

THE LANCASTER COUNTY CONSERVANCY

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

AND

INDEPENDENT AUDITOR'S REPORT



McKONLY & ASBURY

MEMBERS

AMERICAN AND PENNSYLVANIA INSTITUTES
OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT MEMBER OF



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Lancaster County Conservancy
Lancaster, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of The Lancaster County Conservancy (a nonprofit organization) (the Conservancy), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 Conservancy'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 Conservancy'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 Lancaster County Conservancy as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization adopted the new nonprofit reporting standards as required by FASB Accounting Standards Update No. 2016-14. Our opinion is not modified with respect to this matter.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
August 5, 2019

THE LANCASTER COUNTY CONSERVANCY

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 1,136,338	\$ 1,042,315
Grants receivable	639,988	618,294
Promises to give	262,612	458,812
Prepaid expenses	15,222	23,598
	<u>2,054,160</u>	<u>2,143,019</u>
Property and equipment		
Land	36,476,072	35,159,828
Conservation easements	59,463	59,463
Office furniture and equipment	160,653	154,489
Stewardship equipment	199,471	169,199
Transportation equipment	97,363	97,363
Computer software	27,584	27,584
Property improvements	512,587	510,496
Construction/projects in progress	100,379	68,661
	<u>37,633,572</u>	<u>36,247,083</u>
Total property and equipment		
Accumulated depreciation	<u>(543,292)</u>	<u>(466,356)</u>
	<u>37,090,280</u>	<u>35,780,727</u>
Net property and equipment		
Other assets		
Investments	603,995	609,177
Restricted investments - R.H.G. Riverlands Fund	6,026,531	6,563,976
Promises to give - net	1,501,807	1,582,143
Escrow and related costs for properties to be acquired	1,110,105	281,027
Interest in charitable remainder trust	112,101	116,491
	<u>9,354,539</u>	<u>9,152,814</u>
Total other assets		
Total assets	<u>\$ 48,498,979</u>	<u>\$ 47,076,560</u>

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

LIABILITIES AND NET ASSETS

	2018	2017
Current liabilities		
Current portion of notes payable	\$ 9,894	\$ 11,649
Accounts payable	52,262	21,814
Accrued payroll and taxes	20,301	23,532
Prepaid rent	4,650	5,920
Deferred grant revenue	413,302	426,277
Other liabilities	2,725	4,195
Total current liabilities	503,134	493,387
Notes payable, net of current portion	210,000	9,896
Total liabilities	713,134	503,283
Net assets without donor restrictions		
Land and conservation easements	36,535,535	35,219,291
Board designated - Stewardship Fund	568,060	569,036
Other	2,948,119	2,059,499
Total net assets without donor restrictions	40,051,714	37,847,826
Net assets with donor restrictions	7,734,131	8,725,451
Total net assets	47,785,845	46,573,277
Total liabilities and net assets	\$ 48,498,979	\$ 47,076,560

THE LANCASTER COUNTY CONSERVANCY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support			
Grants	\$ 1,440,270	\$ -	\$ 1,440,270
Contributions	803,376	1,064,829	1,868,205
Donated land	62,500	-	62,500
Special events, net	119,453	-	119,453
Preserve management income	17,464	-	17,464
Investment income (loss)	(24,779)	(417,632)	(442,411)
Other income	4,417	-	4,417
Net assets released from restrictions	1,638,517	(1,638,517)	-
	4,061,218	(991,320)	3,069,898
Total revenue and other support			
Expenses			
Program services			
Land			
Protection and			
Acquisition	321,262	-	321,262
Stewardship	562,793	-	562,793
Education	161,999	-	161,999
Urban Greening	272,646	-	272,646
	1,318,700	-	1,318,700
Total program services			
Supporting services			
Management and general	225,363	-	225,363
Fundraising	313,267	-	313,267
	538,630	-	538,630
Total supporting services			
Total expenses	1,857,330	-	1,857,330
Change in net assets	2,203,888	(991,320)	1,212,568
Net assets, beginning	37,847,826	8,725,451	46,573,277
Net assets, ending	\$ 40,051,714	\$ 7,734,131	\$ 47,785,845

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

THE LANCASTER COUNTY CONSERVANCY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support			
Grants	\$ 1,040,659	\$ -	\$ 1,040,659
Contributions	815,820	1,420,291	2,236,111
Donated land	160,436	-	160,436
Special events, net	125,101	-	125,101
Preserve management income	9,845	-	9,845
Investment income	90,715	815,217	905,932
Rental income	-	-	-
Other income	10,505	-	10,505
Net assets released from restrictions	1,442,667	(1,442,667)	-
	<u>3,695,748</u>	<u>792,841</u>	<u>4,488,589</u>
Total revenue and other support			
Expenses			
Program services			
Land			
Protection and			
Acquisition	309,087	-	309,087
Stewardship	551,478	-	551,478
Education	163,515	-	163,515
Urban Greening	215,254	-	215,254
	<u>1,239,334</u>	<u>-</u>	<u>1,239,334</u>
Total program services			
Supporting services			
Management and general	233,235	-	233,235
Fundraising	320,118	-	320,118
	<u>553,353</u>	<u>-</u>	<u>553,353</u>
Total supporting services			
Total expenses	<u>1,792,687</u>	<u>-</u>	<u>1,792,687</u>
Change in net assets	1,903,061	792,841	2,695,902
Net assets, beginning	<u>35,944,765</u>	<u>7,932,610</u>	<u>43,877,375</u>
Net assets, ending	<u>\$ 37,847,826</u>	<u>\$ 8,725,451</u>	<u>\$ 46,573,277</u>

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

THE LANCASTER COUNTY CONSERVANCY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Programs							Total
	Land Protection & Acquisition	Land Stewardship	Education	Urban Greening	Total Programs	Management and General	Fundraising & Development	
Expenses								
Salaries and wages	\$ 188,391	\$ 253,577	\$ 56,140	\$ 90,399	\$ 588,507	\$ 67,168	\$ 121,260	\$ 776,935
Payroll taxes and benefits	36,348	59,587	15,814	21,070	132,819	14,564	27,348	174,731
Staff development	3,644	3,606	-	98	7,348	9,547	-	16,895
Member events	-	-	-	126,912	126,912	-	-	126,912
Rent	-	2,100	-	-	2,100	-	-	2,100
Supplies	-	11,127	-	-	11,127	-	-	11,127
Postage	-	-	-	-	-	1,661	-	1,661
Telephone	1,050	3,060	360	825	5,295	345	260	5,900
Bank fees	-	-	-	-	-	5,037	-	5,037
Professional fees	-	-	-	15,850	15,850	32,875	-	48,725
Taxes and fees	-	11,823	-	-	11,823	-	-	11,823
Auto and travel	2,937	15,068	1,016	1,763	20,784	4,653	1,124	26,561
Insurance	-	4,962	-	-	4,962	10,546	-	15,508
Memberships and dues	-	-	-	-	-	5,094	-	5,094
Printing and publications	-	-	24,802	-	24,802	686	-	25,488
Office expense	13,058	13,058	13,058	13,087	52,261	9,784	-	62,045
Depreciation	-	68,803	-	-	68,803	8,133	-	76,936
Maintenance	-	86,476	1,760	-	88,236	3,018	25,006	116,260
Interest expense	726	-	-	-	726	-	-	726
Miscellaneous expense	798	16,729	-	75	17,602	31,944	43,488	93,034
Education	-	-	43,932	-	43,932	1,299	150	45,381
Fundraising and development	12,817	12,817	5,117	2,567	33,318	17,934	81,804	133,056
Strategic planning	-	-	-	-	-	1,075	12,827	13,902
Goodno Riverlands Fund expenses	61,493	-	-	-	61,493	-	-	61,493
Total expenses	\$ 321,262	\$ 562,793	\$ 161,999	\$ 272,646	\$ 1,318,700	\$ 225,363	\$ 313,267	\$ 1,857,330

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

LANCASTER COUNTY CONSERVANCY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Programs							Total
	Land Protection & Acquisition	Land Stewardship	Education	Urban Greening	Total Programs	Management and General	Fundraising & Development	
Expenses								
Salaries and wages	\$ 167,247	\$ 210,591	\$ 57,417	\$ 73,196	\$ 508,451	\$ 61,781	\$ 147,882	\$ 718,114
Payroll taxes and benefits	43,475	47,520	19,373	18,730	129,098	18,122	41,129	188,349
Staff development	2,279	1,933	-	425	4,637	-	-	4,637
Member events	-	-	-	102,191	102,191	-	3,947	106,138
Rent	-	-	-	-	-	-	-	-
Supplies	-	11,243	-	-	11,243	-	-	11,243
Postage	-	-	-	-	-	2,239	-	2,239
Telephone	900	1,200	600	600	3,300	450	550	4,300
Bank fees	-	-	-	-	-	-	-	-
Professional fees	445	-	-	-	445	65,328	-	65,773
Taxes and fees	-	33,396	-	-	33,396	-	-	33,396
Auto and travel	3,757	11,879	1,637	1,641	18,914	6,915	584	26,413
Insurance	-	3,313	-	-	3,313	9,108	-	12,421
Memberships and dues	-	-	-	-	-	4,700	-	4,700
Printing and publications	-	-	27,788	-	27,788	326	-	28,114
Office expense	13,212	13,212	14,615	13,242	54,281	8,115	-	62,396
Depreciation	-	58,514	-	-	58,514	7,289	-	65,803
Maintenance	-	111,595	5,265	-	116,860	6,971	20,368	144,199
Interest expense	5,191	1,237	-	-	6,428	-	-	6,428
Miscellaneous expense	-	32,966	-	2,650	35,616	19,514	42,471	97,601
Education	-	-	31,678	-	31,678	2,125	298	34,101
Fundraising and development	12,879	12,879	5,142	2,579	33,479	18,021	44,564	96,064
Strategic planning	-	-	-	-	-	2,231	18,325	20,556
Goodno Riverlands Fund expenses	59,702	-	-	-	59,702	-	-	59,702
Total expenses	\$ 309,087	\$ 551,478	\$ 163,515	\$ 215,254	\$ 1,239,334	\$ 233,235	\$ 320,118	\$ 1,792,687

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

THE LANCASTER COUNTY CONSERVANCY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 1,212,568	\$ 2,695,902
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Net realized and unrealized (gain) loss on investments	442,411	(767,820)
Change in value of split-interest agreement	4,390	(7,578)
Amortization of long-term promises to give	(65,344)	(68,360)
Depreciation	76,936	65,803
Donated land	(62,500)	(160,436)
(Increase) decrease in assets		
Grants receivable	(21,694)	(105,535)
Promises to give	341,880	29,744
Prepaid expenses	8,376	(10,784)
Increase (decrease) in liabilities		
Accounts payable	30,448	4,677
Accrued payroll and taxes	(3,231)	5,836
Prepaid rent	(1,270)	(5,602)
Deferred grant revenue	(12,975)	172,559
Other liabilities	(1,470)	(485)
Contributions restricted for long-term purposes	(724,202)	(1,091,428)
	<u>1,224,323</u>	<u>756,493</u>
Net cash and cash equivalents provided by operating activities		
Cash flows from investing activities		
Purchase of property and equipment	(2,153,067)	(1,550,901)
Purchase of restricted investments	(149,892)	(124,653)
Purchase of unrestricted investments	(64,170)	(13,459)
Sale of unrestricted investments	31,497	130,000
Sale of restricted investments	282,781	92,426
	<u>(2,052,851)</u>	<u>(1,466,587)</u>
Net cash and cash equivalents used in investing activities		
Cash flows from financing activities		
Collections of contributions restricted for long-term purposes	724,202	1,091,428
Proceeds from notes payable	210,000	-
Repayment of notes payable	(11,651)	(34,220)
	<u>922,551</u>	<u>1,057,208</u>
Net cash and cash equivalents provided by financing activities		
Net increase in cash and cash equivalents	94,023	347,114
Cash and cash equivalents - beginning	<u>1,042,315</u>	<u>695,201</u>
Cash and cash equivalents - ending	<u>\$ 1,136,338</u>	<u>\$ 1,042,315</u>

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

THE LANCASTER COUNTY CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Lancaster County Conservancy was founded by anglers, hunters, and naturalists who witnessed the rapid development of Lancaster County. The question they faced? How do we hold back the tide of human destruction of our precious land?

Banding together in 1969, these visionaries decreed that we need to acquire and protect our remaining forests, wetlands, and streams before they are destroyed forever. The premise that “some land is so beautiful, so rare, so natural it should be protected for public benefit” has driven the acquisitions as a land trust to this day.

Inspired by great visionaries the Conservancy stepped up when government stopped using eminent domain to save our wild areas.

For 50 years, the Conservancy has acquired land—an expensive undertaking. Today the Conservancy is the largest private property owner for public benefit in Central PA. The Conservancy manages over 6,000 acres, with 40 plus miles of trails and 42 miles of streams in dozens of nature preserves. The Conservancy’s beautiful properties are a gift, enjoyed by thousands of people who can take a walk in woods not more than 10 miles away from any home in Lancaster County.

But a huge challenge with owning public lands is that the Conservancy has to steward them. This means balancing the impact of people who love to escape into nature with the ecosystems we strive to nurture and protect. The Conservancy has had to create an army of volunteers and supporters to help care for its natural lands—saving the pollinators, saving the dwindling bird populations, saving nature! The very future of the Conservancy depends on it.

The mission of the Lancaster County Conservancy is “Providing wild and forested lands and clean waterways for our community. Forever”. The charitable purposes of the Lancaster County Conservancy include preservation of natural lands, ecosystems, landscapes, and waterways for future generations.

Conservancy preserves are open to the public 365 days a year, sun up to sun down. The Conservancy’s work results in protection of critical wildlife corridors, recreation lands, water resources, and preserves mature forests that clean our air and water.

The Conservancy works with national, regional, and local partners to protect the special places within Lancaster County and along its streams and rivers. This effort also takes the Conservancy into York, Chester, and Dauphin Counties with a focus on land, water, and community.

Basis of Accounting

The Conservancy follows the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and, accordingly, has reflected all significant receivables, payables, and other liabilities.

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THE LANCASTER COUNTY CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

Basis of Presentation

The Organization follows the accrual basis of accounting and the requirements of FASB Accounting Standards Codification (ASC) 958 Not-for-profit Entities, and the provisions of Accounting Standards Update (ASU) 2016-14 Not-For-profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities. ASU 2016-14 requires the Organization to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Management's Use of Estimates

The preparation of 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 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 results could differ from those estimates.

Cash and Cash Equivalents

The Conservancy considers all highly-liquid investments having an initial maturity of three months or less to be cash equivalents.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Any discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Property and Equipment

Property and equipment are stated at cost or fair value if donated. Depreciation on property and equipment is computed using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss, net of proceeds, is reflected in the change in net assets for the period. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The estimated useful lives of the Conservancy's assets are as follows:

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THE LANCASTER COUNTY CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

Asset Class	Useful Life
Office furniture and equipment	3 – 10 years
Stewardship equipment	5 – 10 years
Transportation equipment	5 years
Computer software	3 – 7 years
Property improvements	7 – 15 years

Impairment

The Conservancy reviews its long-lived assets for impairment on an exception basis whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through future cash flows. If it is determined that an impairment loss has occurred, based on the expected cash flows, a loss is recognized in the statement of activities.

Investments

Investments are recorded at their fair values in the statements of financial position. The fair value of mutual funds and funds held by the Lancaster County Community Foundation are based on quoted net asset values of the shares held by the Conservancy. Net realized and unrealized gains and losses on investments are reflected in the statements of activities. The Conservancy has funds totaling \$220,076 and \$241,442 invested in money market funds as of December 31, 2018 and 2017. These funds are not insured by the Federal Deposit Insurance Corporation.

Restricted investments consist of investments held for the Ralph H. Goodno Riverlands Fund. See Note 13 for further information.

Net Assets

Net asset classification is based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

Net Assets without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets with Donor Restrictions – Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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THE LANCASTER COUNTY CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

Revenue Recognition

Contributions received are recorded as with or without donor restrictions support. This requirement is dependent on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as “net assets released from restrictions.”

The Conservancy has been awarded grants from various organizations. The grants are contingent on incurring allowable costs. Accordingly, revenue is recognized when the Conservancy incurs allowable costs. Amounts received in advance are reported in the statements of financial position as deferred grant revenue.

In-Kind Contributions

Donated in-kind contributions are recorded at fair market value at the time of receipt. These contributions are recognized as both support and expenses in the statements of activities. Only those contributed services that create or enhance non-financial assets, require specialized skills and are provided by such individuals possessing those skills and would typically need to be purchased, if not provided by donation, are so recognized in the financial statements. There were \$91,899 and \$74,294 of gifts in kind, including contributed services, recognized in the financial statements for the years ending December 31, 2018 and 2017.

There were a substantial number of volunteers that donated significant amounts of time to the Conservancy’s activities during the years ended December 31, 2018 and 2017. There have been no amounts reflected in the accompanying financial statements for such donated services because such services are not subject to objective measurement or valuation. However, because recognition of donated services as support would also involve recognition of corresponding expenses, there would be no effect on the Conservancy’s net assets.

Functional Allocation of Expenses

The costs of providing programs and other supporting activities have been summarized on a functional basis on the statements of functional expenses. Accordingly, certain costs have been allocated among programs and the supporting services benefited. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

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THE LANCASTER COUNTY CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

Expense	Allocation Method
Salaries and wages	Time and effort
Payroll taxes and benefits	Time and effort
Office expenses	Benefits received
Telephone	Benefits received

Program Services

Land Protection and Acquisition – The Conservancy partners with local, county, state, and national governmental entities and non-profits to identify and acquire lands of high conservation value and are one of the most successful land trusts in the Commonwealth of Pennsylvania. The Conservancy works with landowners and our partners to protect land through acquisition and conservation easements by donation, bargain sale, or a fair market value purchase.

Land Stewardship – Lands owned by the Conservancy are managed in accordance with donor wishes and best management practices as defined through comprehensive management plans prepared for each preserve. Conservancy preserves are open to the public free of charge for activities including hiking, bird watching, cross country skiing, nature walks, passive recreation, and education.

Education – The Conservancy education programs include newsletters, internet information, annual reports, general programs and events, and school based programs. The education programs assist school districts in meeting the state Department of Education standards for Environment and Ecology.

Urban Greening – This program is an urban greening initiative working to build strong and healthy communities through environmental projects in the City of Lancaster, Pennsylvania, and its suburbs.

Income Taxes

The Conservancy is exempt from federal income tax under Internal Revenue Code Section 501(c)(3). The Conservancy adheres to the provisions of FASB ASC 740, *Income Taxes*. ASC 740 establishes rules for recognizing and measuring tax positions taken in an income tax return, including disclosures of uncertain tax positions (UTPs). ASC 740 mandates that companies evaluate all material income tax positions for periods that remain open under applicable statutes of limitation, as well as positions expected to be taken in future returns. The UTP rules then impose a recognition threshold on each tax position. A company can recognize an income tax benefit only if the position has a "more likely than not" (i.e., more than 50 percent) chance of being sustained on the technical merits. For the years ended December 31, 2018 and 2017, the Conservancy has taken no material tax positions on its applicable tax filings that do not meet the "more likely than not" threshold. As a result, no amount for UTPs has been included in the financial statements. Management believes it is no longer subject to income tax examinations for years prior to 2015.

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THE LANCASTER COUNTY CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities* (Topic 958). The amendments in this ASU include two classes of net asset classifications, options for presenting cash flow from operations, and a number of additional disclosure requirements related to liquidity and availability of resources, expenses and investment return. This guidance was effective for the Organization on January 1, 2018, and was applied retrospectively. Total net assets did not change as a result of this new standard, however unrestricted, temporarily, and permanently restricted net assets are now reported as net assets with and without donor restrictions.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The changes associated with this ASU include the requirement for lessees to recognize the underlying assets and liabilities associated with all operating leases with terms greater than 12 months. The changes become effective for the Conservancy on January 1, 2020. Management has not determined the impact of these changes on the Conservancy's financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The pronouncement, and related subsequent pronouncements, requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The changes become effective for the Conservancy on January 1, 2019. Management has not determined the impact of these changes on the Conservancy's financial statements.

Reclassifications

Certain items have been reclassified in the year ended December 31, 2017, financial statements to conform to their presentation in the year ended December 31, 2018, financial statements.

Subsequent Events

Management evaluated subsequent events through August 5, 2019, the date the financial statements were available to be issued.

2. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets as of December 31, 2018, available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 1,136,338
Investments without restrictions	568,060
Grants receivable without restrictions	587,588
Promises to give without restrictions	<u>71,500</u>

(continued)

THE LANCASTER COUNTY CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

Total financial assets	2,363,486
Less: Deferred revenue	(413,302)
Less: Board designated - Stewardship Fund	(568,060)
Less: Cash restricted for conservation projects (Note 9)	<u>(641,437)</u>
	<u><u>\$ 740,687</u></u>

The Conservancy manages its liquidity and cash reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. As part of the Conservancy's liquidity management plan, the Organization invests cash in excess of daily requirements in money market accounts. The Conservancy forecasts its future cash flows and monitors its liquidity and cash balances on a monthly basis.

The Conservancy's board designated stewardship fund of \$568,060 is subject to an annual spending rate of 5%. The Conservancy does not intend to spend from this board designated stewardship fund, other than amounts appropriated for general expenditure as part of the annual budget approval and appropriation. These amounts could be made available if necessary.

3. INVESTMENTS

The fair values of investments at December 31, 2018 and 2017, are as follows:

<u>Description</u>	<u>2018</u>	<u>2017</u>
Mutual funds		
Money market	\$ 220,076	\$ 241,442
Fixed income	2,016,902	1,836,300
Equities	3,231,532	3,797,622
Funds held by Lancaster County Community Foundation	<u>1,162,016</u>	<u>1,297,789</u>
Total investments	<u><u>\$ 6,630,526</u></u>	<u><u>\$ 7,173,153</u></u>

The Conservancy has invested in a common pool of investments managed by Lancaster County Community Foundation (LCCF). Income from the investments are to be used for the Ralph H. Goodno Riverlands Fund and the acquisition of land in Lancaster County.

4. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides 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) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820, *Fair Value Measurements and Disclosures* are described as follows:

(continued)

THE LANCASTER COUNTY CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Conservancy 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 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 December 31, 2018 and 2017.

Mutual funds: The fair value of mutual funds is based on quoted net asset values of the shares as reported by the fund.

Funds held by LCCF: Valued at the net asset value of the allocable portion of the common pool investments.

Unconditional promises to give: Valued at net realizable value for any pledges expected to be collected within one year. Pledges expected to be collected in future years are recorded at the present value of their estimated future cash flows. Unconditional promises to give expected to be received in more than one year are discounted using a rate comparable to the (20-year) governmental bond rate.

Charitable remainder trust: Valued at the net asset value of trust assets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Conservancy 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.

(continued)

THE LANCASTER COUNTY CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

The following table sets forth by level, within the fair value hierarchy, the Conservancy's assets at fair value as of December 31, 2018 and 2017:

Assets at fair value as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Money Market	\$ 220,076	\$ -	\$ -	\$ 220,076
Bond Fund	2,016,902	-	-	2,016,902
Real Estate Fund	20,935	-	-	20,935
International Stock Fund	991,015	-	-	991,015
Large Cap Growth Fund	1,601,673	-	-	1,601,673
Large Cap Value Fund	110,767	-	-	110,767
Large Cap Blend Fund	128,161	-	-	128,161
Mid Cap Fund	317,695	-	-	317,695
Small Cap Fund	61,286	-	-	61,286
Funds held by LCCF	-	1,162,016	-	1,162,016
Unconditional promises to give	-	-	1,764,419	1,764,419
Charitable remainder trust	-	-	112,101	112,101
	<u>\$ 5,468,510</u>	<u>\$ 1,162,016</u>	<u>\$ 1,876,520</u>	<u>\$ 8,507,046</u>

Assets at fair value as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Money Market	\$ 241,442	\$ -	\$ -	\$ 241,442
Bond Fund	1,836,300	-	-	1,836,300
Real Estate Fund	18,417	-	-	18,417
International Stock Fund	1,146,337	-	-	1,146,337
Large Cap Growth Fund	1,974,820	-	-	1,974,820
Large Cap Value Fund	121,600	-	-	121,600
Large Cap Blend Fund	105,808	-	-	105,808
Mid Cap Fund	342,317	-	-	342,317
Small Cap Fund	88,323	-	-	88,323
Funds held by LCCF	-	1,297,789	-	1,297,789
Unconditional promises to give	-	-	2,040,955	2,040,955
Charitable remainder trust	-	-	116,491	116,491
	<u>\$ 5,875,364</u>	<u>\$ 1,297,789</u>	<u>\$ 2,157,446</u>	<u>\$ 9,330,599</u>

(continued)

THE LANCASTER COUNTY CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

The following table sets forth a summary of changes in the fair value of the Conservancy's unconditional promises to give for the years ended December 31, 2018 and 2017.

	2018	2017
Balance, beginning of year	\$ 2,040,955	\$ 2,002,339
Establishment of new unconditional promises to give	116,932	250,000
Change in discount	65,344	68,630
Payment of unconditional promises to give	(458,812)	(279,744)
Balance, end of year	\$ 1,764,419	\$ 2,040,955

The change in discount of \$65,344 and \$68,630 during the years ended December 31, 2018 and 2017, is attributable to the change in pledges due in future years and the rate used to calculate the discount factor that is comparable to the (20-year) governmental bond rate.

The following table sets forth a summary of changes in the fair value of the Conservancy's charitable remainder trust for the years ended December 31, 2018 and 2017.

	2018	2017
Balance, beginning of year	\$ 116,491	\$ 108,913
Change in present value	(4,390)	7,578
Balance, end of year	\$ 112,101	\$ 116,491

The change in present value during the years ended December 31, 2018 and 2017, is attributable to the change in the investment value of the underlying assets and the rate used to calculate the present value.

5. PROMISES TO GIVE

Promises to give at December 31, 2018 and 2017, are as follows:

	2018	2017
Restricted for Ralph H. Goodno Riverlands Fund	\$ 2,067,470	\$ 2,208,907
Restricted for Penn's Woods and Climbers Run	45,432	292,375
Without restrictions	71,500	25,000
Total promises to give	\$ 2,184,402	\$ 2,526,282

(continued)

THE LANCASTER COUNTY CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 262,612	\$ 458,812
Receivable in one to five years	796,630	773,426
Receivable in more than five years	<u>1,125,160</u>	<u>1,294,044</u>
Total promises to give	2,184,402	2,526,282
Less discounts to net present value	<u>(419,983)</u>	<u>(485,327)</u>
Net promises to give	1,764,419	2,040,955
Less current portion of promises to give	<u>(262,612)</u>	<u>(458,812)</u>
Promises to give – long term	<u>\$ 1,501,807</u>	<u>\$ 1,582,143</u>

Promises to give are discounted at 4.13%.

6. CONSERVATION INTEREST IN LAND HELD IN FEE

The Conservancy acquires conservation interests in land, including land held in fee, conservation easements, and leasehold interests in land by donation and purchase. Land purchased and held in fee is recorded at cost. Land held in fee that is received by donation is recorded at fair value at the date of donation. Donated land, totaling approximately 88 acres, received prior to December 31, 1991, is not recorded in the financial statements because no appraisal was performed at the time of the donation to obtain the fair market value of the property.

The Conservancy holds conservation easements on various properties in Lancaster County that are designed to prohibit the development or alteration of the property in any way inconsistent with the easement. Although conservation easements bring significant value to the Conservancy's purpose, they have no financial value, other than the direct acquisition costs. For this reason, only direct costs incurred to acquire easements are capitalized, whereas donated conservation easements are not reflected in the financial statements.

The Conservancy also holds a conservation interest in the form of a lease. The lease is being renewed on a year-to-year basis and payments are expensed as they are paid.

The Conservancy has the ongoing commitment to ensure the preservation and maintenance of its conservation interests. Although the amounts for land held in fee are shown as unrestricted net assets in the statements of financial position, it is the Conservancy's intention to hold them indefinitely. In most cases, the Conservancy would need to obtain the permission of the original funder from which the grant or contribution proceeds used to purchase the land held in fee were received before selling a parcel of land.

(continued)

THE LANCASTER COUNTY CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018, the Conservancy held the following conservation interests:

	Carrying Amount	Acreage
Land held in fee	\$ 36,476,072	5,408
Conservation easements held		
Directly	35,525	559
Jointly	23,938	379
	\$ 36,535,535	
Leases, conservation land use		67
Total acres		6,413

7. INTEREST IN CHARITABLE REMAINDER TRUST

The Conservancy received a donation of trust assets in August 2006. Under the terms of the charitable remainder trust agreement, the donors are to receive 6.50% annually, of the value of the assets paid quarterly. The fair value of the investments as of December 31, 2018 and 2017, was \$120,901 and \$138,413, respectively. The present value of the trust at December 31, 2018 and 2017, was \$112,101 and \$116,491, respectively, and has been included in other assets on the statements of financial position.

8. NOTES PAYABLE

Notes payable at December 31, 2018 and 2017, consist of:

	2018	2017
Note payable – to an individual is unsecured and payable in monthly installments of \$1,031 including interest at 4.48%. The loan matures in October 2019.	\$ 9,894	\$ 21,545
Effective July 17, 2018, Fulton Bank has issued an unsecured note payable in the amount of \$210,000. Payments of interest are due monthly and the full principal balance and unpaid interest are due on July 17, 2020. Interest is paid at the Fulton Bank, N.A. Prime Rate.	210,000	-
Less current maturities	(9,894)	(11,649)
Total long-term debt net of current maturities	\$ 210,000	\$ 9,896

(continued)

THE LANCASTER COUNTY CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

Maturities of the note payable are approximately as follows:

2019	\$	9,894
2020	\$	210,000

The Conservancy incurred and paid interest costs totaling \$5,307 and \$6,428 for the years ended December 31, 2018 and 2017. Interest of \$4,581 and zero was capitalized to land for the years ended December 31, 2018 and 2017.

9. NET ASSETS WITH DONOR RESTRICTIONS

The Conservancy has received contributions to be used specifically for conservation projects, including land acquisition and land stewardship. Some of these contributions have geographic limitations.

Net assets with donor restrictions consisted of the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Ralph H. Goodno Riverlands Fund (see note 13)	\$ 6,945,711	\$ 7,087,590
Conservation projects	641,437	1,486,488
Charitable remainder trust	112,101	116,491
Conservancy land acquisition endowment	<u>34,882</u>	<u>34,882</u>
	<u>\$ 7,734,131</u>	<u>\$ 8,725,451</u>

10. OPERATING LEASE OBLIGATIONS

The Conservancy leases office space under a non-cancelable operating lease that expired in February 2017. The lease is currently operating on a month-to-month basis. Rent expense totaled \$29,427 and \$24,777 for the years ended December 31, 2018 and 2017, respectively.

11. RETIREMENT PLAN

The Conservancy provides a qualified 403(b) retirement plan for the benefit of substantially all of the employees that allows employees to contribute a portion of their compensation. The Conservancy has the option to match employee contributions. The Conservancy provided matching contributions of \$20,245 and \$16,916 for the years ended December 31, 2018 and 2017.

(continued)

THE LANCASTER COUNTY CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

12. CONCENTRATIONS

Credit Risk

The Conservancy maintains cash accounts that, at times, may exceed federally insured limits. The Conservancy has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management monitors the financial condition of its depository banks on a regular basis.

Geographic Risk

The Conservancy is vulnerable to fluctuations in the real estate market in Lancaster County, Pennsylvania. Events affecting the market value of real estate in Lancaster County could affect the ability of the Conservancy to purchase land held in fee or obtain conservation easements.

13. RALPH H. GOODNO RIVERLANDS FUND

The Conservancy acquired land from PPL along the lower Susquehanna River in Lancaster County in 2010 and 2014. As part of the agreement, PPL donated their proceeds of \$4,268,845 from the land sales to the Conservancy to establish The Lower Susquehanna Fund (Fund). In addition, PPL has committed to contribute \$115,000 per year, increased by 3% each year, to the Fund for twenty years. The Fund is restricted and the funds are to be used to protect, operate, maintain, improve, and promote the lands and facilities along the Lower Susquehanna River in Lancaster and York counties for public conservation and recreation use. Effective June 12, 2014, the Lower Susquehanna Fund was officially renamed the Ralph H. Goodno Riverlands Fund.

Under the terms of the Lower Susquehanna Fund Agreement, the Conservancy may receive a distribution annually of \$150,000 increased by 3% each year for the life of the Fund. In addition, for the years ended December 31, 2011, through December 31, 2016, the Conservancy may receive an additional \$50,000 per year for the settling of issues related to taxes, leases, subdivision of properties and other short-term real estate issues related to the Fund. The terms of the Fund also require that the Susquehanna Gateway Heritage Area receive an annual distribution from the fund of \$50,000 increased by 3% through the year 2031. The Fund also requires, upon transfer of Phase 2 land to York County, that York County receive an annual distribution of \$5,000 increased by 3% for the life of the Fund. Distributions from the fund are subject to change based upon the terms of the agreement.

The Conservancy received a distribution from the fund in the amount of \$204,656 and \$185,282 during the years ended December 31, 2018 and 2017. In addition, as required by the Lower Susquehanna Fund Agreement, the Conservancy distributed \$61,493 and \$59,702 to the Susquehanna Gateway Heritage Area during the years ended December 31, 2018 and 2017. At December 31, 2018 and 2017, the Conservancy held restricted investments for the Fund totaling \$6,026,531 and \$6,563,976.

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THE LANCASTER COUNTY CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

14. COMMUNITY FOUNDATION DESIGNATED FUNDS

The Conservancy has been designated the interest in the earnings of three funds held by LCCF. LCCF retains variance power over the funds and may modify the interest in the funds under certain circumstances. Thus, the assets of each fund are not reported on the Conservancy's financial statements. However, distributions of income from the funds can be received by the Conservancy. The Conservancy received distributions of income from the funds in the amount of \$2,507 and \$2,248 for the years ended December 31, 2018 and 2017, respectively.

15. PURCHASE AGREEMENT

The Conservancy entered into a purchase agreement with The Conservation Fund to acquire various tracts of land totaling approximately 560 acres in York County, Pennsylvania. As part of the purchase agreement, the Conservancy is to pay the Conservation Fund \$3,500,000 for the purchase of the land. The purchase agreement further states that upon final closing the property will transfer to the Conservancy. As of the December 31, 2018 and 2017, the Conservancy has made payments of \$928,500 and \$178,500 to The Conservation Fund and are recorded in Escrow and related cost for properties to be acquired on the statements of financial position.



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