Washington Association of Conservation Districts

Financial Statements with
Independent Auditor's Report

Year Ended June 30, 2018

Larson Gross

Washington Association of Conservation Districts

Contents

Independent Auditor's Report

To the Board of Directors
Washington Association of Conservation Districts
Olympia, Washington

Report on the Financial Statements
We have audited the accompanying financial statements of Washington Association of Conservation Districts (the Organization), which comprise the statement of financial position as of June 30, 2018, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

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

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

2211 Rimland Drive, Suite 422 ▸ Bellingham, WA 98226
PHONE 360 734 4280 ▸ **FAX** 360 734 4893
larsongross.com
Bellingham
Burlington
Lynden

Basis for Qualified Opinion

As more fully described in Note 5 to the financial statements, the Organization leases premises under an agreement that provides for a nominal annual rent of one dollar. The Organization has not recorded the fair value for the use of the property in the financial statements, which is a departure from accounting principles generally accepted in the United States of America. In our opinion, the Organization's use of space at nominal rent should be recognized at the net present value of the fair rental value of space occupied under similar conditions at the time of receipt and recorded as an in-kind contribution receivable and increase in the unrestricted net asset class. Quantification of the effects on the financial statements of the preceding practices is not practicable.

In addition, we did not observe the physical inventory (stated at $135,005) taken as of June 30, 2017, since that date was prior to our initial engagement as auditors for the Organization, and the Organization's records do not permit adequate retroactive tests of inventory quantities. Consequently, we were unable to determine whether any adjustments were necessary in the statements of activities or cash flows.

Qualified Opinion

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraphs, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Washington Association of Conservation Districts as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Larson Gross PLLC

Bellingham, Washington
September 13, 2018

Washington Association of Conservation Districts

Statement of Financial Position

June 30, 2018

(See Independent Auditor's Report)

Assets

Cash and cash equivalents	$	611,612
Accounts receivable		30,440
Inventory		98,981
Prepaid expenses		2,550
Federal income tax receivable		24,910
Investments		1,033,055
Property and equipment, net		98,040
Total assets	$	1,899,588

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	$	42,124
Customer deposits		29,505
Liability for unrecognized tax benefit		73,000
Total liabilities		144,629
Net assets		
Unrestricted		
Undesignated		924,968
Board designated		829,991
Total net assets		1,754,959
Total liabilities and net assets	$	1,899,588

Washington Association of Conservation Districts

Statement of Activities

Year Ended June 30, 2018

(See Independent Auditor's Report)

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Plant sales	$ 1,053,542	$ -	$ 1,053,542
Dues and membership fees	251,666	-	251,666
Unrealized gain	48,102	-	48,102
Grants and contributions	38,850	3,995	42,845
Other income	1,216		1,216
Dividend and interest income	653	-	653
Net assets released from restrictions	3,995	(3,995)	-
Total support and revenue	1,398,024	-	1,398,024
Expenses			
Program services, including cost of sales for plants of $771,431	1,006,925		1,006,925
Management and general	236,109	-	236,109
Fundraising	3,490	-	3,490
Total expenses	1,246,524	-	1,246,524
Increase in net assets	151,500	-	151,500
Net assets, beginning of year	1,603,459	-	1,603,459
Net assets, end of year	$ 1,754,959	$ -	$ 1,754,959

Washington Association of Conservation Districts

Statement of Functional Expenses

Year Ended June 30, 2018

(See Independent Auditor's Report)

	Program Services	Management and General	Fundraising	Total
Wages, benefits and taxes	$ 567,061	$ 148,593	$ 3,490	$ 719,144
Seeds and plants	144,095	-	-	144,095
Travel, meals and meetings	60,582	3,843	-	64,425
Shipping	55,816	-	-	55,816
Fuel, fertilizer and chemicals	50,493	-	-	50,493
Annual meeting	45,385	-	-	45,385
Miscellaneous	15,108	20,924	-	36,032
Professional fees	175	20,953	-	21,128
Lobbying	17,250	-	-	17,250
Depreciation	17,236	-	-	17,236
Consulting	11,625	-	-	11,625
Write-off uncollectible accounts receivable	-	14,708	-	14,708
Rent	-	14,051	-	14,051
Farm and nursery supplies	8,939	1,011	-	9,950
Utilities	9,359	-	-	9,359
Taxes	3,801	3,543	-	7,344
IT	-	8,483	-	8,483
Total expenses	$ 1,006,925	$ 236,109	$ 3,490	$ 1,246,524

Washington Association of Conservation Districts

Statement of Cash Flows

Year Ended June 30, 2018

(See Independent Auditor's Report)

		2018
Cash flows from operating activities		
Increase in net assets	$	151,500
Adjustments to reconcile increase in net assets		
to net cash used by operating activities		
Write-off uncollectible accounts receivable		14,708
Depreciation		17,236
Unrealized gain		(48,102)
(Increase) decrease in current assets		
Accounts receivable		70,468
Inventory		36,024
Federal income tax receivable		2,400
Prepaid expenses		(2,550)
Increase in current liabilities		
Accounts payable and accrued expenses		(7,076)
Customer deposits		4,719
Net cash provided by operating activities		239,327
Cash flows from investing activities		
Purchases of investments, net of sales		(178,804)
Purchases of property and equipment		(14,348)
Net cash used by investing activities		(193,152)
Net increase in cash		46,175
Cash and cash equivalents – beginning of year		565,437
Cash and cash equivalents – end of year	$	611,612

Note 1 – Summary of Significant Accounting Policies

Nature of activities – Washington Association of Conservation Districts (the Organization) supports conservation districts in their work with government agencies, partner organizations, business and private landowners and working lands managers to implement best management practices, utilize innovative equipment and materials, provide technical assistance, and develop expertise to address resource issues.

The Organization also operates the Plant Materials Center (PMC) in Bow, Washington. The PMC is a wholesale only nursery providing high quality conservation grade plants, shrubs and services that benefit natural resources.

Basis of accounting – The Organization prepares its financial statements on the accrual basis of accounting and accordingly reflects all significant assets, payables and other liabilities.

Basis of presentation – Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

> **Unrestricted net assets** – Net assets that are not subject to externally imposed restrictions. The board has discretionary control over these amounts, and has designated certain amounts for specified future use, including the PMC. The balance of board designated unrestricted net assets totaled $829,991 at June 30, 2018.
>
> **Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization or the passage of time. The Organization had no temporarily restricted net assets as of June 30, 2018.
>
> **Permanently restricted net assets** – Support received subject to donor-imposed restrictions that assets be invested in perpetuity. The Organization had no permanently restricted assets as of June 30, 2018.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

Cash and cash equivalents – The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash in bank accounts that may exceed federal insured limits at times during the year. The Organization has not experienced any losses in these accounts, and management does not believe it is exposed to any significant risk.

Note 1 – Summary of Significant Accounting Policies – (Continued)

Accounts receivable – Accounts receivable are stated at their net realizable value. Net realizable value is equal to the gross amount of receivables less an estimated allowance for doubtful accounts. Management of the Organization bases its estimates of doubtful accounts on several factors. These factors include the Organization's prior experience collecting receivables, the aging of the receivables at year end, and management's appraisal of current economic conditions. Based on the above factors, management considers all receivables to be fully collectible and therefore has not made any allowance for uncollectible balances.

Inventory – Inventory is recorded at the lower of average cost or market. Inventory primarily consists of seeds, plants in growth process, fertilizer and chemicals.

Investments – Investments consist of mutual funds and money market accounts and are carried at fair value as measured by Accounting Standards Codification (ASC) 820-10. Realized and unrealized gains and losses are included in the determination of change in net assets. Investment income or loss is reported as an increase or decrease in unrestricted net assets unless the investment income on restricted assets also is restricted by the donor, resulting in such investment income being recorded as restricted until restrictions are satisfied.

Property and equipment – The Organization capitalizes all property and equipment acquisitions in excess of $2,500. Property and equipment acquisitions are recorded at cost, or fair market value if donated. Gains or losses on dispositions of property and equipment are included in operations in the year of disposal. Property and equipment are depreciated using the straight-line method over estimated useful lives of 3 to 40 years. Major expenditures for new property, and those which substantially increase useful lives of existing property, are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred.

Revenue recognition – The Organization has the following revenue recognition policies:

> **Plant sales** – The Organization recognizes sales at the point of sale to the customer.
>
> **Dues and membership fees** – Dues and membership fees are recognized as revenue ratably over the period of the membership.
>
> **Grants and contributions** – The Organization receives grants from various federal, state and local governmental agencies. Grant receipts may be subject to restrictions on the use of funds placed by the grantor. The Organization administers these funds in accordance with grantor guidelines. Grant revenue under cost reimbursement arrangements is recognized as expenses are incurred. Amounts incurred but not yet reimbursed are reported as government grants receivable. Contribution revenue is recognized in the period received or when an unconditional promise to give is made, whichever is earlier. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Sales tax – Taxes collected from customers for amounts assessed by governmental authorities on revenue producing transactions are recorded on a net basis and are not included in revenues or expenses in the accompanying statement of activities.

Note 1 – Summary of Significant Accounting Policies – (Continued)

Federal income tax – The Organization is exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code. Therefore, income derived by the Organization is exempt from federal income tax except for income derived from unrelated business activities. The Organization's PMC operations include the growth and sale of plants, which is subject to tax when the sales are to non-members.

The Organization evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2018, the Organization has recorded a liability totaling $73,000 for the unrecognized tax benefit associated with unfiled prior years' Form 990-T tax returns. The Organization has not recorded any potential interest or penalties on the unrecognized tax benefit. The Organization began filing Form 990-T beginning with the year ended June 30, 2014. The tax returns for the prior three fiscal years remain subject to examination by major tax jurisdictions.

Advertising – Advertising costs are expensed as incurred. Advertising expenses totaled $3,467 for the year ended June 30, 2018.

Shipping and handling costs – The Organization incurs shipping and handling costs in the delivery of products to its customers. The Organization classifies these costs as shipping expenses. Shipping expenses totaled $55,816 for the year ended June 30, 2018.

Functional expenses – Expenses directly identifiable with specific program or support functions are charged to the related program or supporting services. Expenses that benefit more than one function are allocated based on time or percentage of resources consumed, as estimated by management.

Use of estimates – The preparation of the financial statements in accordance 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 affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events – In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 13, 2018, the date the financial statements were available to be issued.

Note 2 – Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework 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 and liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Note 2 – Fair Value Measurements – (Continued)

- Level 1: Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2: Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology that are unobservable for the asset or liability.

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. At June 30, 2018, all investments are measured at quoted prices in active markets for identical 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 Organization 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. There have been no changes in the methodologies used on June 30, 2018.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30:

	2018			
	Level 1	Level 2	Level 3	Total
Mutal funds	$ 1,033,027	$ -	$ -	$ 1,033,027
Money market funds	28	-	-	28
Total	$ 1,033,055	$ -	$ -	$ 1,033,055

To assess the appropriate classification of investments with the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Organization evaluated the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets available for benefits. For the year ended June 30, 2018, there were no significant transfers in or out of Level 3.

Note 3 – Property and Equipment

Property and equipment consist of the following at June 30, 2018:

Machinery	$	326,418
Vehicles		29,666
Buildings		14,795
Computer Equipment		5,407
		376,286
Accumulated depreciation		(278,246)
Property and equipment, net	$	98,040

Depreciation expense totaled $17,236 for the year ended June 30, 2018.

Note 4 – Leases

In May 2015, the Organization renewed their lease for office space, with monthly payments totaling $335. The lease was terminated on June 30, 2017.

In April 2017, the Organization entered into a 3-year lease agreement for use of office space at Evergreen Plaza in Olympia, WA, effective May 15, 2017 through May 14, 2020, with monthly rental payments of $960 plus $50 a month for a parking space. The monthly rent will increase $19 and $20 for each of the two next years, respectively. In October 2017, the Organization entered into a temporary, month-to-month agreement for an additional parking space at the Evergreen Plaza building effective November 1, 2017, with monthly payments of $65.

Required future minimum lease payments are as follows for the years ending June 30:

2019	$	13,128
2020		13,368
	$	26,496

Lease expense totaled $14,050 for the year ended June 30, 2018.

The Organization entered into a lease agreement in 1998 with Skagit Conservation District for the use of property in Bow, Washington. The lease term is 99 years and requires a consideration payment of $1 annually until termination (See Note 5).

Note 5 – In-Kind Contribution

During 1998, the Organization received the right to the use of property located in Bow, Washington, under a 99-year lease for an annual rental payment of $1. ASC 820, *Fair Value Measurement and Disclosures*, requires that the free use of property or facilities be recognized at the net present value of the fair rental value of space occupied under similar conditions at the time of receipt, and recorded as an in-kind contribution receivable and increase in temporarily restricted net assets. Each year during such lease, the fair value of using the leased property would be recorded as an expense in the unrestricted net asset class. Additionally, a reclassification would be made each year from temporarily restricted to unrestricted net assets. As of June 30, 2018, the Organization has not recorded the fair value for the use of the property in the financial statements, which is a departure from accounting principles generally accepted in the United States of America. The effect of this departure on the Organization's financial statements has not been determined.

Note 6 – Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, "Revenue from Contracts with Customers", which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 and subsequent amendments outline a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Application is required for annual periods beginning after December 15, 2018. The Organization continues to evaluate the impact of the new accounting guidance on its financial statements.