

STEEP ROCK ASSOCIATION, INC.  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
SEPTEMBER 30, 2017 AND SEPTEMBER 30, 2016



*For personal and corporate growth*

**Fiorita, Kornhaas & Company, P.C.**

*Certified Public Accountants*

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**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, 2017, and the related statements of activities 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 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, 2017, 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.

**Report on Supplementary Information**

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 Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, 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  
November 30, 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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 558,733	\$ 597,893
Matching gifts receivable	-	100
Prepaid expense	3,140	5,364
Deposits	200,000	-
<u>TOTAL CURRENT ASSETS</u>	<u>761,873</u>	<u>603,357</u>
Property and equipment, net	12,251,231	12,298,736
Investments, at fair value	2,461,492	2,011,262
<u>TOTAL ASSETS</u>	<u>\$ 15,474,596</u>	<u>\$ 14,913,355</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 11,781	\$ 855
Accrued expenses	15,148	9,851
Deferred revenue	200,000	-
<u>TOTAL CURRENT LIABILITIES</u>	<u>226,929</u>	<u>10,706</u>
<u>NET ASSETS</u>		
Unrestricted	15,111,141	14,767,752
Temporarily restricted	136,526	134,897
<u>TOTAL NET ASSETS</u>	<u>15,247,667</u>	<u>14,902,649</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 15,474,596</u>	<u>\$ 14,913,355</u>

See independent auditor's report and accompanying notes.

STEEP ROCK ASSOCIATION, INC.  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016  
(With Summarized Financial Information for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>TOTALS</u>	
			<u>2017</u>	<u>2016</u>
<u>REVENUE</u>				
Contributions and grants	\$ 653,667	\$ 19,779	\$ 673,446	\$ 807,721
Other revenue	11,316	-	11,316	20,911
Investment income	<u>257,588</u>	<u>-</u>	<u>257,588</u>	<u>195,766</u>
<u>TOTAL REVENUE</u>	<u>922,571</u>	<u>19,779</u>	<u>942,350</u>	<u>1,024,398</u>
Net assets released from restrictions	<u>18,150</u>	<u>(18,150)</u>	<u>-</u>	<u>-</u>
Total revenues and net assets released	940,721	1,629	942,350	1,024,398
<u>EXPENSES</u>				
Program services	403,300	-	403,300	316,428
General and management	117,832	-	117,832	108,443
Fundraising	<u>76,200</u>	<u>-</u>	<u>76,200</u>	<u>58,437</u>
<u>TOTAL EXPENSES</u>	<u>597,332</u>	<u>-</u>	<u>597,332</u>	<u>483,308</u>
Increase (decrease) in net assets	343,389	1,629	345,018	541,090
Net assets, beginning of year	<u>14,767,752</u>	<u>134,897</u>	<u>14,902,649</u>	<u>14,361,559</u>
Net assets, end of year	<u>\$ 15,111,141</u>	<u>\$ 136,526</u>	<u>\$ 15,247,667</u>	<u>\$ 14,902,649</u>

See independent auditor's report and accompanying notes.



STEEP ROCK ASSOCIATION, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 345,018	\$ 541,090
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	47,505	34,435
Realized gain on sale of investments	(88,748)	(40,508)
Unrealized gain on investments	(118,477)	(108,869)
Changes in:		
Matching gifts receivable	100	225
Prepaid expenses	2,224	3,026
Deposits	(200,000)	-
Accounts payable	10,926	(68,257)
Accrued expenses	5,297	(1,905)
Deferred revenue	200,000	-
Net cash provided by operating activities	<u>203,845</u>	<u>359,237</u>
Cash flows from investing activities		
Capital expenditures	-	(78,430)
Net purchases of investments	<u>(243,005)</u>	<u>(120,651)</u>
Net cash used in investing activities	<u>(243,005)</u>	<u>(199,081)</u>
Net increase (decrease) in cash and cash equivalents	(39,160)	160,156
Cash and cash equivalents, beginning of year	<u>597,893</u>	<u>437,737</u>
Cash and cash equivalents, end of year	<u>\$ 558,733</u>	<u>\$ 597,893</u>

Supplemental Disclosures of Cash Flow Information:

Cash activity for the year:

Interest paid	\$ -	\$ -
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, 2017 amounts deposited exceeded the federally insured limits by \$88,858. At September 30, 2016 amounts deposited did not exceed the federally insured limits.

(e) Investments

The Association follows ASC 958-320 *"Not-for-Profit Entities - Debt and Equity Securities."*

Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

(f) 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.

(g) 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.

(h) Deferred Revenue

Deferred revenue includes contributions received for the purpose of funding the Johnson Farm deposit. If the Farm is not purchased the rights of the contract will revert to the donors.

(i) 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.

See independent auditor's report.

STEEP ROCK ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) 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.

(k) 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.

(l) 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, 2016, 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.

(m) Subsequent Events

Management has evaluated subsequent events through November 30, 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>2017</u>	<u>2016</u>
Preservation land	\$ 11,294,150	\$ 11,294,150
Land improvements	1,072,735	1,072,735
Equipment	124,323	124,323
	<u>12,491,208</u>	<u>12,491,208</u>
Less: Accumulated depreciation	(239,977)	(192,472)
	<u>\$ 12,251,231</u>	<u>\$ 12,298,736</u>

See independent auditor's report.



STEEP ROCK ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

Note 4: JOHNSON FARM COMMITMENT

The Association entered into a contract to purchase property adjacent to their West Mountain Preserve in December 2016. The purchase price is \$1,971,250, of which \$200,000 was paid as a deposit on the contract. The \$200,000 was received by the Association from three donors who are neighbors to the property. The contract is contingent on the Association receiving additional grants to complete the purchase. If the Association is unable to obtain grants or other funding, the rights of the contract may be assigned to the neighbors who provided the \$200,000 deposit. A board member was a relative of the current owner at the time the contract was signed, and has agreed to provide public access over his property to the Association. The board member stepped down from the board to comply with grant application requirements related to the purchase.

Note 5: INVESTMENTS

The fair values of investments totaled \$2,461,492 and \$2,011,262 at September 30, 2017 and 2016, respectively. The following schedule summarizes investment returns and their classification in the statement of activities for the years ended:

	2017	2016
	<u>Unrestricted</u>	<u>Unrestricted</u>
Interest and dividends	\$ 50,363	\$ 46,389
Realized gain on investments	88,748	40,508
Unrealized gain on investments	118,477	108,869
	<u>\$ 257,588</u>	<u>\$ 195,766</u>

Investment management fees of \$22,338 and \$25,707 were expensed for the years ending September 30, 2017 and 2016, respectively.

Note 6: 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.

See independent auditor's report.



STEEP ROCK ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

Note 6: 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, 2017 are as follows:

	<u>Fair Value</u>	Active Market <u>Level 1</u>
Common stock	\$ 714,591	\$ 714,591
Fixed Income Mutual Funds	403,672	403,672
Stock Mutual Funds	120,076	120,076
Exchange Traded Funds	1,188,300	1,188,300
Real Estate Investment Trusts	34,853	34,853
Total investments at fair value	<u>\$ 2,461,492</u>	<u>\$ 2,461,492</u>

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	334,716	334,716
Stock Mutual Funds	106,074	106,074
Exchange Traded Funds	751,435	751,435
Real Estate Investment Trusts	56,880	56,880
Total investments at fair value	<u>\$ 2,011,262</u>	<u>\$ 2,011,262</u>

Note 7: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of September 30, 2017 and 2016, were available for the following purposes:

	<u>2017</u>	<u>2016</u>
Bronson Fields improvements	\$ 27,094	\$ 27,094
Dyer fund capital improvements	6,968	6,968
Internship	1,000	-
Judea Garden	101,464	100,835
	<u>\$ 136,526</u>	<u>\$ 134,897</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.

See independent auditor's report.

STEEP ROCK ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

Note 8: BOARD DESIGNATED NET ASSETS

Unrestricted net assets as of September 30, 2017 and 2016, were available for the following purposes as approved by the Association's Board of Trustees:

	<u>2017</u>		<u>2016</u>
Capital improvements	\$ 88,000	\$	88,000
Stewardship / legal defense fund	575,300		572,500
	<u>\$ 663,300</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 9: 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, 2017 and 2016 were \$13,200. Future minimum lease payments are as follows:

2018	\$ 9,900
Total	<u>\$ 9,900</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, 2017 and 2016 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 10: RELATED PARTY TRANSACTIONS

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

	<u>2017</u>		<u>2016</u>
Office rental payments	\$ 13,200	\$	13,200
Accounting services	7,640		855

See independent auditor's report.

STEEP ROCK ASSOCIATION, INC.  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016  
(With Summarized Financial Information for 2016)

	2017				2016
	<u>Program</u> <u>Services</u>	<u>General and</u> <u>Management</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
<u>EXPENSES:</u>					
Audit fees	\$ -	\$ 7,700	\$ -	\$ 7,700	\$ 7,450
Computer related expenses	-	2,830	-	2,830	1,084
Depreciation	46,137	1,368	-	47,505	34,435
Development	-	-	51,359	51,359	38,499
Fees, dues, and permits	175	12,755	-	12,930	17,354
Equipment maintenance	5,518	125	-	5,643	5,400
Insurance expense	7,849	24,375	-	32,224	26,036
Investment management	-	22,338	-	22,338	25,707
Judea gardens	5,314	-	-	5,314	5,818
Legal fees	25,140	1,124	-	26,264	5,396
Camp house	884	-	-	884	5,623
Communications	9,273	-	-	9,273	8,735
Office expenses	-	4,181	-	4,181	4,149
Occupancy expenses	4,808	18,898	-	23,706	24,987
Payroll & benefits	241,112	9,088	22,307	272,507	191,726
Payroll taxes	18,001	673	1,669	20,343	15,848
Printing & postage expenses	13,253	951	865	15,069	15,134
Other professional fees	12,584	10,269	-	22,853	28,337
Stewardship-general	12,686	-	-	12,686	17,861
Stewardship-WHIP grants	-	-	-	-	2,000
Training and related expenses	-	1,157	-	1,157	1,655
Travel expense	566	-	-	566	74
<u>TOTAL EXPENSES</u>	<u>\$ 403,300</u>	<u>\$ 117,832</u>	<u>\$ 76,200</u>	<u>\$ 597,332</u>	<u>\$ 483,308</u>

See independent auditor's report and accompanying notes.