSETS		
Restricted investments for endowments (Note C)	1,084,258	1,008,944
Restricted investments for stewardship (Note C)	6,087,192	6,422,237
Board designated investments (Note C)	2,759,658	2,924,066
Charitable gift annuity investment (Note K)	303,946	332,479
Pledges receivable, net of current portion (Note D)	<u>411,703</u>	<u>124,949</u>
Total other assets	<u>10,646,757</u>	<u>10,812,675</u>
Total assets	<u>\$ 37,236,444</u>	<u>\$ 36,923,729</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued liabilities	\$ 289,784	\$ 262,945
Deposits	9,001	10,001
Line of credit (Note J)	<u>663,777</u>	<u>-</u>
Total current liabilities	962,562	272,946
OTHER LIABILITIES		
Charitable gift annuity obligation, net of current portion (Note K)	<u>265,877</u>	<u>261,533</u>
Total liabilities	<u>1,228,439</u>	<u>534,479</u>
NET ASSETS		
Unrestricted		
Board designated		
Easement defense	402,345	401,050
Operating reserve	1,550,580	1,416,861
Undesignated	2,562,088	2,724,780
Temporarily restricted		
Specified use (Note M)	12,434,382	13,391,251
Expiration of time (Note M)	682,154	246,654
Permanently restricted		
Land under protection (Note N)	17,867,957	17,719,167
Endowment (Note N)	<u>508,499</u>	<u>489,487</u>
Total net assets	<u>36,008,005</u>	<u>36,389,250</u>
Total net assets	<u>\$ 37,236,444</u>	<u>\$ 36,923,729</u>

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

Grand Traverse Regional Land Conservancy

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2015 Totals
REVENUE AND SUPPORT					
Grants	\$ 101,610	\$ -	\$ -	\$ 101,610	\$ 803,179
Public support	2,210,721	917,553	19,012	3,147,286	3,624,808
Benefit proceeds	7,294	-	-	7,294	6,801
Gain (loss) from investments	(11,858)	(29,520)	-	(41,378)	73,366
Interest income	1,243	98	-	1,341	1,560
Other	59,411	38,398	-	97,809	360,436
Net assets released from restriction:					
Satisfaction of program restrictions	1,299,108	(1,447,898)	148,790	-	-
Total revenue and support	3,667,529	(521,369)	167,802	3,313,962	4,870,150
EXPENSES					
Program services	2,635,229	-	-	2,635,229	4,054,532
Management and general	453,031	-	-	453,031	344,654
Fundraising	606,947	-	-	606,947	589,695
Total expenses	3,695,207	-	-	3,695,207	4,988,881
CHANGES IN NET ASSETS	(27,678)	(521,369)	167,802	(381,245)	(118,731)
NET ASSETS, beginning of year	4,542,691	13,637,905	18,208,654	36,389,250	36,507,981
NET ASSETS, end of year	\$ 4,515,013	\$ 13,116,536	\$ 18,376,456	\$ 36,008,005	\$ 36,389,250

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

Grand Traverse Regional Land Conservancy

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	Program Services	Management and General	Fund Raising	Total	2015 Total
Salaries	\$ 1,006,385	\$ 217,506	\$ 268,935	\$ 1,492,826	\$ 1,311,260
Employee benefits	186,728	40,357	49,899	276,984	244,735
Payroll taxes	70,285	15,190	18,782	104,257	104,649
Professional development	12,338	2,667	3,297	18,302	10,306
Interest	40,011	-	-	40,011	71,156
Provision for doubtful pledges	8,000	713	681	9,394	24,438
Professional fees	402,532	88,233	72,434	563,199	320,342
Lease expense	-	8,118	8,118	16,236	7,226
Transfers to other organizations	475,386	-	-	475,386	1,837,410
Title work and recording fees	63,357	-	-	63,357	128,773
Property tax expenses	51,374	-	-	51,374	65,903
Repairs and maintenance	10,734	2,320	2,868	15,922	27,919
Other supplies	59,598	-	-	59,598	82,221
Travel	24,599	5,316	6,573	36,488	29,730
Rent (Note Q)	34,455	7,447	9,208	51,110	50,110
Depreciation (Note E)	26,296	4,007	4,955	35,258	31,419
Insurance	31,346	6,774	8,376	46,496	50,485
Utilities	14,887	1,738	2,149	18,774	18,931
Office supplies	7,016	1,516	1,875	10,407	7,840
Telephone	16,568	3,546	4,385	24,499	21,683
Software	20,237	4,374	5,408	30,019	17,392
Miscellaneous	56,558	3,534	22,226	82,318	74,321
Printing and publishing	-	19,183	57,550	76,733	53,138
Postage	-	17,849	17,848	35,697	33,535
Merchandise and fundraising events	7,390	1,597	35,774	44,761	29,660
Dues and subscriptions	4,838	1,046	1,293	7,177	4,916
Advertising	4,313	-	4,313	8,626	4,387
Extinguished development value on conservation easements	(2)	-	-	(2)	324,996
	\$ 2,635,229	\$ 453,031	\$ 606,947	\$ 3,695,207	\$ 4,988,881

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

Grand Traverse Regional Land Conservancy

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (381,245)	\$ (118,731)
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	35,258	31,419
Development rights extinguished	-	324,999
Unrealized (gain) loss on investments	288,685	168,625
Realized gain on investments	(248,032)	(239,202)
Donated development rights	-	(325,003)
Preserves donated to GTRLC	(133,500)	-
Donated investments	-	(1,559)
Endowment contributions	-	(50,268)
Land options exercised or expired	97,400	87,448
Transfers out of land held for transfer	865,400	-
Increase (decrease) in pledges receivable	(324,606)	147,488
Increase (decrease) in accounts receivable	(72,939)	12,991
Increase (decrease) in accounts payable and accrued liabilities	30,180	(68,131)
Net cash provided (used) by operating activities	156,601	(29,924)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(40,642)	(35,677)
Proceeds from sale of land held for transfer	-	2,935,847
Acquisition of land held for transfer	(840,000)	(875,400)
Acquisition of preserves	(15,289)	-
Payment on land options	(114,500)	(32,000)
Acquisition of investments	(173,329)	(844,972)
Proceeds from sale of investments	613,255	879,179
Acquisition of term easements	(2,193)	(1,857)
Net cash flows provided (used) by investing activities	(572,698)	2,025,120
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	663,777	-
Repayment of borrowings	-	(509,339)
Repayment of land contract	-	(2,814,390)
Endowment contributions	-	50,268
Net cash provided (used) by financing activities	663,777	(3,273,461)
NET INCREASE (DECREASE) IN CASH	247,680	(1,278,265)
Cash, beginning of year	2,988,893	4,267,158
Cash, end of year	\$ 3,236,573	\$ 2,988,893
Cash per Statement of Financial Position		
Unrestricted	\$ 1,888,289	\$ 1,726,355
Restricted	1,348,284	1,262,538
	\$ 3,236,573	\$ 2,988,893

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

Grand Traverse Regional Land Conservancy

NOTES TO THE FINANCIAL STATEMENTS

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

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 financial statements are described below:

Basis of Accounting

The 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 financial statements include the accounts of the 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 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 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

Proceeds of charitable gift annuities are included in the general investments, the related obligation is carried at its net present value and the initial 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 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 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 generally no longer subject to examination by tax authorities for years before June 30, 2013. 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, 2015, from which the summarized information was derived.

NOTES TO THE FINANCIAL STATEMENTS - Continued

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 statement of financial position consist of the following at June 30, 2016:

	<u>Bank Amount</u>	<u>Carrying Amount</u>
Insured (FDIC)	\$ 712,502	\$ 712,502
Uninsured and uncollateralized	<u>2,601,651</u>	<u>2,524,071</u>
	<u>\$ 3,314,153</u>	<u>\$ 3,236,573</u>
Financial Statement Presentation		
Cash		\$ 1,888,289
Restricted cash		<u>1,348,284</u>
		<u>\$ 3,236,573</u>

NOTE C - INVESTMENTS

GTRLC's investments are held in trust by financial institutions and consist of the following at June 30, 2016:

	<u>Cost</u>	<u>Market</u>
Cash equivalents and certificate of deposit	\$ 228,624	\$ 228,624
Mutual funds	5,494,757	5,583,596
Common stocks	3,115,861	4,076,961
Corporate bonds	588,058	601,456
U.S. government securities	<u>75,000</u>	<u>81,385</u>
Totals	<u>\$ 9,502,300</u>	<u>\$ 10,572,022</u>
Financial Statement Presentation		
Current investments		\$ 336,968
Restricted investments for endowments		1,084,258
Restricted investments for stewardship		6,087,192
Board designated investments		2,759,658
Charitable gift annuity investment		<u>303,946</u>
		<u>\$ 10,572,022</u>

NOTES TO THE FINANCIAL STATEMENTS - Continued

Concentration Custodial 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 \$10.0 million at June 30, 2016.

NOTE D - PLEDGES RECEIVABLE

Substantially all promises to give were initially 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, 2016, 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	\$ 682,024
2017	373,823
2018	22,500
2019	21,500
2020	<u>21,000</u>
Total pledges receivable	1,120,847
Discount on pledges receivable	(80,353)
Allowance for doubtful pledges	<u>(56,043)</u>
	<u>\$ 984,451</u>
Financial statement presentation	
Current	\$ 572,748
Long-term	<u>411,703</u>
	<u>\$ 984,451</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) of \$250,000, of which \$250,000 was recognized as revenue in the year ended June 30, 2016, upon meeting donor conditions of raising matching contributions.

NOTES TO THE FINANCIAL STATEMENTS - Continued

NOTE E - FIXED ASSETS

Fixed assets comprised of the following at June 30, 2016:

Office equipment	\$ 377,602
Leasehold improvements	49,035
Equipment	<u>83,277</u>
Total fixed assets, at cost	509,914
Less accumulated depreciation	<u>(349,606)</u>
Total fixed assets, net of accumulated depreciation	<u>\$ 160,308</u>

Total depreciation expense was \$35,258 for the year ended June 30, 2016.

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NOTES TO THE FINANCIAL STATEMENTS - Continued

NOTE F - NATURE PRESERVES

Nature preserves acquired by GTRLC are as follows:

	Acquired During the Year Ended June 30, 2016	Total Acquired Through June 30, 2016
Arcadia Dunes	- Acres	3,600.00 Acres
Arcadia Marsh	-	273.33
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	2.10	256.80
Maple Bay Farm	-	11.00
Medenbrook	-	37.00
Mitchell Creek Preserve	-	128.39
Misty Acres Preserve	-	624.37
Nana's Woods	-	24.50
North Skegemog	-	36.72
Palastra	-	35.55
Papoose Lake Preserve	-	46.00
Point Betsie	-	99.49
Polaczyk	-	5.00
Wilcox-Palmer-Sha	-	40.64
Pyatt Lake	-	158.60
Reffitt	-	106.79
Rottenbucher	13.00	13.00
Sagaser	-	20.00
Seven Bridges Cabin	-	5.60
South Island	-	13.80
Trapp Farm	-	139.84
	<u>15.10</u>	<u>7,070.68</u>
Total acres		
	<u>\$ 148,790</u>	<u>\$ 17,867,736</u>
Total value reported		

During the year ended June 30, 2016, 15.10 acres of land valued at \$148,790 were transferred from land held for transfer and permanently protected.

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.

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 reflect only the fair value of the development rights. 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. GTRLC has a designated easement defense fund for this purpose.

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

<u>County</u>	<u>Secured During the Year Ended June 30, 2016</u>		<u>Total Secured Through June 30, 2016</u>	
	<u>Number of Easements</u>	<u>Acres Protected</u>	<u>Number of Easements</u>	<u>Acres Protected</u>
Antrim	-	-	37	4,088.93
Benzie	1	187.60	31	2,370.44
Grand Traverse	-	-	97	6,549.43
Kalkaska	-	-	34	3,605.09
Leelanau	-	-	5	249.82
Manistee	<u>1</u>	<u>46.80</u>	<u>17</u>	<u>1,983.28</u>
Total	<u>2</u>	<u>234.40</u>	<u>221</u>	<u>18,846.99</u>

At June 30, 2016, the total historical value of development rights acquired by GTRLC was \$50,566,680, of which \$50,566,459 has been extinguished.

NOTES TO THE FINANCIAL STATEMENTS - Continued

NOTE H - 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, 2016:

	<u>Option Purchase Price</u>
Eugene & Florence Stone	\$ 10,000
Remax - Bayshore	25,000
Petobego	53,000
Goodheart	3,000
Maplehurst	50,000
Rowe Farm	10,000
Sha	<u>2,500</u>
	<u>\$ 153,500</u>

During the year ended June 30, 2016, 5 options valued at \$97,400 were exercised, 7 options valued at \$114,500 were purchased and no options expired.

NOTE I - 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</u>	<u>Transfers</u>	<u>Sales</u>	<u>End of Year</u>
Arcadia/CMS	\$ 1,521,110	\$ -	\$ -	\$ 245,000	\$ 1,276,110
Maple Bay	160,508	-	-	-	160,508
Schmidt Outlet Project	250,000	-	250,000	-	-
Neahtawanta	156,108	-	-	-	156,108
Deadstream Swamp	75,000	-	75,000	-	-
Boardman/McDonald	20,992	-	-	-	20,992
Reffitt	786,000	-	-	-	786,000
Railroad Point	364,925	-	-	-	364,925
Srdjack	475,000	-	-	-	475,000
Sitter	60,000	-	-	-	60,000
Garfield Township	256,000	-	-	256,000	-
Verizon	39,400	-	39,400	-	-
Grayhawk	45,000	-	-	-	45,000
Milton Township Beach	-	675,000	-	-	675,000
Wortelboer	-	80,000	-	-	80,000
Sayler Park	-	<u>85,000</u>	-	-	<u>85,000</u>
	<u>\$ 4,210,043</u>	<u>\$ 840,000</u>	<u>\$ 364,400</u>	<u>\$ 501,000</u>	<u>\$ 4,184,643</u>

NOTE J - LINE OF CREDIT

At June 30, 2016, GTRLC had a \$3,000,000 revolving line of credit as follows:

Revolving line of credit with financial institution with interest at prime rate minus .5% floating, 2.75% at June 30, 2016; secured by investments; due on December 10, 2016. Advances are limited to 70% of the balance of the Wealth Management account.

\$ 663,777

Interest expense on the line of credit was \$6,638 for the year ended June 30, 2016.

NOTE K - GIFT ANNUITIES

GTRLC has received \$446,435 in charitable gift annuity agreement proceeds which have been added to the general investments of GTRLC of which \$303,946 remains. 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, 2016, GTRLC received no new annuities, retired no annuities and made payments totaling \$29,187. 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 of 6.5%, which reflects the level of assessed risk related to future payments and the borrowing rate available to GTRLC.

Financial Statement Presentation

Accrued current liabilities	\$ 29,187
Charitable gift annuity obligation	<u>265,877</u>
	<u>\$ 295,064</u>

NOTE L - 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 \$361,980 on June 30, 2016.

Assist Projects

GTRLC 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 secured \$62 million in grants from the Michigan Natural Resources Trust Fund. GTRLC has helped assist local units of government with 52 MNRTF projects, featuring over 11,082 acres across its service region.

NOTES TO THE FINANCIAL STATEMENTS - Continued

NOTE M - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consists of the following at June 30, 2016:

Net assets restricted for specific use:	
Land Protection and Stewardship	\$ 11,850,774
Spendable endowment income reinvested	<u>583,608</u>
	<u>\$ 12,434,382</u>
Net assets restricted by the expiration of time:	
Conservancy Fund Pledges receivable	<u>\$ 682,154</u>

NOTE N - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consists of the following at June 30, 2016:

Net assets restricted for land under protection:	
Preserves	\$ 17,867,736
Development rights	<u>221</u>
	<u>\$ 17,867,957</u>
Net assets restricted for endowment:	
Restricted cash for endowment	\$ 7,849
Restricted investments for endowment	1,084,258
Spendable endowment income	<u>(583,608)</u>
	<u>\$ 508,499</u>

NOTE O - 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, 2016:

Temporarily restricted (Note M)	\$ 583,608
Permanently restricted (Note N)	<u>508,499</u>
	<u>\$ 1,092,107</u>

NOTES TO THE FINANCIAL STATEMENTS - Continued

The net changes in endowment net assets are as follows for June 30, 2016:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 528,295	\$ 489,487	\$ 1,017,782
Investment return			
Investment income	23,105	-	23,105
Net depreciation (realized and unrealized)	<u>(26,959)</u>	<u>-</u>	<u>(26,959)</u>
Total investment return	<u>(3,854)</u>	<u>-</u>	<u>(3,854)</u>
Contributions	-	19,012	19,012
Transfers to the endowment	64,009	-	64,009
Appropriation and expenditure of endowment assets	<u>(4,842)</u>	<u>-</u>	<u>(4,842)</u>
	<u>55,313</u>	<u>19,012</u>	<u>74,325</u>
	<u>\$ 583,608</u>	<u>\$ 508,499</u>	<u>\$ 1,092,107</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 income 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 P - 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;
- 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.

NOTES TO THE FINANCIAL STATEMENTS - Continued

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis.

There have been no changes in the methodologies used at June 30, 2016.

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

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.

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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Index funds	\$ 821,055	\$ -	\$ -	\$ 821,055
Balanced funds	129,240	-	-	129,240
Growth funds	1,611,355	-	-	1,611,355
Fixed income funds	2,282,592	-	-	2,282,592
Other funds	739,354	-	-	739,354
Common stocks	4,076,961	-	-	4,076,961
Corporate bonds	601,456	-	-	601,456
Municipal bonds	<u>81,385</u>	<u>-</u>	<u>-</u>	<u>81,385</u>
	<u>\$ 10,343,398</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,343,398</u>

NOTE Q - 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 \$51,110 for the year ended June 30, 2016. Future minimum rentals are as follows:

<u>Years Ending June 30,</u>	<u>Annual Minimum Lease Payment</u>
2017	\$ 43,300

NOTE R - 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, 2016 was \$63,206.

NOTE S - 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 net assets of the funds were \$731,221 at June 30, 2016. GTRLC received distributions of \$29,215 from the funds for the year ended June 30, 2016, 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 T - SUPPLEMENTAL CASH FLOWS INFORMATION

GTRLC paid interest of \$40,011 for the year ended June 30, 2016.

During 2016, GTRLC received land for a nature preserve. GTRLC recorded the donation at the fair market value at the date of donation and recognized \$133,500 in non-cash contribution revenue.

NOTE U - SUBSEQUENT EVENTS

GTRLC has evaluated subsequent events and transactions for potential recognition and disclosure through October 19, 2016, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

Grand Traverse Regional Land Conservancy

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2016

(With Comparative Totals for 2015)

	<u>Conservancy Fund</u>	<u>Land Protection and Stewardship Fund</u>	<u>Endowment Fund</u>	<u>Total</u>	<u>2015 Total</u>
ASSETS					
CURRENT ASSETS					
Cash	\$ 1,888,289	\$ -	\$ -	\$ 1,888,289	\$ 1,726,355
Restricted cash	-	1,340,435	7,849	1,348,284	1,262,538
Investments	-	336,968	-	336,968	364,875
Pledges receivable, net	369,896	202,852	-	572,748	534,897
Accounts receivable	<u>10,886</u>	<u>62,054</u>	<u>-</u>	<u>72,940</u>	<u>-</u>
Total current assets	<u>2,269,071</u>	<u>1,942,309</u>	<u>7,849</u>	<u>4,219,229</u>	<u>3,888,665</u>
FIXED ASSETS , net of accumulated depreciation	<u>116,775</u>	<u>43,533</u>	<u>-</u>	<u>160,308</u>	<u>154,922</u>
LAND UNDER PROTECTION					
Nature preserves	-	17,867,736	-	17,867,736	17,718,947
Development rights	-	221	-	221	220
Options to purchase land	-	153,500	-	153,500	136,400
Land held for transfer	-	4,184,643	-	4,184,643	4,210,043
Term easements	<u>-</u>	<u>4,050</u>	<u>-</u>	<u>4,050</u>	<u>1,857</u>
Total land under protection	<u>-</u>	<u>22,210,150</u>	<u>-</u>	<u>22,210,150</u>	<u>22,067,467</u>
OTHER ASSETS					
Restricted investments for endowments	-	-	1,084,258	1,084,258	1,008,944
Restricted investments for stewardship	-	6,087,192	-	6,087,192	6,422,237
Board designated investments	2,759,658	-	-	2,759,658	2,924,066
Charitable gift annuity investment	-	303,946	-	303,946	332,479
Pledges receivable, net of current portion	<u>312,258</u>	<u>99,445</u>	<u>-</u>	<u>411,703</u>	<u>124,949</u>
Total other assets	<u>3,071,916</u>	<u>6,490,583</u>	<u>1,084,258</u>	<u>10,646,757</u>	<u>10,812,675</u>
	<u>\$ 5,457,762</u>	<u>\$ 30,686,575</u>	<u>\$ 1,092,107</u>	<u>\$ 37,236,444</u>	<u>\$ 36,923,729</u>

Grand Traverse Regional Land Conservancy

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - Continued

June 30, 2016

(With Comparative Totals for 2015)

	<u>Conservancy Fund</u>	<u>Land Protection and Stewardship Fund</u>	<u>Endowment Fund</u>	<u>Total</u>	<u>2015 Total</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accrued liabilities	\$ 260,595	\$ 29,189	\$ -	\$ 289,784	\$ 262,945
Deposits	-	9,001	-	9,001	10,001
Line of credit	-	663,777	-	663,777	-
	<u>260,595</u>	<u>701,967</u>	<u>-</u>	<u>962,562</u>	<u>272,946</u>
Total current liabilities					
OTHER LIABILITIES					
Charitable gift annuity obligation, net of current portion	-	265,877	-	265,877	261,533
	<u>260,595</u>	<u>967,844</u>	<u>-</u>	<u>1,228,439</u>	<u>534,479</u>
Total liabilities					
NET ASSETS					
Unrestricted					
Board designated					
Easement defense	402,345	-	-	402,345	401,050
Operating reserve	1,550,580	-	-	1,550,580	1,416,861
Undesignated	2,562,088	-	-	2,562,088	2,724,780
Temporarily restricted					
Specified use					
Expiration of time	682,154	11,850,774	583,608	12,434,382	13,391,251
Permanently restricted					
Land under protection					
Endowment	-	17,867,957	-	17,867,957	17,719,167
	-	-	508,499	508,499	489,487
	<u>5,197,167</u>	<u>29,718,731</u>	<u>1,092,107</u>	<u>36,008,005</u>	<u>36,389,250</u>
Total net assets					
	<u>\$ 5,457,762</u>	<u>\$ 30,686,575</u>	<u>\$ 1,092,107</u>	<u>\$ 37,236,444</u>	<u>\$ 36,923,729</u>

Grand Traverse Regional Land Conservancy

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	Conservancy Fund	Land Protection and Stewardship Fund	Endowment Fund	Total	2015 Total
REVENUE AND SUPPORT					
Grants	\$ 101,610	\$ -	\$ -	\$ 101,610	\$ 803,179
Public support	2,210,721	917,553	19,012	3,147,286	3,624,808
Benefit proceeds	7,294	-	-	7,294	6,801
Gain (loss) from investments	(11,858)	(25,666)	(3,854)	(41,378)	73,366
Interest income	1,243	98	-	1,341	1,560
Other	59,411	38,398	-	97,809	360,436
	<u>2,368,421</u>	<u>930,383</u>	<u>15,158</u>	<u>3,313,962</u>	<u>4,870,150</u>
Total revenue and support					
EXPENSES					
Salaries	1,492,826	-	-	1,492,826	1,311,260
Employee benefits	276,984	-	-	276,984	244,735
Payroll taxes	104,257	-	-	104,257	104,649
Professional development	18,302	-	-	18,302	10,306
Interest	-	40,011	-	40,011	71,156
Provision for doubtful pledges	3,748	5,646	-	9,394	24,438
Professional fees	245,954	317,245	-	563,199	320,342
Lease expense	16,236	-	-	16,236	7,226
Transfers to other organizations	-	475,386	-	475,386	1,837,410
Title work and recording fees	24,040	39,317	-	63,357	128,773
Property tax expense	-	51,374	-	51,374	65,903
Repairs and maintenance	15,922	-	-	15,922	27,919
Other supplies	25,850	33,748	-	59,598	82,221
Travel	36,488	-	-	36,488	29,730
Rent	51,110	-	-	51,110	50,110
Depreciation	27,504	7,754	-	35,258	31,419
Insurance	46,496	-	-	46,496	50,485
Utilities	11,927	6,847	-	18,774	18,931
Office supplies	10,407	-	-	10,407	7,840
Telephone	24,340	159	-	24,499	21,683
Software	30,019	-	-	30,019	17,392
Miscellaneous	42,110	35,366	4,842	82,318	74,321
Printing and publishing	76,733	-	-	76,733	53,138
Postage	35,697	-	-	35,697	33,535
Merchandise and fundraising events	41,635	3,126	-	44,761	29,660
Dues and subscriptions	7,177	-	-	7,177	4,916
Advertising	8,626	-	-	8,626	4,387
Extinguished development value on conservation easements	-	(2)	-	(2)	324,996
	<u>2,674,388</u>	<u>1,015,977</u>	<u>4,842</u>	<u>3,695,207</u>	<u>4,988,881</u>
Total expenses					
REVENUES OVER (UNDER) EXPENSES					
OTHER FINANCING SOURCES (USES)	(305,967)	(85,594)	10,316	(381,245)	(118,731)
Transfers in (out)	713,789	(777,798)	64,009	-	-
	<u>407,822</u>	<u>(863,392)</u>	<u>74,325</u>	<u>(381,245)</u>	<u>(118,731)</u>
CHANGE IN NET ASSETS					
NET ASSETS, beginning of year	<u>4,789,345</u>	<u>30,582,123</u>	<u>1,017,782</u>	<u>36,389,250</u>	<u>36,507,981</u>
NET ASSETS, end of year	<u>\$ 5,197,167</u>	<u>\$ 29,718,731</u>	<u>\$ 1,092,107</u>	<u>\$ 36,008,005</u>	<u>\$ 36,389,250</u>