

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

FLATHEAD LAND TRUST

DECEMBER 31, 2018 AND 2017



FLATHEAD LAND TRUST

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4 - 5
Schedules of Functional Expenses	6 - 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 17
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	18 - 19
INDEPENDENT AUDITORS' 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>	20 - 21
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	22 - 23
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	24 - 25



INDEPENDENT AUDITORS' REPORT

Board of Directors
Flathead Land Trust
Kalispell, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of Flathead Land Trust, (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and 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.

Auditors' 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 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 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 auditors' 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 Flathead Land Trust, as of December 31, 2018, and the changes in 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 Matters

Our audit was conducted for the purpose of forming an opinion on the 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*, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2019, on our consideration of Flathead Land 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 effectiveness of the Flathead Land Trust's 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 Flathead Land Trust's internal control over financial reporting and compliance.

Prior Period Financial Statements

The 2017 financial statements were reviewed by us, and our report thereon, dated August 9, 2018, stated that we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

Junkermier, Clark, Campanella, Stevens, P.C.

Kalispell, Montana
September 4, 2019

FLATHEAD LAND TRUST
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 (AUDITED) AND 2017 (REVIEWED)

	2018	2017
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 102,878	\$ 59,728
Other current assets	3,657	4,982
TOTAL CURRENT ASSETS	106,535	64,710
PROPERTY AND EQUIPMENT		
Property and equipment	11,393	11,393
Less: Accumulated depreciation	(10,508)	(9,940)
TOTAL PROPERTY AND EQUIPMENT	885	1,453
OTHER ASSETS		
Investments	302,051	412,645
Investments - endowment	44,091	45,131
TOTAL OTHER ASSETS	346,142	457,776
TOTAL ASSETS	\$ 453,562	\$ 523,939
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 4,654	\$ 3,813
Accrued liabilities	8,310	6,496
TOTAL CURRENT LIABILITIES	12,964	10,309
NET ASSETS		
Without donor restrictions	41,057	38,634
Without donor restrictions - board designated	5,248	5,372
With donor restrictions	394,293	469,624
TOTAL NET ASSETS	440,598	513,630
TOTAL LIABILITIES AND NET ASSETS	\$ 453,562	\$ 523,939

See Notes to Financial Statements

FLATHEAD LAND TRUST
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018 (AUDITED)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT			
Contributions income	\$ 114,723	\$ 88,367	\$ 203,090
Grants - general operating	64,208	-	64,208
Grants - project restricted	-	866,381	866,381
Program service fees	38,195	-	38,195
In-kind contributions	3,597	948,977	952,574
Interest and dividend income	11,879	-	11,879
Investment gains and losses	(18,017)	(916)	(18,933)
Net assets released from restriction	<u>1,978,140</u>	<u>(1,978,140)</u>	<u>-</u>
 TOTAL REVENUE AND OTHER SUPPORT	 <u>2,192,725</u>	 <u>(75,331)</u>	 <u>2,117,394</u>
 EXPENSES			
Program	2,095,899	-	2,095,899
Management and general	55,955	-	55,955
Fundraising	<u>38,572</u>	<u>-</u>	<u>38,572</u>
 TOTAL EXPENSES	 <u>2,190,426</u>	 <u>-</u>	 <u>2,190,426</u>
 CHANGE IN NET ASSETS	 2,299	 (75,331)	 (73,032)
 NET ASSETS - BEGINNING OF YEAR	 <u>44,006</u>	 <u>469,624</u>	 <u>513,630</u>
 NET ASSETS - END OF YEAR	 <u>\$ 46,305</u>	 <u>\$ 394,293</u>	 <u>\$ 440,598</u>

See Notes to Financial Statements

FLATHEAD LAND TRUST
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017 (REVIEWED)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT			
Contributions income	\$ 106,539	\$ 41,020	\$ 147,559
Grants - general operating	164,487	-	164,487
Grants - project restricted	-	212,530	212,530
Program service fees	2,500	-	2,500
In-kind contributions	7,733	-	7,733
Interest and dividend income	5,418	-	5,418
Investment gains and losses	14,026	8,947	22,973
Net assets released from restriction	<u>116,723</u>	<u>(116,723)</u>	<u>-</u>
 TOTAL REVENUE AND OTHER SUPPORT	 <u>417,426</u>	 <u>145,774</u>	 <u>563,200</u>
 EXPENSES			
Program	353,545	-	353,545
Management and general	54,244	-	54,244
Fundraising	<u>23,012</u>	<u>-</u>	<u>23,012</u>
 TOTAL EXPENSES	 <u>430,801</u>	 <u>-</u>	 <u>430,801</u>
 CHANGE IN NET ASSETS	 (13,375)	 145,774	 132,399
 NET ASSETS - BEGINNING OF YEAR	 <u>57,381</u>	 <u>323,850</u>	 <u>381,231</u>
 NET ASSETS - END OF YEAR	 <u>\$ 44,006</u>	 <u>\$ 469,624</u>	 <u>\$ 513,630</u>

See Notes to Financial Statements

FLATHEAD LAND TRUST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018 (AUDITED)

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Depreciation expense	\$ 403	\$ 91	\$ 74	\$ 568
Dues and subscriptions	8,318	1,188	2,377	11,883
Employee benefits	5,709	1,287	1,045	8,041
Fundraising expenses	-	-	8,523	8,523
In-kind expense - operating	33,632	-	3,597	37,229
In-kind expense - projects	915,345	-	-	915,345
Insurance	3,738	1,602	-	5,340
Miscellaneous	-	2,099	-	2,099
Office supplies	890	712	178	1,780
Payroll expenses	102,716	23,147	18,807	144,670
Postage and delivery	576	230	345	1,151
Printing and reproduction	3,132	522	1,566	5,220
Professional fees	26,353	22,980	-	49,333
Project expenses	981,447	-	-	981,447
Rent	7,510	1,692	1,375	10,577
Telephone	1,798	405	330	2,533
Training	1,140	-	-	1,140
Travel and entertainment	3,192	-	355	3,547
	<u>\$ 2,095,899</u>	<u>\$ 55,955</u>	<u>\$ 38,572</u>	<u>\$ 2,190,426</u>

See Notes to Financial Statements

FLATHEAD LAND TRUST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017 (REVIEWED)

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Depreciation expense	\$ 474	\$ 71	\$ 48	\$ 593
Dues and subscriptions	5,572	836	557	6,965
Employee benefits	4,214	632	422	5,268
Fundraising expenses	-	-	8,279	8,279
In-kind expense - operating	-	7,733	-	7,733
Insurance	4,160	624	416	5,200
Miscellaneous	1,831	275	183	2,289
Office supplies	1,325	199	132	1,656
Payroll expenses	111,325	16,699	11,132	139,156
Postage and delivery	1,489	223	149	1,861
Printing and reproduction	3,729	559	373	4,661
Professional fees	21,205	24,410	-	45,615
Project expenses	185,000	-	-	185,000
Rent	8,750	1,312	875	10,937
Telephone	1,873	281	187	2,341
Training	340	51	34	425
Travel and entertainment	2,258	339	225	2,822
	<u>\$ 353,545</u>	<u>\$ 54,244</u>	<u>\$ 23,012</u>	<u>\$ 430,801</u>

FLATHEAD LAND TRUST
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 (AUDITED) AND 2017 (REVIEWED)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (73,032)	\$ 132,399
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	568	593
(Gain) loss on investments	18,933	(22,973)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Other current assets	1,325	(4,157)
Increase (decrease) in:		
Accounts payable	841	1,573
Accrued liabilities	<u>1,814</u>	<u>1,071</u>
NET CASH FROM OPERATING ACTIVITIES	<u>(49,551)</u>	<u>108,506</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	98,292	26,500
Purchase of investments	<u>(5,591)</u>	<u>(133,529)</u>
NET CASH FROM INVESTING ACTIVITIES	<u>92,701</u>	<u>(107,029)</u>
NET CHANGE IN CASH	43,150	1,477
CASH - BEGINNING OF YEAR	<u>59,728</u>	<u>58,251</u>
CASH - END OF YEAR	<u>\$ 102,878</u>	<u>\$ 59,728</u>
SUPPLEMENTAL DISCLOSURE		
Noncash operating activities:		
Donated easements	\$ 915,345	\$ -
In-kind services	37,229	7,733
	<u>\$ 952,574</u>	<u>\$ 7,733</u>

See Notes to Financial Statements

FLATHEAD LAND TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Flathead Land Trust is a non-profit organization incorporated under the laws of Montana in 1985 as a membership organization. It is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization is dedicated to the conservation of Northwest Montana's land and water legacy through voluntary conservation easement agreements with private landowners. The Organization partners with community members to preserve the natural resources, scenic beauty and rural character of the Flathead Valley. These voluntary conservation easements preclude changes that would negatively affect the property, primarily subdivision and development. The Organization's support comes primarily from individual and business contributions as well as private and federal grants.

Basis of Reporting

The Organization prepares its financial statements in accordance with generally accepted accounting principles, which involves the application of accrual accounting; whereby revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Classification of Net Assets

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

FLATHEAD LAND TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For financial statement purposes, the Organization considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents. At times the cash balances may exceed FDIC insurance limits. The Organization will monitor the cash balances for any activity that results in balances exceeding the maximum FDIC insurance, then take action to ensure that the Organization's cash balances are fully insured.

Property and Equipment

Property and equipment is stated at cost and depreciated on the straight line method over estimated useful lives. Office furniture and equipment is depreciated over estimated useful lives of 5 to 7 years. Repairs, maintenance, and purchases of minor equipment (equipment costing less than \$500) are not capitalized.

Investments

Investments are reported at fair value based on quoted market prices. Interest, dividends, and realized and unrealized gains and losses are included in investment income.

Accrued Leave Payable

Employees earn paid leave based on years of service with a maximum of 10 days of vacation carryover allowed per calendar year for full-time employees. Part-time employees accrue vacation at a pro-rated rate. The amount of accrued leave at December 31, 2018 and 2017, was \$3,413 and \$2,922, respectively.

Contributions

Contributions, including unconditional promises to give, are recognized as either with donor restrictions or without donor restrictions in accordance with donor stipulations. Unconditional promises to give with payments due in future periods are recognized as revenue with donor restrictions. Restricted contributions whose restrictions are met within the same reporting period are accounted for as support without donor restrictions. Unconditional and conditional promises to give are valued at the present value of amounts expected in future years, provided that reliable information is available.

In-kind Contributions

In-kind contributions are reflected as contributions at their fair value at date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. The Organization recognizes the fair value of contributed conservation easements, at their appraised or estimated values. The Organization recognizes the fair value of contributed services received if such services a) create or enhance non-financial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. The Organization receives services from a large number of volunteers who give significant amounts of their time to the Organization's programs and fund-raising campaigns but which do not meet the criteria for financial statement recognition.

FLATHEAD LAND TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses

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

<u>Expense</u>	<u>Method of Allocation</u>
Depreciation expense	Historical usage
Dues and subscriptions	Historical usage
Employee benefits	Time and effort
Insurance	Historical usage
Office supplies	Historical usage
Payroll expenses	Time and effort
Postage and delivery	Historical usage
Printing and reproduction	Historical usage
Rent	Historical usage
Telephone	Historical usage
Travel and entertainment	Historical usage

Advertising Costs

The cost of advertising and marketing is expensed as incurred.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization's federal Return of Organization Exempt From Income Tax (Form 990) is subject to examination by the taxing authorities, generally, for three years after they were filed or the due date of the return; whichever is later.

Use of Estimates

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

NOTE 2 -- INVESTMENTS

Investments are presented in the financial statements at fair market value. Investments are maintained in custodial accounts with investment firms and are primarily composed of cash instruments, certificates of deposit, and mutual funds at their listed prices. Investment expenses netted against investment earnings for the year ended December 31, 2018 and 2017, were inconsequential. As of December 31, 2018 and 2017, the Board of Directors had designated \$5,248 and \$5,372, respectively, of net assets without donor restrictions as a general endowment fund to support the mission of the Organization. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

FLATHEAD LAND TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 -- INVESTMENTS (CONTINUED)

The investments' basis and market value information is as follows as of December 31:

	2018		2017	
	<u>Cost</u>	<u>FMV</u>	<u>Cost</u>	<u>FMV</u>
Mutual funds	\$ 235,093	\$ 239,419	\$ 151,165	\$ 174,173
Certificates of deposit	87,040	86,365	119,006	118,581
Cash instruments	<u>20,358</u>	<u>20,358</u>	<u>165,022</u>	<u>165,022</u>
Total	<u>\$ 342,491</u>	<u>\$ 346,142</u>	<u>\$ 435,193</u>	<u>\$ 457,776</u>

NOTE 3 -- FAIR VALUE MEASUREMENTS

The Organization follows FASB ASC 820, which provides a framework for measuring fair value. FASB ASC 820 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. FASB ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

FASB ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. The three levels are defined as follows:

Level 1 - observable inputs that are based upon quoted market prices for identical assets or liabilities within active markets.

Level 2 - observable inputs other than Level 1 that are based upon quoted market prices for similar assets or liabilities, based upon quoted prices within inactive markets, or inputs other than quoted market prices that are observable through market data for substantially the full term of the asset or liability.

Level 3 - inputs that are unobservable for the particular asset or liability due to little or no market activity and are significant to the fair value of the asset or liability. These inputs reflect assumptions that market participants would use when valuing the particular asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and liabilities itemized below were measured at fair value during the year ended using the market and income approaches. The market approach was used for Level 1.

FLATHEAD LAND TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3 -- FAIR VALUE MEASUREMENTS (CONTINUED)

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
December 31, 2018:				
Investments	<u>\$ 346,142</u>	<u>\$ 346,142</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
December 31, 2017:				
Investments	<u>\$ 457,776</u>	<u>\$ 457,776</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 4 -- ENDOWMENT

The Organization's endowment consists of mutual funds and includes donor-restricted endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Montana Uniform Prudent Management of Institutional Funds Act ("MUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies the following as net assets with donor restrictions that are perpetual in nature (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as perpetual is classified as temporary in nature until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by MUPMIFA.

FLATHEAD LAND TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 -- ENDOWMENT (CONTINUED)

In accordance with MUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Organization and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Organization; and
- (7) The investment policies of the Organization.

Changes in Endowment Net Assets for the year ended December 31, 2018:

	<u>Board Restricted</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,372	\$ 39,759	\$ 45,131
Investment return:			
Net appreciation (depreciation) (realized and unrealized)	<u>(124)</u>	<u>(916)</u>	<u>(1,040)</u>
Endowment net assets, end of year	<u>\$ 5,248</u>	<u>\$ 38,843</u>	<u>\$ 44,091</u>

Changes in Endowment Net Assets for the year ended December 31, 2017:

	<u>Board Restricted</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 30,664	\$ 30,812	\$ 61,476
Investment return:			
Net appreciation (depreciation) (realized and unrealized)	1,208	8,947	10,155
Appropriation of endowment assets for expenditure	<u>(26,500)</u>	<u>-</u>	<u>(26,500)</u>
Endowment net assets, end of year	<u>\$ 5,372</u>	<u>\$ 39,759</u>	<u>\$ 45,131</u>

FLATHEAD LAND TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 -- ENDOWMENT (CONTINUED)

The portion of the endowment whereby the donor has stipulated that the funds be maintained in perpetuity at December 31, 2018 and 2017, was \$25,120. There were \$13,723 and \$14,639 in endowment funds with donor restrictions that are temporary in nature at December 31, 2018 and 2017, respectively.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2018 and 2017.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s).

NOTE 5 -- OPERATING LEASE

The Organization leases office space with monthly payments of \$825 as of December 31, 2018. Payments on the lease for the years ended December 31, 2018 and 2017, were \$9,900.

The following is a schedule of future minimum lease payments required by the operating lease:

Year ending December 31,	
2019	\$ 9,900
2020	9,900
2021	<u>4,950</u>
Total	<u>\$ 24,750</u>

NOTE 6 -- RETIREMENT PLAN

The Organization has a voluntary SIMPLE IRA plan, which covers all employees. The Organization matches employee contributions up to 3% of their wages and employees can contribute additional amounts as permitted by law. The amount contributed to the retirement plan by the Organization was \$3,933 and zero for the years ended December 31, 2018 and 2017, respectively.

FLATHEAD LAND TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 7 -- RISK MANAGEMENT

The Organization faces a number of risks including (a) loss or damage to property, (b) general liability, (c) workers compensation, (d) and employee medical insurance. The risks are mitigated through the use of commercial insurance and there were no significant changes in how the Organization covered its risks in 2018 and 2017.

NOTE 8 -- NET ASSETS

Net assets with donor restrictions were as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Not subject to appropriation or expenditure:		
Endowed funds	\$ <u>25,120</u>	\$ <u>25,120</u>
Subject to expenditure for specified purpose:		
Land protection assistance	24,301	17,220
Stewardship	282,444	268,704
Projects	48,705	143,941
To be appropriated	<u>13,723</u>	<u>14,639</u>
	<u>369,173</u>	<u>444,504</u>
Net assets with donor restrictions	<u>\$ 394,293</u>	<u>\$ 469,624</u>

Net assets without donor restrictions were as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 41,057	\$ 38,634
Board designated endowment funds	<u>5,248</u>	<u>5,372</u>
Net assets without donor restrictions	<u>\$ 46,305</u>	<u>\$ 44,006</u>

FLATHEAD LAND TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 9 -- AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets at December 31:

	<u>2018</u>	<u>2017</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 102,878	\$ 59,728
Investments	<u>346,142</u>	<u>457,776</u>
Total financial assets	<u>449,020</u>	<u>517,504</u>
Less amounts not available for use within one year:		
Net assets with donor restrictions	394,293	469,624
Net assets designated by the Board	<u>5,248</u>	<u>5,372</u>
	<u>399,541</u>	<u>474,996</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 49,479</u>	<u>\$ 42,508</u>

The Organization currently maintains an average of three months of operating expenses in reserves. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit. If these amounts are insufficient to meet cash flow needs, the board has the ability to apply for a line of credit.

NOTE 10 -- SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 4, 2019, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

FLATHEAD LAND TRUST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2018

Federal Source <i>Pass-Through Source</i> Program Name	<u>CFDA Number</u>	<u>Contract No.</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
<i>Natural Resources Conservation Service</i>			
Agricultural Conservation Easement Program	10.931	68-0325-16-504	\$ 590,124
U.S. DEPARTMENT OF INTERIOR			
<i>U.S. Fish and Wildlife Service</i>			
North American Wetlands Conservation Act	15.623	F15AP00213	<u>174,446</u>
TOTAL FEDERAL EXPENDITURES			<u><u>\$ 764,570</u></u>

FLATHEAD LAND TRUST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2018

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Flathead Land Trust (Organization) and is presented on the accrual basis of accounting. 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

2. Cost Allocation

The Organization did not elect to use the 10% de minimis cost rate.



INDEPENDENT AUDITORS' 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*

Board of Directors
Flathead Land Trust
Kalispell, Montana

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 Flathead Land Trust (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 4, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Flathead Land 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 Flathead Land Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of Flathead Land 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 a 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 Flathead Land Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 noncompliance 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Junkermier, Clark, Campanella, Stevens, P.C.

Kalispell, Montana
September 4, 2019



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Flathead Land Trust
Kalispell, Montana

Report on Compliance for Each Major Federal Program

We have audited Flathead Land Trust's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Flathead Land Trust's major federal programs for the year ended December 31, 2018. Flathead Land Trust's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Flathead Land 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 noncompliance 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 Flathead Land 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 Flathead Land Trust's compliance.



Opinion on Each Major Federal Program

In our opinion, Flathead Land 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 December 31, 2018.

Report on Internal Control Over Compliance

Management of Flathead Land 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 Flathead Land 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 Flathead Land 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, noncompliance 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 noncompliance 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.

Junkermier, Clark, Campanella, Stevens, P.C.

Kalispell, Montana
September 4, 2019

FLATHEAD LAND TRUST
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018

I. SUMMARY OF AUDIT RESULTS

1. The Auditors' Report expresses an unqualified opinion on the financial statements of Flathead Land Trust.
2. There were no significant deficiencies or material weaknesses in internal control over financial reporting disclosed in the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Flathead Land Trust were disclosed during the audit.
4. The audit disclosed no significant deficiencies in internal control over compliance applicable to major programs for the December 31, 2018, single audit included in this document.
5. The Auditors' Report on compliance for the major federal award programs for Flathead Land Trust expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for Flathead Land Trust.
7. The program tested as major programs: Agricultural Conservation Easement Program CFDA 10.931.
8. The threshold for distinguishing Type A and B Programs was \$750,000.
9. Flathead Land Trust was not determined to be a low-risk auditee.

II. FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENTS AUDIT

None

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None

IV. STATUS OF PRIOR YEAR FINDINGS

None