

FINANCIAL STATEMENTS



**FOR THE YEARS ENDED
SEPTEMBER 30, 2014 AND 2013**

THE POTOMAC CONSERVANCY, INC.

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GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Potomac Conservancy, Inc.
Silver Spring, Maryland

We have audited the accompanying financial statements of The Potomac Conservancy, Inc. (the Conservancy), which comprise the statements of financial position as of September 30, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Conservancy as of September 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

March 3, 2015

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THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 369,563	\$ 365,328
Investments (Notes 2 and 10)	142,699	131,821
Grants receivable	237,934	193,995
Pledges receivable	5,000	29,500
Prepaid expenses	10,376	3,623
Other assets (Note 11)	<u>50,000</u>	<u>-</u>
Total current assets	<u>815,572</u>	<u>724,267</u>
PROPERTY AND EQUIPMENT		
Land and easements	265,985	265,985
Equipment	54,873	75,510
Leasehold improvements	<u>9,298</u>	<u>-</u>
	330,156	341,495
Less: Accumulated depreciation and amortization	<u>(50,389)</u>	<u>(64,281)</u>
Net property and equipment	<u>279,767</u>	<u>277,214</u>
NONCURRENT ASSETS		
Security deposits	<u>6,149</u>	<u>6,039</u>
TOTAL ASSETS	<u>\$ 1,101,488</u>	<u>\$ 1,007,520</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ <u>82,810</u>	\$ <u>138,132</u>
LONG-TERM LIABILITIES		
Deferred rent abatement (Note 8)	<u>25,748</u>	<u>-</u>
Total liabilities	<u>108,558</u>	<u>138,132</u>
NET ASSETS		
Unrestricted:		
Undesignated	196,650	132,253
Board-designated Endowment Fund (Note 4)	63,040	27,206
Board-designated Stewardship Fund (Note 4)	<u>189,627</u>	<u>149,142</u>
Total unrestricted net assets	449,317	308,601
Temporarily restricted (Note 5)	<u>543,613</u>	<u>560,787</u>
Total net assets	<u>992,930</u>	<u>869,388</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,101,488</u>	<u>\$ 1,007,520</u>

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and contributions	\$ 1,108,174	\$ 506,264	\$ 1,614,438
Interest and investment income (Note 2)	12,345	-	12,345
In-kind contributions (Note 7)	18,460	-	18,460
Other revenue	3,907	-	3,907
Net assets released from donor restrictions - satisfaction of donor restrictions (Note 6)	<u>523,438</u>	<u>(523,438)</u>	<u>-</u>
Total support and revenue	<u>1,666,324</u>	<u>(17,174)</u>	<u>1,649,150</u>
EXPENSES			
Program Services:			
Community Conservation	258,099	-	258,099
Land Protection	522,687	-	522,687
Public Policy	<u>421,915</u>	<u>-</u>	<u>421,915</u>
Total program services	<u>1,202,701</u>	<u>-</u>	<u>1,202,701</u>
Supporting Services:			
Management and General	107,410	-	107,410
Fundraising	<u>215,497</u>	<u>-</u>	<u>215,497</u>
Total supporting services	<u>322,907</u>	<u>-</u>	<u>322,907</u>
Total expenses	<u>1,525,608</u>	<u>-</u>	<u>1,525,608</u>
Changes in net assets	140,716	(17,174)	123,542
Net assets at beginning of year	<u>308,601</u>	<u>560,787</u>	<u>869,388</u>
NET ASSETS AT END OF YEAR	<u>\$ 449,317</u>	<u>\$ 543,613</u>	<u>\$ 992,930</u>

2013		
Unrestricted	Temporarily Restricted	Total
\$ 1,014,420	\$ 450,924	\$ 1,465,344
8,560	-	8,560
-	-	-
3,753	-	3,753
<u>348,510</u>	<u>(348,510)</u>	<u>-</u>
<u>1,375,243</u>	<u>102,414</u>	<u>1,477,657</u>
236,554	-	236,554
381,483	-	381,483
<u>404,308</u>	<u>-</u>	<u>404,308</u>
<u>1,022,345</u>	<u>-</u>	<u>1,022,345</u>
166,629	-	166,629
<u>160,847</u>	<u>-</u>	<u>160,847</u>
<u>327,476</u>	<u>-</u>	<u>327,476</u>
<u>1,349,821</u>	<u>-</u>	<u>1,349,821</u>
25,422	102,414	127,836
<u>283,179</u>	<u>458,373</u>	<u>741,552</u>
<u>\$ 308,601</u>	<u>\$ 560,787</u>	<u>\$ 869,388</u>

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Program Services			Supporting Services			Total Supporting Services	Total Expenses
	Community Conservation	Land Protection	Public Policy	Total Program Services	Management and General	Fundraising		
Salaries and related benefits (Note 9)	\$ 123,717	\$ 162,443	\$ 153,117	\$ 439,277	\$ 87,243	\$ 97,344	\$ 184,587	\$ 623,864
Occupancy (Note 8)	17,410	31,672	30,468	79,550	8,705	4,353	13,058	92,608
Professional fees (Note 7)	55,372	203,654	154,984	414,010	80,002	44,783	124,785	538,795
Insurance	2,978	5,211	2,978	11,167	2,978	744	3,722	14,889
Depreciation and amortization	1,349	2,023	2,023	5,395	1,013	337	1,350	6,745
Printing and production	12,923	457	21,910	35,290	7,956	59,709	67,665	102,955
Subscriptions and publications	1,250	2,055	274	3,579	1,886	136	2,022	5,601
Telecommunications	1,454	6,045	2,489	9,988	2,298	432	2,730	12,718
Travel and related expenses	6,160	6,740	6,998	19,898	9,626	439	10,065	29,963
Bank charges and other fees	-	-	-	-	-	4,407	4,407	4,407
Program materials and supplies	13,720	15,854	462	30,036	-	-	-	30,036
Equipment and rental	1,041	5,002	2,428	8,471	902	139	1,041	9,512
Licenses and fees	-	293	-	293	758	-	758	1,051
Supplies	2,198	3,225	2,616	8,039	1,291	1,869	3,160	11,199
Special events	2,552	1,000	100	3,652	1,650	-	1,650	5,302
Staff training and education	957	755	150	1,862	2,170	805	2,975	4,837
Moving expenses	-	-	-	-	17,204	-	17,204	17,204
Other	-	1,572	-	1,572	12,350	-	12,350	13,922
Subtotal	243,081	448,001	380,997	1,072,079	238,032	215,497	453,529	1,525,608
Allocation of management and general	15,018	74,686	40,918	130,622	(130,622)	-	(130,622)	-
TOTAL	\$ 258,099	\$ 522,687	\$ 421,915	\$ 1,202,701	\$ 107,410	\$ 215,497	\$ 322,907	\$1,525,608

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Program Services				Supporting Services			Total Expenses
	Community Conservation	Land Protection	Public Policy	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related benefits (Note 9)	\$ 146,183	\$ 137,685	\$ 92,896	\$ 376,764	\$ 77,986	\$ 79,685	\$ 157,671	\$ 534,435
Occupancy (Note 8)	20,142	35,770	35,249	91,161	10,071	5,036	15,107	106,268
Professional fees	33,580	146,945	198,802	379,327	77,850	43,305	121,155	500,482
Insurance	2,299	4,340	2,299	8,938	2,299	575	2,874	11,812
Depreciation and amortization	1,141	1,712	1,712	4,565	855	285	1,140	5,705
Printing and production	5,781	599	32,200	38,580	29,200	22,147	51,347	89,927
Interest (Note 3)	-	-	-	-	20	-	20	20
Subscriptions and publications	-	2,225	1,122	3,347	460	145	605	3,952
Telecommunications	1,702	6,501	3,772	11,975	2,391	517	2,908	14,883
Travel and related expenses	5,303	6,783	4,258	16,344	4,429	225	4,654	20,998
Bank charges and other fees	-	-	-	-	3,692	-	3,692	3,692
Program materials and supplies	1,762	7,108	273	9,143	-	-	-	9,143
Equipment and rental	1,293	4,570	1,978	7,841	735	113	848	8,689
Licenses and fees	-	-	-	-	1,593	-	1,593	1,593
Supplies	2,199	2,140	1,397	5,736	1,351	1,084	2,435	8,171
Special events	2,521	2,533	-	5,054	1,467	-	1,467	6,521
Staff training and education	-	1,084	1,148	2,232	480	7,730	8,210	10,442
Other	286	435	188	909	12,179	-	12,179	13,088
Subtotal	224,192	360,430	377,294	961,916	227,058	160,847	387,905	1,349,821
Allocation of management and general	12,362	21,053	27,014	60,429	(60,429)	-	(60,429)	-
TOTAL	\$ 236,554	\$ 381,483	\$ 404,308	\$ 1,022,345	\$ 166,629	\$ 160,847	\$ 327,476	\$1,349,821

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 123,542	\$ 127,836
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,745	5,705
Unrealized gain on investments	(5,849)	(3,722)
Realized loss (gain) on sales of investments	188	(30)
Deferred rent abatement	25,748	-
(Increase) decrease in:		
Grants receivable	(43,939)	53,570
Pledges receivable	24,500	(19,500)
Prepaid expenses	(6,753)	9,341
Other assets	(50,000)	-
Security deposits	(110)	-
(Decrease) increase in:		
Accounts payable and accrued liabilities	<u>(55,322)</u>	<u>46,130</u>
Net cash provided by operating activities	<u>18,750</u>	<u>219,330</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for leasehold improvements	(9,298)	-
Purchase of investments	(5,217)	(3,377)
Proceeds from sales of investments	<u>-</u>	<u>253</u>
Net cash used by investing activities	<u>(14,515)</u>	<u>(3,124)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	20,000
Payments on line of credit	<u>-</u>	<u>(20,000)</u>
Net cash provided by financing activities	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	4,235	216,206
Cash and cash equivalents at beginning of year	<u>365,328</u>	<u>149,122</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 369,563</u>	<u>\$ 365,328</u>
SUPPLEMENTAL INFORMATION		
Interest Paid	<u>\$ -</u>	<u>\$ 20</u>
SCHEDULE OF NONCASH INVESTING TRANSACTIONS		
Donated Securities	<u>\$ 36,702</u>	<u>\$ 33,789</u>

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Potomac Conservancy, Inc. (the Conservancy) is a non-profit organization, incorporated in the State of Maryland and located in Silver Spring. The Conservancy safeguards the lands and waters of the Potomac River and its tributaries and connects people to this national treasure. The Conservancy is supported primarily by contributions from individuals, corporations, foundations, and Federal grants and contracts.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Cash and cash equivalents -

The Conservancy considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, the Conservancy maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their fair value. Realized and unrealized gains and losses are included in interest and investment income in the Statements of Activities and Changes in Net Assets. Donated investments are recorded at their fair value at the date of the gift.

Grants and pledges receivable -

Grants and pledges receivable approximate fair value. Management considers all amounts to be fully collectible within one year. Accordingly, an allowance for doubtful accounts has not been established.

Property and equipment -

Property and equipment with an acquisition value in excess of \$1,000 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally five to seven years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

The Conservancy also holds several perpetual conservation easements, which were received as a donation and valued at \$1 per easement. The purpose of each easement is to preserve and protect the environment of the properties and to maintain the open-space values and character of the properties.

Income taxes -

The Conservancy is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Conservancy is not a private foundation.

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

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

Uncertain tax positions -

For the years ended September 30, 2014 and 2014, the Conservancy has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Conservancy and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Conservancy and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Grants and contributions -

Unrestricted and temporarily restricted grants and contributions are recorded as revenue in the year notification is received from the donor. Temporarily restricted grants and contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Temporarily restricted grants and contributions received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Grants receivable represents amounts due from donors for reimbursable expenses incurred in accordance with the grant agreements. Grant funding received in advance of incurring the related expenses is recorded as a refundable advance.

In-kind contributions -

The Conservancy receives contributions in the form of donated services, which are recorded at their fair value as of the date of the gift. During the year ended September 30, 2014, the Conservancy received in-kind contributions (in the form of legal services) totaling \$18,460.

In addition, volunteers have donated significant amounts of their time to the Conservancy; these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services (as defined by FASB ASC 958).

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

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

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

The Conservancy invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

The Conservancy adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Conservancy accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

2. INVESTMENTS

Investments consisted of the following at September 30, 2014 and 2013:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money Market Funds	\$ 28	\$ 28	\$ 28	\$ 28
Mutual Funds	<u>123,493</u>	<u>142,671</u>	<u>118,464</u>	<u>131,793</u>
TOTAL INVESTMENTS	\$ <u>123,521</u>	\$ <u>142,699</u>	\$ <u>118,492</u>	\$ <u>131,821</u>

Included in interest and investment income are the following for the years ended September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 6,684	\$ 4,808
Unrealized gain on investments	5,849	3,722
Realized (loss) gain on sales of investments	<u>(188)</u>	<u>30</u>
TOTAL INTEREST AND INVESTMENT INCOME	\$ <u>12,345</u>	\$ <u>8,560</u>

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

3. LINE OF CREDIT

The Conservancy has a secured \$100,000 line of credit with a local financial institution. The line of credit is secured by all inventory, equipment, receivables, chattel paper, property, investments, money, and other rights of payments and performance. Amounts borrowed under this agreement bear interest based on a variable rate, with a floor of 5.25%. As of September 30, 2014 and 2013, there were no outstanding borrowings. For the year ended September 30, 2013, interest expense incurred on borrowings (made during the year) totaled \$20.

4. BOARD-DESIGNATED NET ASSETS

As of September 30, 2014 and 2013, net assets have been designated by the Board of Directors for the following purposes:

	2014	2013
Endowment Fund	\$ 63,040	\$ 27,206
Stewardship Fund	189,627	149,142
TOTAL BOARD-DESIGNATED NET ASSETS	\$ 252,667	\$ 176,348

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at September 30, 2014 and 2013:

	2014	2013
Stewardship Fund	\$ 182,636	\$ 179,942
Community Conservation	104,574	111,995
Land Protection	90,807	167,413
Public Policy	124,342	87,484
Time Restricted	5,644	1,025
Fundraising	35,610	12,928
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ 543,613	\$ 560,787

6. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions for the years ended September 30, 2014 and 2013, by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

	2014	2013
Stewardship Fund	\$ 14,119	\$ 5,157
Community Conservation	65,841	55,130
Land Protection	253,636	149,556
Public Policy	145,643	126,720
Passage of time	21,881	4,875
Fundraising	22,318	7,072
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ 523,438	\$ 348,510

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

7. IN-KIND CONTRIBUTIONS

During the year ended September 30, 2014, the Conservancy was the beneficiary of donated services, which allowed the Conservancy to provide greater resources toward various programs. Donated legal services, benefiting both Management and General and the Land Protection program, were estimated at a fair value of \$18,460 during the year ended September 30, 2014. The Conservancy did not receive any non-cash donations (which qualified as in-kind contributions as defined by FASB ASC 958) during the year ended September 30, 2013.

8. LEASE COMMITMENTS

The Conservancy leased office space under a five-year agreement, which commenced on January 1, 2004, and was extended for another five years, effective January 1, 2009. Base rent under this agreement was \$6,878 per month, plus a proportionate share of expenses, increasing by a factor of 2.5% per year.

On October 30, 2013, the Conservancy entered into a six-year lease for new office space commencing on February 1, 2014. Under the terms of the lease, base rent is \$6,149 per month, plus a proportionate share of building operating expenses and real estate taxes, increasing by a factor of 3% each year. In addition, the lease provides for five months of free rent.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability in the accompanying Statements of Financial Position. As of September 30, 2014, the total deferred rent liability aggregated \$25,748.

The Conservancy also leases office space in Winchester, Virginia on a month-to-month basis.

The following is a schedule of the future minimum payments required under all office leases:

<u>Year Ending September 30,</u>	
2015	\$ 69,122
2016	77,532
2017	79,845
2018	82,244
2019	84,712
Thereafter	<u>28,514</u>
	<u>\$ 421,969</u>

Occupancy expense, including real estate taxes and storage rental, for the years ended September 30, 2014 and 2013, totaled \$92,608 and \$106,268, respectively.

9. RETIREMENT PLAN

The Conservancy provides retirement benefits to its employees through a tax-deferred annuity plan under IRS Section 403(b). All full-time employees with one year of experience are eligible to participate in the plan. The Conservancy contributes up to 3% of an employee's annual gross wages. Contributions to the plan for the years ended September 30, 2014 and 2013, totaled \$13,946 and \$12,990, respectively.

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

10. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Conservancy has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Conservancy has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used as of September 30, 2014.

- *Money Market Funds* - Fair value is equal to the reported net asset value of the fund.
- *Mutual Funds* - Fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.

The table below summarizes, by level within the fair value hierarchy, the Conservancy's investments as of September 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
Money Market Funds	\$ 28	\$ -	\$ -	\$ 28
Mutual Funds:				
Balanced Fund	19,905	-	-	19,905
Growth and Income Fund	18,698	-	-	18,698
Bond Fund	80,582	-	-	80,582
Equity Income Fund	<u>23,486</u>	<u>-</u>	<u>-</u>	<u>23,486</u>
TOTAL	<u>\$ 142,699</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 142,699</u>

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
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10. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, the Conservancy's investments as of September 30, 2013:

Asset Class:	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 28	\$ -	\$ -	\$ 28
Mutual Funds:				
Balanced Fund	16,728	-	-	16,728
Growth and Income Fund	16,147	-	-	16,147
Bond Fund	77,684	-	-	77,684
Equity Income Fund	<u>21,234</u>	<u>-</u>	<u>-</u>	<u>21,234</u>
TOTAL	<u>\$ 131,821</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 131,821</u>

11. OPTION TO PURCHASE LAND

During the fiscal year ended September 30, 2014, the Conservancy paid a non-refundable deposit to purchase a real estate option, in exchange for consideration of \$50,000, for the potential purchase of 1,715 acres of high conservation value land in Hampshire County, West Virginia. The option, if exercised, would give the Conservancy the right to purchase the property for a total sale price of \$2.825 million. The Conservancy's intention, after the purchase of the property, would be to ensure that the property is protected for conservation, largely through the sale of the property, or a major portion thereof, to the State of West Virginia with the understanding that the property will be conserved in perpetuity. The option is valid until December 31, 2014. Additionally, under the terms of the option, the Conservancy has the right to extend the option period under the agreement through March 31, 2015 for an additional consideration payment of \$25,000, which was executed subsequent to year end. All option consideration payments made by the Conservancy will be credited against the purchase price due at closing. If the Conservancy decides not to exercise its right to acquire the property, the option consideration payments will not be refunded.

12. SUBSEQUENT EVENTS

In preparing these financial statements, the Conservancy has evaluated events and transactions for potential recognition or disclosure through March 3, 2015, the date the financial statements were issued.