

STEEP ROCK ASSOCIATION, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2016 AND SEPTEMBER 30, 2015



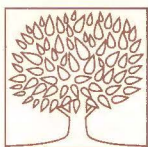
For personal and corporate growth

Fiorita, Kornhaas & Company, P.C.

Certified Public Accountants

TABLE OF CONTENTS

	<u>Page</u>
<u>Independent Auditor's Report</u>	1-2
<u>Basic Financial Statements</u>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
<u>Notes to the Financial Statements</u>	6 - 11
<u>Supplementary Information</u>	
Schedule of Functional Expenses	12



Fiorita Kornhaas & Company, PC

Certified Public Accountants and Advisors

For personal and corporate growth

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Steep Rock Association, Inc.
Washington, Connecticut

We have audited the accompanying financial statements of Steep Rock Association, Inc. (a nonprofit organization) which comprise the statement of financial position as of September 30, 2016, and the related statements of activities and cash flows for the year 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Steep Rock Association, Inc. as of September 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Steep Rock Association's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 24, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Fiorita, Kornhaas & Company, PC

Fiorita, Kornhaas, & Company, P.C.
Certified Public Accountants

Danbury, Connecticut
January 27, 2017



Fiorita Kornhaas & Company, PC
Certified Public Accountants and Advisors

For personal and corporate growth

STEEP ROCK ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 597,893	\$ 437,737
Matching gifts receivable	100	325
Prepaid expense	5,364	8,390
<u>TOTAL CURRENT ASSETS</u>	<u>603,357</u>	<u>446,452</u>
Property and equipment, net	12,298,736	12,254,741
Investments, at fair value	<u>2,011,262</u>	<u>1,741,234</u>
<u>TOTAL ASSETS</u>	<u>\$ 14,913,355</u>	<u>\$ 14,442,427</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 855	\$ 69,112
Accrued expenses	9,851	11,756
<u>TOTAL CURRENT LIABILITIES</u>	<u>10,706</u>	<u>80,868</u>
 <u>NET ASSETS</u>		
Unrestricted	14,767,752	14,312,224
Temporarily restricted	134,897	49,335
<u>TOTAL NET ASSETS</u>	<u>14,902,649</u>	<u>14,361,559</u>
 <u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 14,913,355</u>	<u>\$ 14,442,427</u>

See independent auditor's report and accompanying notes.

STEEP ROCK ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015
(With Summarized Financial Information for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>TOTALS</u>	
			<u>2016</u>	<u>2015</u>
<u>REVENUE</u>				
Contributions	\$ 590,666	\$ 195,064	\$ 785,730	\$ 1,418,590
Stewardship / legal defense fund contributions	-	-	-	40
Interest and dividends	46,389	-	46,389	40,512
Grant revenue	21,991	-	21,991	17,839
Realized gain on sale of securities	40,508	-	40,508	209,083
Unrealized gain (loss) on securities	108,869	-	108,869	(272,880)
Miscellaneous income	20,911	-	20,911	10,663
<u>TOTAL REVENUE</u>	<u>829,334</u>	<u>195,064</u>	<u>1,024,398</u>	<u>1,423,847</u>
Net assets released from restrictions	<u>109,502</u>	<u>(109,502)</u>	<u>-</u>	<u>-</u>
Total revenues and net assets released	938,836	85,562	1,024,398	1,423,847
<u>EXPENSES</u>				
Program services	316,428	-	316,428	794,395
General and management	108,443	-	108,443	90,452
Fundraising	58,437	-	58,437	62,966
<u>TOTAL EXPENSES</u>	<u>483,308</u>	<u>-</u>	<u>483,308</u>	<u>947,813</u>
Increase in net assets	455,528	85,562	541,090	476,034
Net assets, beginning of year	<u>14,312,224</u>	<u>49,335</u>	<u>14,361,559</u>	<u>13,885,525</u>
Net assets, end of year	<u>\$ 14,767,752</u>	<u>\$ 134,897</u>	<u>\$ 14,902,649</u>	<u>\$ 14,361,559</u>

See independent auditor's report and accompanying notes.

STEEP ROCK ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 541,090	\$ 476,034
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	34,435	24,165
Realized gain on sale of investments	(40,508)	(209,083)
Unrealized (gain) loss on investments	(108,869)	272,880
Changes in:		
Prepaid expenses	3,026	(3,767)
Matching gifts receivable	225	(325)
Accrued interest receivable	-	3,098
Accounts payable	(68,257)	61,596
Accrued expenses	(1,905)	5,328
Net cash provided by operating activities	<u>359,237</u>	<u>629,926</u>
Cash flows from investing activities		
Capital expenditures	(78,430)	(771,524)
Note receivable repayment (issued)	-	112,500
Net proceeds (purchases) of investments	<u>(120,651)</u>	<u>69,905</u>
Net cash used in investing activities	<u>(199,081)</u>	<u>(589,119)</u>
Cash flows from financing activities		
Repayment of line of credit	<u>-</u>	<u>(112,500)</u>
Net cash used in financing activities	<u>-</u>	<u>(112,500)</u>
Net increase (decrease) in cash and cash equivalents	160,156	(71,693)
Cash and cash equivalents, beginning of year	<u>437,737</u>	<u>509,430</u>
Cash and cash equivalents, end of year	<u>\$ 597,893</u>	<u>\$ 437,737</u>

Supplemental Disclosures of Cash Flow Information:

Cash activity for the year:

Interest paid	\$ -	\$ 637
Income taxes	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report and accompanying notes.

Note 1: NATURE OF ACTIVITIES

Steep Rock Association, Inc. is a 501(c)(3) not-for-profit corporation organized under the laws of the State of Connecticut. Its primary mission is to conserve ecologically and historically significant landscapes in and around Washington, Connecticut and the Shepaug River Valley and to enhance the community's connection with nature.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of Steep Rock Association, Inc. have been prepared utilizing the accrual basis of accounting, which recognizes revenue when earned and expenses when incurred.

(b) Basis of Presentation

The financial statements of Steep Rock Association, Inc. have been prepared in accordance with the Financial Accounting Standards Board's ASC 958-205 "Not-for-Profit Entities-Presentation of Financial Statements". This standard requires that resources be classified for accounting and reporting purposes into three classes of net assets - permanently restricted, temporarily restricted, and unrestricted. These classes of net assets are defined as follows:

Permanently Restricted - The portion of net assets derived from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization.

Temporarily Restricted - The portion of net assets derived from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that expire by passage of time, is fulfilled by occurrence of events, or can be removed by actions of the organization. Net assets temporarily restricted to acquire or develop capital assets are deemed to be released (unrestricted) when related assets are recorded. Donor-restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted sources.

Unrestricted Net Assets - The portion of net assets that is neither permanently restricted or temporarily restricted by donor-imposed stipulations.

(c) Use of Estimates

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

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Cash and Cash Equivalents

The Association considers all highly liquid investments with a maturity of three months or less to be cash equivalents. The Association maintains deposits in federally insured institutions which, at times, can be in excess of the federally insured limit of \$250,000. Management believes the Association is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held. At September 30, 2016 and 2015 amounts deposited did not exceed the federally insured limits.

(e) Property and Equipment

Land, land improvements and equipment are recorded at cost if purchased or fair value if donated. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets which range from 7 to 30 years.

(f) Conservation Easements

Conservation easements are perpetual agreements between the Association and private landowners through which the landowners agree to abide by certain restrictions designed to preserve the open space or conservation value of their land. Conservation easements are real property rights but possess no market value due to a resale market that is limited to the owner of the fee title of the restricted property. Because of this limited market and obligations in easement ownership, conservation easements are not reflected in the accompanying financial statements.

(g) Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value in the period received.

Contributions include annual gifts which support ongoing operations as well as, in certain years, fundraising efforts around specific capital projects. As a result, total contributions can vary significantly between years with capital project fundraising and those without.

(h) Functional Expenses

Expenses are charged directly to program services, management and general, and fundraising categories based on specific identification. Indirect expenses are allocated by various statistical bases.

(i) Exemption from Income Taxes

Steep Rock Association, Inc. is a non-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for income taxes.

See independent auditor's report.

STEEP ROCK ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Prior Year Summarized Financial Information

The financial statements include prior year summarized financial information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Association's audited financial statements as of the year ended September 30, 2015, from which the summarized information was derived.

Certain amounts from the prior year financial statements have been reclassified to conform to the current year presentation.

(k) Subsequent Events

Management has evaluated subsequent events through January 27, 2017, the date the financial statements were available to be issued. Through that date, there were no material events that would require recognition or additional disclosure in the financial statements.

Note 3: PROPERTY AND EQUIPMENT

The Association acquires land for its Preserves through donations and purchases. Land and equipment are recorded at cost if purchased and fair market value at the date of gift if donated. Acquisitions of land, improvements, and equipment in excess of \$500 with utility greater than one year, are capitalized. Expenses for land maintenance and repairs are expensed as incurred.

Property and equipment, net consists of the following at September 30,:

	<u>2016</u>	<u>2015</u>
Preservation land	\$ 11,294,150	\$ 11,294,150
Land improvements	1,072,735	413,974
Equipment	124,323	123,263
Construction in progress	-	581,391
	<u>12,491,208</u>	<u>12,412,778</u>
Less: Accumulated depreciation	<u>(192,472)</u>	<u>(158,037)</u>
	<u>\$ 12,298,736</u>	<u>\$ 12,254,741</u>

Construction in progress included costs related to the building of a footbridge over the Shepaug River at the Hidden Valley Preserve. The bridge was finished and placed in service in 2016, when depreciation began.

See independent auditor's report.

STEEP ROCK ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Note 4: INVESTMENTS

The Association accounts for its investments in marketable securities under guidelines established by ASC 958-320 "Not-for-Profit Entities-Investments-Debt and Equity Securities". Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values. Unrealized gains and losses are included in changes in net assets.

The fair values of investments totaled \$2,011,262 and \$1,741,234 at September 30, 2016 and 2015, respectively.

Note 5: FAIR VALUE MEASUREMENTS

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities

Level 2 - quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 - inputs that are unobservable and significant to the fair value measurement

The fair value of all investments held by the Association were valued at the closing price reported on the active market on which the individual securities are traded, on a recurring basis.

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 Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at September 30, 2016 are as follows:

	<u>Fair Value</u>	Active Market <u>Level 1</u>
Common stock	\$ 762,157	\$ 762,157
Fixed Income Mutual Funds	482,624	482,624
Stock Mutual Funds and ETF's	766,481	766,481
Total investments at fair value	<u>\$ 2,011,262</u>	<u>\$ 2,011,262</u>

See independent auditor's report.

STEEP ROCK ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Note 5: FAIR VALUE MEASUREMENTS (continued)

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at September 30, 2015 are as follows:

	<u>Fair Value</u>	Active Market <u>Level 1</u>
Common stock	\$ 846,127	\$ 846,127
Fixed Income Mutual Funds	404,711	404,711
Stock Mutual Funds and ETF's	490,396	490,396
Total investments at fair value	<u>\$ 1,741,234</u>	<u>\$ 1,741,234</u>

Note 6: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of September 30, 2016 and 2015, were available for the following purposes:

	<u>2016</u>	<u>2015</u>
Bronson Fields improvements	\$ 27,094	\$ 27,094
Dyer fund capital improvements	6,968	6,968
Judea Garden	100,835	-
Thoreau Bridge project	-	15,273
	<u>\$ 134,897</u>	<u>\$ 49,335</u>

The Bronson Fields improvements relate to funding remaining from the purchase of approximately 68.9 acres of prime farmland and forest, now called "Bronson Fields". The purchase was funded in prior fiscal years by various sources including private contributions and grants. The remaining funding is designated for future capital improvements on the property, including construction of a hiking trail and boardwalk.

In prior fiscal years, the Association received contributions in the memory of Elisha Dyer. The remaining funds are designated for capital projects.

The Judea Garden contributions have been restricted to be used to support the Judea Garden.

The Thoreau Bridge Project relates to the construction of a pedestrian footbridge which was completed in 2016.

See independent auditor's report.

STEEP ROCK ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Note 7: BOARD DESIGNATED NET ASSETS

Unrestricted net assets as of September 30, 2016 and 2015, were available for the following purposes as approved by the Association's Board of Trustees:

	<u>2016</u>	<u>2015</u>
Capital improvements	\$ 88,000	\$ 88,000
Stewardship / legal defense fund	572,500	572,500
	<u>\$ 660,500</u>	<u>\$ 660,500</u>

The stewardship / legal defense fund includes donations received from the donors of new easements, based on the number of acres in the easement and a board approved formula. The funds are to be used to off-set monitoring costs and legal expenses associated with maintaining and/or defending conservation easements held in perpetuity by the Association.

Note 8: LEASE COMMITMENTS

The Association leases office space from a member of its Board of Trustees. The current lease was extended and expires June 30, 2018. The lease requires monthly rental payments of \$1,100. Lease payments for the years ended September 30, 2016 and 2015 were \$13,200. Future minimum lease payments are as follows:

2017	\$ 13,200
2018	6,600
Total	<u>\$ 19,800</u>

The Association leases a storage barn from Estelle Bronson. The lease is currently on a month to month basis. Lease payments of the years ended September 30, 2016 and 2015 were \$3,000 each.

The Association, as lessor, also has an agricultural lease allowing for farming of preservation land owned by the Association for \$1 per year.

Note 9: RELATED PARTY TRANSACTIONS

The following related party transactions were noted between the Association and companies where board members have an ownership interest:

	<u>2016</u>	<u>2015</u>
Office rental payments	\$ 13,200	\$ 13,200
Accounting services	855	-

See independent auditor's report.

STEEP ROCK ASSOCIATION, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015
(With Summarized Financial Information for 2015)

	2016				2015
	<u>Program</u> <u>Services</u>	<u>General and</u> <u>Management</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
EXPENSES:					
Audit fees	\$ -	\$ 7,450	\$ -	\$ 7,450	\$ 7,300
Depreciation	33,443	992	-	34,435	24,165
Development	-	-	36,647	36,647	27,350
Fees, dues, and permits	12,021	6,417	-	18,438	7,250
Equipment maintenance	4,961	439	-	5,400	2,823
Insurance expense	6,604	19,432	-	26,036	28,397
Interest expense	-	-	-	-	406
Investment management	-	25,707	-	25,707	15,280
Judea gardens	5,818	-	-	5,818	4,999
Legal fees	4,580	816	-	5,396	7,511
Camp house	5,623	-	-	5,623	525
Membership services	10,587	-	-	10,587	12,198
Occupancy expenses	4,345	20,642	-	24,987	24,053
Payroll and benefits	169,792	6,330	15,604	191,726	233,191
Payroll taxes	14,110	502	1,236	15,848	19,655
Printing, postage & office	6,357	7,975	4,950	19,282	27,439
Professional education	-	609	-	609	50
Other professional fees	18,252	11,132	-	29,384	19,771
Stewardship-easements	-	-	-	-	450,000
Stewardship-general	17,861	-	-	17,861	21,990
Stewardship-WHIP grants	2,000	-	-	2,000	13,400
Travel expense	74	-	-	74	60
TOTAL EXPENSES	\$ 316,428	\$ 108,443	\$ 58,437	\$ 483,308	\$ 947,813

See independent auditor's report and accompanying notes.