

**Lowcountry Land Trust, Inc.
and Subsidiaries**

Report on Consolidated Financial Statements

For the Years Ended June 30, 2017 and June 30, 2016

Lowcountry Land Trust, Inc. and Subsidiaries

Contents

	<u>Page</u>
Independent Auditor's Report	1 – 2
Consolidated Financial Statements	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities.....	4
Consolidated Statements of Cash Flows.....	5
Notes to Consolidated Financial Statements.....	6 – 23
Reporting Under <i>Government Auditing Standards</i>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24 – 25
Reporting Under <i>Uniform Guidance</i>	
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the <i>Uniform Guidance</i>	26 – 27
Schedule of Expenditures of Federal Awards	28
Notes to Schedule of Expenditures of Federal Awards	29
Schedule of Findings and Questioned Costs	30



Independent Auditor's Report

Board of Trustees
Lowcountry Land Trust, Inc. and Subsidiaries
Charleston, South Carolina

Report on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Lowcountry Land Trust, Inc. and its subsidiaries (the "Trust") a nonprofit organization, as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Lowcountry Land Trust, Inc. and its subsidiaries as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2017, on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.



Charleston, South Carolina
October 12, 2017

Lowcountry Land Trust, Inc. and Subsidiaries*Consolidated Statements of Financial Position**As of June 30, 2017 and 2016*

	<u>2017</u>	<u>2016</u>
Assets		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,280,706	\$ 1,063,964
Accounts receivable	30,641	8,942
Pledges receivable, current portion	85,644	83,793
Prepaid expenses	45,800	2,500
Investments	10,329,781	7,598,913
Total current assets	<u>11,772,572</u>	<u>8,758,112</u>
<i>Other assets</i>		
Pledges receivable, noncurrent portion	-	40,000
Land	341,800	-
Property and equipment, net	33,433	41,314
Intangible assets, net	53,615	-
Protected land and easements	9,797,049	9,942,040
Total other assets	<u>10,225,897</u>	<u>10,023,354</u>
Total assets	<u>\$ 21,998,469</u>	<u>\$ 18,781,466</u>
Liabilities and Net Assets		
<i>Current liabilities</i>		
Accounts payable	\$ 30,556	\$ 14,627
Accrued compensated absences	13,051	12,345
Total current liabilities	<u>43,607</u>	<u>26,972</u>
<i>Long-term liabilities</i>		
Land contribution payable	6,727,000	6,727,000
Total long-term liabilities	<u>6,727,000</u>	<u>6,727,000</u>
Total liabilities	<u>6,770,607</u>	<u>6,753,972</u>
<i>Net assets</i>		
Unrestricted:		
Undesignated	4,842,728	5,244,477
Board Designated	6,417,729	5,710,951
Temporarily restricted	3,347,273	451,934
Permanently restricted	620,132	620,132
Total net assets	<u>15,227,862</u>	<u>12,027,494</u>
Total liabilities and net assets	<u>\$ 21,998,469</u>	<u>\$ 18,781,466</u>

See Notes to Consolidated Financial Statements.

Lowcountry Land Trust, Inc. and Subsidiaries

Consolidated Statements of Activities

For the years ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue								
Membership dues and contributions	\$ 648,082	\$ 3,855,785	\$ -	\$ 4,503,867	\$ 566,645	\$ 111,145	\$ -	\$ 677,790
Grants	333,562	40,000	-	373,562	384,484	246,650	-	631,134
Investment income (loss), net	184,181	20,066	-	204,247	211,496	2,227	-	213,723
Realized and unrealized gains (losses)	563,105	3,232	-	566,337	(443,493)	(5,735)	-	(449,228)
Landowner gifts	-	-	-	-	-	21,500	-	21,500
Transfer and amendment fees	58,535	-	-	58,535	-	104,946	-	104,946
Special events	97,085	1,500	-	98,585	179,455	-	-	179,455
Application fees	5,000	-	-	5,000	20,000	-	-	20,000
Special projects	40,000	-	-	40,000	36,519	-	-	36,519
Miscellaneous income	19,830	-	-	19,830	41,465	-	-	41,465
Merchandise sales	2,146	-	-	2,146	-	-	-	-
Total support and revenue	1,951,526	3,920,583	-	5,872,109	996,571	480,733	-	1,477,304
Net assets released from restrictions	1,025,244	(1,025,244)	-	-	250,435	(250,435)	-	-
Total support, revenue and releases	2,976,770	2,895,339	-	5,872,109	1,247,006	230,298	-	1,477,304
Expenses								
Program services	2,014,801	-	-	2,014,801	1,106,296	-	-	1,106,296
Management and general	261,664	-	-	261,664	200,240	-	-	200,240
Fundraising	395,276	-	-	395,276	345,944	-	-	345,944
Total expenses	2,671,741	-	-	2,671,741	1,652,480	-	-	1,652,480
Change in net assets	305,029	2,895,339	-	3,200,368	(405,474)	230,298	-	(175,176)
Net assets, beginning of year	10,955,428	451,934	620,132	12,027,494	11,360,902	221,636	620,132	12,202,670
Net assets, end of year	<u>\$ 11,260,457</u>	<u>\$ 3,347,273</u>	<u>\$ 620,132</u>	<u>\$ 15,227,862</u>	<u>\$ 10,955,428</u>	<u>\$ 451,934</u>	<u>\$ 620,132</u>	<u>\$ 12,027,494</u>

See Notes to Consolidated Financial Statements.

Lowcountry Land Trust, Inc. and Subsidiaries**Consolidated Statements of Cash Flows****For the years ended June 30, 2017 and 2016**

	2017	2016
Operating activities		
Change in net assets	\$ 3,200,368	\$ (175,176)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	22,165	13,088
Donation of stock	(525,750)	-
Donation of easements and retired mineral rights	(9)	-
Impairment loss	771,624	-
Realized and unrealized (gain) loss on sale of investments, net	(566,337)	449,228
Changes in deferred and accrued amounts		
Accounts receivable	(21,699)	45
Pledges receivable	38,149	(80,532)
Prepaid expenses	(43,300)	-
Accounts payable	15,929	13,068
Accrued compensated absences	706	1,030
Unearned revenue	-	(50,000)
Net cash provided by operating activities	<u>2,891,846</u>	<u>170,751</u>
Investing activities		
Purchase of investments	(3,507,450)	(344,208)
Proceeds from sale of investments	1,868,669	682,170
Purchases of protected land	(626,624)	-
Purchases of land	(341,800)	-
Purchases of website development	(53,615)	-
Purchases of property and equipment	(14,284)	(11,500)
Net cash (used for) provided by investing activities	<u>(2,675,104)</u>	<u>326,462</u>
Net increase in cash and cash equivalents	216,742	497,213
Cash and cash equivalents, beginning of year	1,063,964	566,751
Cash and cash equivalents, end of year	<u>\$ 1,280,706</u>	<u>\$ 1,063,964</u>

See Notes to Consolidated Financial Statements.

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 1. Summary of Significant Accounting Policies

Description of organization:

The Lowcountry Land Trust, Inc. ("LLT") is a South Carolina non-profit trust chartered on September 13, 1985. Its purpose is to engage in and promote, for the benefit of the general public, the preservation of the natural resources in the South Carolina lowcountry including marshlands, swamps, woodland and open spaces and the plant and animal life therein, and the preservation of open land areas of historical and scenic significance. The Trust primarily relies on private donations for funding. Wadmacon, LLC, Bacons Bridge, LLC, Ashem, LLC, Angel Oak Park, LLC, Quemby Barony, LLC, French Quarter Creek, LLC, and Lowcountry Open Land Trust, LLC, wholly-owned subsidiaries of Lowcountry Land Trust, Inc., were organized on December 9, 2003, February 11, 2009, November 1, 2010, June 24, 2013, February 6, 2014, February 23, 2015, and November 6, 2015, respectively, under the laws of South Carolina.

Effective November 6, 2015 the Trust changed its name from Lowcountry Open Land Trust, Inc. to Lowcountry Land Trust, Inc.

Principles of consolidation:

The consolidated financial statements include the accounts of Lowcountry Land Trust, Inc. ("LLT") and Wadmacon, LLC, Bacons Bridge, LLC, Ashem, LLC, Angel Oak Park, LLC, Quemby Barony, LLC, French Quarter Creek, LLC, and Lowcountry Open Land Trust, LLC (the "Subsidiaries"). Lowcountry Land Trust, Inc. and Subsidiaries is referred to as the Trust throughout the notes to the consolidated financial statements. All significant intercompany transactions and balances have been eliminated. Protected land owned by Bacon's Bridge, LLC of \$327,755 was contributed to the Dorchester Trust Foundation (the "Foundation"), an unrelated non-profit organization, in 2010. The transfer of the land to the Foundation included a reverter clause restricting the Foundation's use of the land. Therefore, the Bacons Bridge, LLC will exist in perpetuity.

Basis of presentation:

The consolidated financial statements of the Trust have been prepared on the accrual basis of accounting. The Trust's consolidated financial statements follow the recommendations of Financial Accounting Standards Board in its Accounting Standards Codification (FASB), *Financial Statements of Not-for-Profit Organizations*. Under *Financial Statements of Not-for-Profit Organizations*, the Trust is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Pursuant to *Financial Statements of Not-for-Profit Organizations*, the three classes of net assets are as follows:

Unrestricted - The part of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted - The part of net assets resulting from contributions whose use is limited by donor-imposed restrictions that permit the donee Trust to use up or expend the donated assets as specified and is satisfied either by the passage of time or by actions of the Trust.

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Basis of presentation, continued:

Permanently restricted - The part of net assets resulting from contributions whose use is limited by donor-imposed restrictions that stipulate that resources be maintained permanently but permits the Trust to use up or expend part or all of the income generated by these resources.

Use of estimates:

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents:

The Trust defines cash and cash equivalents to include cash on hand, demand deposits, and investments with original maturities of three months or less.

Contributions/pledges receivable:

In accordance with generally accepted accounting principles ("GAAP"), contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Certain contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the donor restriction or use in accordance with the restriction.

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

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. No discount was recorded at June 30, 2017 or 2016.

The Trust provides for an allowance for pledges receivable based on management's estimate of the collectability of pledges receivable. No allowance was recorded at June 30, 2017 or 2016, as management believes all unconditional pledges receivable are fully collectible.

Property and equipment:

The Trust capitalizes all expenditures for property and equipment in excess of \$1,000. Purchased property and equipment are recorded at cost, or if donated, recorded as support at their estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from 3 to 15 years.

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Investments:

Investments in marketable securities with readily determinable fair values are valued at their fair values in the Consolidated Statements of Financial Position. Investment income or loss (including realized and unrealized gains and losses on investment, interest, and dividends) is included in the Consolidated Statements of Activities as increases or decreases in unrestricted net assets unless the income or loss is specifically restricted by donor or law. All changes in cash reported in investment accounts are treated as purchases or disposals of investments.

Intangible assets:

The Trust's intangible assets consist of website development costs. Amortization is computed using the straight-line method based on the assets' estimated useful lives of three years and included with depreciation expense and accumulated depreciation.

Conservation easements and mineral rights:

The Trust records as an asset all conservation easements and mineral rights it owns. These easements and retired mineral rights are recorded at a nominal value.

Functional allocation of expenses:

The costs of providing various programs and activities have been summarized on a functional basis in the Consolidated Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited on the basis of estimates made by management. Expenses are charged to programs and supporting services on the basis of time and expense analysis. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Trust. See Note 16.

Compensated absences:

Employees of the Trust are entitled to paid vacations, sick days and certain holidays. The Trust's policy allows employees to carry over no more than forty hours of unused vacation beyond the end of a calendar year. Accordingly, a liability has been recorded in the accompanying consolidated financial statements for the balance of unused vacation as of June 30, 2017 and 2016, respectively.

Donated services:

Donated services are recognized as contributions in accordance with GAAP if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Trust. A substantial number of volunteers have donated an undetermined number of hours to the Trust's program services and fund-raising campaigns; however, these donated services are not reflected in the consolidated financial statements since the services do not require specialized skills.

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Donated property and equipment:

The Trust reports gifts of goods and equipment at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless explicit donor stipulations specify how the assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Trust reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service as instructed by the donor. The Trust reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Income tax status:

The Trust is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Trust qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as a Trust that is not a private foundation under Section 509(a)(2).

GAAP prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. GAAP also provides guidance on derecognition of tax benefits, classification on the Consolidated Statements of Financial Position, interest and penalties, accounting in interim periods, and disclosure.

Management has evaluated the Trust's tax positions and concluded that the Trust has taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance as of June 30, 2017 or 2016. The Trust's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties as other expense. With few exceptions, the Trust is no longer subject to income tax examinations by the U.S. Federal, state, or local tax authorities for years before 2013.

Fair value measurements:

The Trust utilizes a three-tier fair value hierarchy that clarifies fair value as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Trust's financial instruments principally consist of investments, which are reported at fair market value as required by GAAP (see Note 4). The Trust's other financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses.

The carrying value of these financial instruments approximates their fair values at June 30, 2017 and 2016 because of the terms and relatively short maturity of those instruments.

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Agency transactions:

The Trust accounts for agency transactions in accordance with FASB's Accounting Standards Codification Topic 958, *Not-for-Profit Entities*. This Topic establishes standards for transactions in which a not-for-profit accepts funds from a donor/grantor and agrees to transfer those assets to a beneficiary that is specified by the donor/grantor without being given variance power to redirect the use of the transferred assets to another beneficiary. The Trust is regularly awarded grant funds from governmental agencies on behalf of third-party landowners. These grant awards are reported as both assets and liabilities in the accompanying Consolidated Statements of Financial Position when received and are shown as a decrease in assets and liabilities when remitted to the beneficiary. The revenues and expenses of these funds are excluded from the Consolidated Statements of Activities.

Reclassifications:

Certain amounts in the Consolidated Statements of Activities for the year ended June 30, 2016 have been reclassified to conform to the June 30, 2017 presentation. These reclassifications had no effect on previously reported net assets.

Recently issued pronouncements:

The Financial Accounting Standards Board on August 18, 2016, published Accounting Standards update (ASU) No. 2016-14, *Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The standard changes how not-for-profit organizations classify their net assets, with groups required to categorize assets as either those with donor restrictions or without. The standard also requires new information about an organization's liquidity and an analysis of expenses by nature and function. The update, which aims to help charities, universities, foundations, and other not-for-profit groups better convey how they spend and manage their resources, goes into effect for fiscal years beginning after December 31, 2017. The Trust is currently evaluating the impact of this new guidance on its financial statement presentation.

In February 2016, the FASB issued new guidance to change accounting for leases and that will generally require most leases to be recognized on the statements of financial position. The new lease standard only contains targeted changes to accounting by lessors, however, lessees will be required to recognize most leases in their statements of financial position as lease liabilities for lease payments and right-of-use assets representing the lessee's rights to use the underlying assets for the lease terms for lease arrangements longer than 12 months. Under this approach, a lessee will account for most existing capital/finance leases as Type A leases and most existing operating leases as Type B leases. Type A and Type B leases have unique accounting and disclosure requirements. Existing sale-leaseback guidance, including guidance for real estate, will be replaced with a new model applicable to both lessees and lessors. The new guidance will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted for all organizations. The Trust is currently evaluating the impact of this new guidance on its financial statement presentation.

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 1. Summary of Significant Accounting Policies, Continued

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Trust for reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Trust is currently evaluating the impact of this new guidance on its financial statement presentation.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Trust's net assets or changes in net assets.

Subsequent events:

Management has evaluated events and transactions for potential recognition or disclosure through October 12, 2017, which is the date these consolidated financial statements were available to be issued.

Note 2. Board Designated Funds

The following funds have been designated by the Board of Trustees and are included in unrestricted net assets. At June 30, 2017 and 2016, certain cash, cash equivalents, investment accounts, and land that total to \$6,417,729 and \$5,710,951, respectively, were included in board designated funds.

Emergency Operating Reserve Fund - The purpose of the operating reserve fund is to provide approximately six months of operating funds for emergency, unforeseen needs which could not be anticipated by budget requirements.

Stewardship and Legal Defense Fund - The purpose of the stewardship and legal defense fund is to facilitate the primary role of the Trust's stewardship program: to ensure that the protected properties are preserved in perpetuity.

Opportunity Fund - The purpose of the opportunity fund is to provide funds for conservation projects that require additional funding outside of funding available in the operating budget.

Land Fund (Wadmacon) - The purpose of the land fund is to segregate the values and activities related to the Wadmacon property donated to the Trust for the purpose of preservation.

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 2. Board Designated Funds, continued

Board designated net assets were allocated as follows at June 30:

	<u>2017</u>	<u>2016</u>
Emergency Operating Reserve Fund	\$ 745,920	\$ 733,025
Stewardship and Legal Defense Fund	5,082,900	4,345,777
Opportunity Fund	232,309	275,549
Land Fund (Wadmacon)	<u>356,600</u>	<u>356,600</u>
	<u>\$ 6,417,729</u>	<u>\$ 5,710,951</u>

Note 3. Pledges Receivable

Pledges receivable consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 85,644	\$ 83,793
One to five years	-	40,000
	<u>\$ 85,644</u>	<u>\$ 123,793</u>

Note 4. Fair Value Measurements

Fair Value Measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. *Fair Value Measurements* also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Trust performs an analysis of the assets and liabilities that are subject to *Fair Value Measurements*. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017 or 2016.

Mutual funds - Valued at the net asset value ("NAV") of shares held by the Trust at year end using closing prices reported in the active market.

Debt securities & fixed income funds - (Includes corporate and government obligations) Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 4. Fair Value Measurements, Continued

Equities - Valued at the closing price reported on the active market on which the individual securities are traded.

The balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy are as follows at June 30, 2017:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual Funds:				
Fixed income	\$ 4,129,886	\$ 4,129,886	\$ -	\$ -
Equities	3,323,657	3,323,657	-	-
Balanced	580,430	580,430	-	-
Real asset	458,856	458,856	-	-
Government obligations	267,258	-	267,258	-
Corporate obligations	293,911	-	293,911	-
Equities	<u>1,275,783</u>	<u>1,275,783</u>	-	-
Total investments, at fair value	<u>\$ 10,329,781</u>	<u>\$ 9,768,612</u>	<u>\$ 561,169</u>	<u>\$ -</u>

The balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy are as follows at June 30, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual Funds:				
Fixed income	\$ 2,222,915	\$ 2,222,915	\$ -	\$ -
Equities	4,007,290	4,007,290	-	-
Balanced	998,387	998,387	-	-
Real asset	<u>370,321</u>	<u>370,321</u>	-	-
Total investments, at fair value	<u>\$ 7,598,913</u>	<u>\$ 7,598,913</u>	<u>\$ -</u>	<u>\$ -</u>

Note 5. Investments

The Trust held \$10,329,781 and \$7,598,913 in investments at June 30, 2017 and 2016. For cash flow purposes, purchases of investments are adjusted for monthly investment fees.

Investments were comprised of the following at June 30, 2017:

	<u>Cost</u>	<u>Fair Market Value</u>
Mutual funds – fixed income	\$ 4,149,159	\$ 4,129,886
Mutual funds – equities	2,832,958	3,323,657
Mutual funds – real assets	431,113	458,856
Mutual funds – balanced funds	508,479	580,430
Government obligations	273,016	267,258
Corporate obligations	301,870	293,911
Equities	<u>1,215,704</u>	<u>1,275,783</u>
Total	<u>\$ 9,712,299</u>	<u>\$ 10,329,781</u>

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 5. Investments, Continued

Investments were comprised of the following at June 30, 2016:

	<u>Cost</u>	<u>Fair Market Value</u>
Mutual funds – fixed income	\$ 2,262,735	\$ 2,222,915
Mutual funds – equities	3,727,567	4,007,290
Mutual funds – real assets	310,326	370,321
Mutual funds – balanced funds	<u>962,411</u>	<u>998,387</u>
Total	<u>\$ 7,263,039</u>	<u>\$ 7,598,913</u>

The following table shows the gross unrealized losses and fair value of the Trust's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2017.

	<u>2017</u>	
	<u>Less than 12 Months</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>
Government obligations	\$ 267,258	\$ (5,758)
Corporate obligations	293,911	(7,959)

	<u>More than 12 Months</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>
Mutual Funds - fixed income	\$ 4,129,886	\$ (19,273)

	<u>2016</u>	
	<u>More than 12 Months</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>
Mutual Funds - fixed income	\$ 2,222,915	\$ (39,820)

Investment income (loss), net is comprised of the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 242,952	\$ 251,664
Net unrealized gain (loss)	281,609	(159,398)
Net realized gain (loss)	284,728	(289,830)
Less investment fees	<u>(38,705)</u>	<u>(37,941)</u>
Total investment income (loss), net	<u>\$ 770,584</u>	<u>\$ (235,505)</u>

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 6. Agency Transactions

Through grant programs with the South Carolina Conservation Bank, Dorchester County, and the U.S. Department of Interior, the Trust was awarded grant funds in an agency capacity on behalf of third-party landowners. During the years ended June 30, 2017 and 2016, the Trust received and disbursed \$3,763,490 and \$1,824,650, respectively, of pass-through agency funds for twelve and eight individual grants, respectively. As of June 30, 2017 and 2016, there were no amounts due to these third-party recipients.

Note 7. Property and Equipment, net

Major classifications of property and equipment, net, used in operations as of June 30 are summarized below:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 2,292	\$ 2,292
Boat	8,200	-
Furniture and equipment	<u>85,258</u>	<u>79,174</u>
Total	95,750	81,466
Less accumulated depreciation	<u>(62,317)</u>	<u>(40,152)</u>
Property and equipment, net	<u>\$ 33,433</u>	<u>\$ 41,314</u>

On January 2017, an appraisal was performed and the Trust purchased 4 acres on the Ashem property at the appraised fair market value of \$341,800 from Charleston County Parks and Recreation Commission ("PRC"). This land was conveyed subject to a restrictive covenant that it shall only be used as an office for Lowcountry Land Trust or other non-profit organizations (likely involved in conservation or preservation), subject to the prior written approval of PRC and to the conservation easement held by Historic Charleston Foundation. In addition, the property shall be conveyed with a right of repurchase at the original purchase price if construction of an office is not commenced within 5 years after the closing on the purchase of the property, and a right of first offer in favor of PRC for a period of 75 years. The conservation easement on the property held by HCF contains limitations on the aggregate footprint of future structures which only allows the Trust to build an office structure not to exceed 4,000 square feet of the 10,000 square feet available under the HCF easement.

Depreciation expense on equipment for the years ended June 30, 2017 and 2016 totaled \$22,165 and \$13,088, respectively.

Note 8. Intangible Assets, net

Intangible assets, net, consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Website development costs	\$ 89,444	\$ 35,829
Soul of the Lowcountry blog development costs	<u>4,813</u>	<u>4,813</u>
Total	94,257	40,642
Less accumulated amortization	<u>(40,642)</u>	<u>(40,642)</u>
Intangible assets, net	<u>\$ 53,615</u>	<u>\$ -</u>

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 8. Intangible Assets, net, continued

There was no amortization expense on website development for the year ended June 30, 2016 due to the old website being fully depreciated during the year ended June 30, 2015. The new website was placed in service on the last day of the fiscal year, and therefore, there was no amortization expense for the year ended June 30, 2017.

Note 9. Protected Land and Easements

Various lands and legal restrictions on lands are donated to the Trust for the purpose of preservation. As of June 30, 2017 and 2016, the title to 4,333 and 4,127 acres of land, respectively, which consists primarily of marsh lands, had been donated to the Trust.

The Trust records in the consolidated financial statements the estimated fair market value at the time of donation of land to which it holds title. Conservation easements, deed restrictions, and retired mineral rights are recorded at a nominal value in the financial statements. As of June 30, 2017 and 2016, conservation easements had been granted to the Trust on 132,436 and 117,036 acres, respectively.

Angel Oak Properties:

In April 2013, the Trust entered into an agreement for \$100 in consideration which gave it the exclusive right and option to purchase 17 acres of land adjacent to the Angel Oak property ("Angel Oak 1"). Upon due diligence performed and the exercise of the option in December 2013, the Trust purchased these 17 acres of land adjacent to the Angel Oak property for \$3,560,000. In January 2014, the Trust signed an agreement to purchase an additional 18.70 acres of land adjacent to the Angel Oak property ("Angel Oak 2"). After a due diligence period, the Trust completed the purchase of Angel Oak 2 in March 2014 for \$3,300,000. At June 30, 2017, the total combined 35.70 acres of land is held by the Trust's wholly-owned LLC, Angel Oak Park, LLC, while the Trust is in the process of placing conservation easements on both of these properties.

Per independent appraisal, the estimated fair value of the combined Angel Oak properties would drop to 5% of the original fair value upon the execution of the conservation easements. During the year ended June 30, 2014, the Trust wrote-down these properties by \$6,517,000 to a total carrying value of \$343,000 which is included in "Protected land and easements" on the Consolidated Statements of Financial Position to reflect the execution of the conservation easement.

Keystone Property:

As part of its strategic visioning plan, the Trust had previously identified approximately 4,300 acres known as the "Keystone Tract" within the Cooper River Corridor for its potential for wetland and related habitat preservation and restoration. In January 2014, the Trust entered into a memorandum of understanding ("MOU") with The Boeing Company ("Boeing") regarding Boeing's permit application to the United States Army Corps of Engineers ("Corps") and the South Carolina Department of Health and Environmental Control ("SCDHEC") for authorization to impact approximately 153 acres of federally jurisdictional wetlands for the purpose of expansion of the existing Boeing facilities and the related mitigation requirements of the Corps and SCDHEC.

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 9. Protected Land and Easements, Continued

Keystone Property, continued:

The terms of the MOU stated that the Trust would purchase approximately 1,677 acres within the Keystone Tract for \$6,727,000 after a due diligence period which was completed in February 2014. In turn, Boeing would reimburse the Trust up to \$4,000/acre for the 1,677 acres, for all required closing costs, any out-of-pocket expenses not to exceed \$3,000, and an amount equivalent to 3% of the purchase price (\$201,810) for any and all matters relating to the acquisition, management, restoration and mitigation, and long-term stewardship of the property. The MOU further stated that the Trust will work with Boeing on the development of a mitigation plan for which Boeing agrees to fund the development and implementation.

The Trust and Boeing further agreed that the South Carolina Department of Natural Resources ("SCDNR"), U.S. Forest Service, or another natural resource agency will oversee and conduct the implementation of this mitigation plan. In addition, the Trust will elect to transfer the property to SCDNR or another governmental organization for inclusion in one of its land protection programs.

As of June 30, 2014, the Trust had purchased the Keystone Tract property through its wholly-owned subsidiary, Quemby Barony, LLC, for a cost of \$6,727,000 which is included in "Protected land and easements" on the Consolidated Statements of Financial Position. During fiscal year 2014, the Trust received approximately \$6,963,000 in temporarily restricted donations from Boeing for the purpose of purchasing and managing the property as noted per the MOU. Based on the terms within the MOU to transfer the property after implementation of the mitigation plan, the Trust recorded a "land contribution payable" for \$6,727,000 during the year ended June 30, 2014 which is shown in the Consolidated Statements of Financial Position.

As of June 30, 2017 and 2016, remaining unspent funds of \$17,040 and \$52,621, respectively, are reflected in temporarily restricted net assets (see Note 11).

French Quarter Creek Property:

In March 2015, the Trust entered into an escrow agreement with the South Carolina State Ports Authority (the "Port") which stated that the Port would deposit \$5,000,000 in an escrow account to be held in escrow by a third party to be utilized for options on real property, closing and purchase of real property, or the acquisition of conservation easements on the real property and associated administrative and management costs in the Cooper River Corridor. The Trust was able to draw up to \$2,000,000 from the escrow account prior to the issuance of the Port's project approval by the U.S. Army Corps of Engineers during the year ended June 30, 2015. In March 2015, the Trust utilized approximately \$1,916,000 of these funds for the acquisition of the land and associated costs of approximately 426 acres along U.S. Highway 41, a portion of the acres known as the Keystone Tract within the Cooper River Corridor for its potential for wetland and related habitat preservation and restoration. During the year ended June 30, 2017, the Trust put an easement on the French Quarter Creek property which reduced the value of the land by \$666,600. Per independent appraisal, the estimated fair value of the combined Angel Oak properties would drop below the original fair value upon the execution of the conservation easements. During the year ended June 30, 2014, the Trust wrote-down this property by \$514,000 to a total carrying value of \$1,381,000 which is included in "Protected land and easements" on the Consolidated Statements of Financial Position to reflect the execution of the conservation easement.

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 9. Protected Land and Easements, Continued

French Quarter Creek Property, continued:

As of June 30, 2016, the Trust had used a total of \$1,967,201 of the funds for costs associated with land protection in the Cooper River Corridor. The remaining escrowed funds were not available to the Trust upon condition of and until such time that the Port received approval by the U.S. Army Corps of Engineers on its dredging project. In July 2016, under the direction of the SC State Ports Authority (the "Port"), \$500,000 of the escrow fund was dispersed to Lord Berkeley Conservation Trust from the escrow account for the Fort Fair Lawn preservation project. In August 2016, the escrow agreement between the Trust and Port for the remaining funds for use by the Trust was terminated, and the funds were released to the Trust. The Trust received \$2,528,507 of these escrowed funds pursuant to the escrow agreement with the South Carolina State Ports Authority (the "Port") which are recorded as temporarily restricted revenue and being held in investments as of June 30, 2017.

Ashem Property:

In September 2010, the Trust sold Charleston County Parks and Recreation Commission ("PRC") a total of 43.4471 acres of land known as Ashem on Olde Towne Creek. This contract for the sale of these acres included an option for the Trust to purchase 2 to 4 acres of this property (the "option site") within the earlier of 1 month of the date of delivery of the Phase I archeological report or one year after the death of the original donor of the property. This contract was amended in June 2011 and again in October 2013 to extend the option period to the earlier of 1 month of the date of delivery of the Phase I archeological report or five years after the death of the original donor of the property (or April 26, 2016).

Mallard Tract:

On December 22, 2106, the Trust purchased approximately 206 acres which was a portion of the Good Hope Plantation in Colleton County known as the "Mallard Tract" for \$626,624. The Trust received funds from Waste Management for the purchase of the Mallard Tract as part of Waste Management's mitigation development plan. Per independent appraisal, the estimated fair value of the property would drop below the original fair value upon the execution of a conservation easement. During the year ended June 30, 2017, the Trust wrote-down this property by \$257,624 to a total carrying value of \$369,000 which is included in "Protected land and easements" on the Consolidated Statements of Financial Position to reflect the execution of the conservation easement.

Note 10. Credit Risk

The Trust maintains cash in checking accounts at two financial institutions. Cash accounts held at these banks are guaranteed in aggregate by the Federal Deposit Insurance Trust ("FDIC") up to \$250,000 per bank. At times, deposits may be in excess of the FDIC insured limits.

The Trust maintains its investments at three brokerage firms. Accounts maintained at each brokerage firm are insured up to \$500,000 for securities, including a limit of \$250,000 on claims for cash under the Securities Investor Protection Trust ("SIPC"). Money market funds held in a brokerage account are considered securities. In addition, each brokerage firm has purchased additional insurance coverage to apply to losses above the SIPC protection level for cash and securities with a \$1,900,000 per client limit for cash and cash equivalents and no per account dollar limit on coverage of securities. However, this coverage does not cover investment losses in customer accounts due to market fluctuation.

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 10. Credit Risk, continued

Management monitors the risk of exposure to loss through monitoring the performance of the financial institutions and brokerage firms through publicly available agencies.

Note 11. Net Assets

Temporarily restricted net assets as of June 30 are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Time restricted only pledges receivable	\$ 10,000	\$ 42,691
East Branch Revolving Fund	2,675,486	166,650
General conservation	3,144	5,044
Employee benefit fund	526,501	-
ACE/SOLO	20,000	42,500
Greenbelt Action Plan-Brosnan Forest Region	30,000	60,000
Feasibility study	-	20,000
Fiddler's Green	56,108	56,034
Quemby Barony	17,040	52,621
NAWCA grant	7,500	-
Special events	1,500	-
Stewardship	-	5,000
Angel Oak	-	1,394
Total temporarily restricted net assets	<u>\$ 3,347,279</u>	<u>\$ 451,934</u>

Permanently restricted net assets consist of land valued as follows at June 30, 2017 and 2016:

Middleton Marshlands	\$ 57,000
Andell/Kiawah River Marshland	186,400
Alge Island	9,410
Ashley River Marshland	8,700
Ashley River Marshland II	13,500
Eagle Creek Marshland	300
Ashley River Marshland III	28,200
Ashley River Marshland IV	65,910
Ashley River Marshland V	77,000
Ashley River Marshland VI	144,372
Ashley River Marshland VII	29,340
	<u>\$ 620,132</u>

Note 12. Related Parties

Donations from Board of Trustees members and employees were received during fiscal years 2017 and 2016. These related party donations totaled approximately \$81,200 and \$54,950 for the years ended June 30, 2017 and 2016, respectively. There were no outstanding pledges receivable from members of the Board of Trustees as of June 30, 2017 or 2016.

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 12. Related Parties, Continued

The Trust entered into a bargain sale purchase for \$86,700 through the South Carolina Conservation Bank to put an easement on property of an employee's family member. The Trust maintains cash and investments in four financial institutions at which board members are employed. One board member of the Trust serves in the position of Vice-President at one of the financial institutions.

Note 13. Retirement Plan

In May 2001, the Trust implemented a 403(b) plan for the purpose of providing retirement benefits for participating employees. An eligible employee may, on a voluntary basis, begin participation in the Plan on the Plan entry date following fulfillment of the completion of 6 months of service with the Trust. Employees may contribute from 1% to 20% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Trust matches employee contributions dollar for dollar up to a maximum of 3% of annual compensation. Employees are fully and immediately vested in the benefits arising from contributions made under this Plan. Retirement plan expense totaled \$24,142 and \$17,622 for the years ended June 30, 2017 and 2016, respectively. Subsequent to year end, the employer retirement match will increase to a maximum of 5% of annual compensation.

Note 14. Leases

In January 2013, the Trust signed a lease agreement to rent office space for a lease term of three years with three one-year renewal options. The rental period began on June 1, 2013 and ends on June 30, 2016, with a monthly lease payment of \$5,340. At the end of the lease period, the Trust has the option to exercise three one year renewals. As of June 30, 2016 the Trust exercised its first renewal to expire on June 30, 2017. The monthly lease payment increases on each annual anniversary of the start date by 2.5%.

Additionally, in June 2014, the Trust signed an addendum for additional office space, and the monthly lease payment increased by \$319 as of July 1, 2014. Either party can terminate the agreement at the end date stated in the lease, or at the end of any extension period, by giving at least a thirty day written notice to the other. Also see Note 18 for lease agreement entered into subsequent to year end.

Rent expense totaled \$73,029 and \$70,895 for the years ended June 30, 2017 and 2016, respectively.

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 15. Consolidated Schedules of Functional Expenses

For the year ended June 30, 2017, functional expenses were allocated as follows:

	Program Services	Supporting Services		Total
		Management and General	Fund Raising	
Compensation and related expenses:				
Salaries	\$ 597,928	\$ 153,076	\$ 236,411	\$ 987,415
Employee benefits	71,560	6,446	25,196	103,202
Payroll taxes	<u>51,282</u>	<u>11,475</u>	<u>17,871</u>	<u>80,628</u>
Total compensation and related expenses	720,770	170,997	279,478	1,171,245
Land impairments	771,624	-	-	771,624
Legal fees	110,335	5,288	385	116,008
Consultants	80,203	-	17,818	98,021
Rent	43,817	14,606	14,606	73,029
In-kind gifts and donor recognition	54,609	539	663	55,811
Professional fees	35,697	18,725	-	54,422
Catering	24,180	138	22,942	47,260
Taxes and insurance	18,050	11,157	3,543	32,758
Cloud hosting	13,139	8,199	9,253	30,591
Travel and entertainment	19,681	3,156	4,318	27,155
Publications/printing	13,512	3,538	6,623	23,673
Depreciation	12,000	6,165	4,000	22,165
Equipment rental	9,514	-	12,597	22,111
Video production	21,707	-	-	21,707
Events and speakers	14,028	25	5,634	19,687
Telephone	7,369	2,189	2,189	11,747
Partnership programs	11,000	-	500	11,500
Merchandise	5,292	321	3,452	9,065
Office supplies	3,706	3,972	1,126	8,804
Digital marketing and social media	6,993	-	213	7,206
Professional development	1,806	4,613	-	6,419
IT support	2,832	2,253	93	5,178
Postage and shipping	1,974	489	2,220	4,683
Bank and payroll service charges	60	2,383	2,027	4,470
Storage	2,996	-	1,072	4,068
Boat maintenance	4,064	-	-	4,064
Documentation	3,814	-	-	3,814
Dues and subscriptions	<u>21</u>	<u>2,911</u>	<u>524</u>	<u>3,456</u>
Total expenses	<u>\$ 2,014,801</u>	<u>\$ 261,664</u>	<u>\$ 395,276</u>	<u>\$ 2,671,741</u>

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 15. Consolidated Schedules of Functional Expenses, Continued

For the year ended June 30, 2016, functional expenses were allocated as follows:

	Program Services	Supporting Services		Total
		Management and General	Fund Raising	
Compensation and related expenses:				
Salaries	\$ 577,804	\$ 130,098	\$ 103,120	\$ 811,022
Employee benefits	57,260	12,893	10,219	80,372
Temporary employees	-	724	88,062	88,786
Payroll taxes	46,805	10,539	8,353	65,697
Total compensation and related expenses	681,869	154,254	209,754	1,045,877
Land protection	154,449	-	-	154,449
Events and speakers	40,723	-	73,445	114,168
Education and outreach	113,082	-	-	113,082
Rent	46,221	10,456	14,218	70,895
Operations/administration	32,273	6,916	6,916	46,105
Development program	-	-	34,626	34,626
Office	18,659	6,786	3,175	28,620
Professional fees	-	19,450	-	19,450
Depreciation	8,533	1,930	2,625	13,088
Travel and entertainment	6,231	-	-	6,231
Bank and payroll service charges	1,607	363	601	2,571
Documentation	1,629	-	-	1,629
Postage and shipping	500	85	584	1,169
Partnership programs	520	-	-	520
Total expenses	\$ 1,106,296	\$ 200,240	\$ 345,944	\$ 1,652,480

Note 16. Commitments

On April 21, 2017, the Trust entered into an agreement to purchase real property known as Hyde Park for approximately \$3,525,000. The Trust made a \$30,000 earnest money payment to the attorney who will hold the funds in escrow until closing at which time the earnest money will be applied against the purchase price. The closing was required to take place on or before July 19, 2017 unless otherwise extended. Also see Note 17.

Note 17. Subsequent Events

In August 2017, the Trust entered into a new lease agreement for office space in downtown Charleston. The new lease commences on October 1, 2017 with a term of sixty months and monthly rental payments of \$9,159 with an increase based on the Consumer Price Index ("CPI") each year thereafter.

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Financial Statements

June 30, 2017

Note 17. Subsequent Events, Continued

The Trust also entered into a commercial sublease with an effective date of October 1, 2017 to sublease the above office space for monthly rental payments of \$1,832. The tenant and lessee both have the right to terminate the lease with a ninety (90) day written notice.

Subsequent to year end, in August 2017, the Trust purchased the real property known as Hyde Park for approximately \$3,525,000. The Trust used the remaining escrowed funds from the Port of approximately \$2,528,500, along with a loan of \$1,000,000 to purchase the Hyde Park property. The loan is in five years in full on August 18, 2022 with an interest rate of 2% annum. The loan is secured by the property and the assignment of a first priority of any leases, rents, or profits, and a first property security interest in all personal property located on such real property.

Reporting Under *Government Auditing Standards*



**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Board of Trustees
Lowcountry Land Trust, Inc. and Subsidiaries
Charleston, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lowcountry Land Trust, Inc. and Subsidiaries (the “Trust”), which comprise the consolidated statement of financial position as of June 30, 2017 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, which collectively comprise the Trust’s basic financial statements, and have issued our report thereon dated October 12, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Elliott Davis Decosimo, LLC

Charleston, South Carolina

October 12, 2017

Reporting Under the *Uniform Guidance*



**Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over
Compliance Required by the *Uniform Guidance***

To the Board of Trustees
Lowcountry Land Trust, Inc. and Subsidiaries
Charleston, South Carolina

Report on Compliance for Each Major Federal Program

We have audited Lowcountry Land Trust, Inc. and Subsidiaries' (the "Trust") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Trust's major federal programs for the year ended June 30, 2017. The Trust's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Trust complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the Trust is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Trust's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control over compliance.

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

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

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



Charleston, South Carolina
October 12, 2017

Lowcountry Land Trust, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2017

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
U.S. Department of Interior					
North American Wetlands Conservation Fund					
SC Coastal Rivers Conservaton Partnership	15.623	F16AP00356	N/A	\$ -	\$ 992,500
Coastal Program					
Waterway and Wildlife Corridor Conservation Program	15.630	F14AC00690	N/A	-	65,242
Total U.S. Department of Interior				<u>-</u>	<u>1,057,742</u>
Total Federal Expenditures				<u>\$ -</u>	<u>\$ 1,057,742</u>

Lowcountry Land Trust, Inc. and Subsidiaries

Notes to Schedule of Expenditures of Federal Awards

June 30, 2017

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Trust under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Trust, it is not intended to and does not represent the financial position, changes in net assets, or cash flows of the Trust.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

The Trust has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Lowcountry Land Trust, Inc. and Subsidiaries**Schedule of Findings and Questioned Costs****June 30, 2017**

Section I – Summary of Auditor's Results

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported

Type of auditor's report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?	No
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Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
15.623	North American Wetlands Conservation Fund

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
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Auditee qualified as low-risk auditee?	No
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Section II - Financial Statements Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Summary Schedule of Prior Year Findings

None