
NORTH OLYMPIC LAND TRUST
A Washington Not For Profit Organization

Financial Statements

For the Years Ended December 31, 2011 and 2010

Aiken & Sanders, Inc PS

CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

TABLE OF CONTENTS

| | |
|--|----|
| INDEPENDENT AUDITOR'S REPORT..... | 1 |
| FINANCIAL STATEMENTS: | |
| Statement of Financial Position | 2 |
| Statement of Activities and Changes in Net Assets-2011..... | 3 |
| Statement of Activities and Changes in Net Assets-2010..... | 4 |
| Statement of Cash Flows..... | 5 |
| Statement of Functional Expenses-2011 | 6 |
| Statement of Functional Expenses-2010..... | 7 |
| Notes to Financial Statements..... | 8 |
| | |
| SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS..... | 16 |
| | |
| SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS | 17 |
| | |
| 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> | 18 |
| | |
| INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 | 20 |
| | |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS..... | 22 |

INDEPENDENT AUDITOR'S REPORT

July 27, 2012

To the Board of Directors
North Olympic Land Trust
PO Box 2013
Port Angeles, WA 98362

We have audited the accompanying statement of financial position of the North Olympic Land Trust (The Trust) as of December 31, 2011 and 2010; the related statement of activities and changes in net assets; the statement of cash flows; and the statement of functional expenses, for the years then ended. These financial statements are the responsibility of The Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Trust as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2012, on our consideration of The Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, 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.



Aiken & Sanders, Inc., PS
Certified Public Accountants
& Management Consultants

North Olympic Land Trust
A Washington Not For Profit Organization

Statement of Financial Position

| December 31, | 2011 | 2010 |
|--|---------------------|---------------------|
| Assets | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 380,857 | \$ 459,044 |
| Grants Receivable | 54,137 | 21,872 |
| Accounts Receivable | - | 700 |
| Pledge Receivable | 3,000 | 4,250 |
| Deposits and Advances | 1,100 | 500 |
| Total Current Assets | 439,094 | 486,366 |
| Property & Equipment: | | |
| Land | 1,795,862 | 1,600,236 |
| Total Property & Equipment | 1,795,862 | 1,600,236 |
| Other Assets: | | |
| Pledge Receivable | 3,030 | 4,100 |
| Investments | 533,752 | 413,474 |
| Total Other Assets | 536,782 | 417,574 |
| Total Assets | \$ 2,771,738 | \$ 2,504,176 |
| Liabilities and Net Assets | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 3,531 | \$ 17,483 |
| Vacation Payable | 7,015 | 7,015 |
| Payroll Taxes Payable | - | 8,632 |
| Total Current Liabilities | 10,546 | 33,130 |
| Net Assets: | | |
| Unrestricted-Undesignated | 97,958 | 147,797 |
| Opportunity Fund-Board Designated | 85,145 | - |
| Landowner Assistance Fund-Board Designated | - | 28,929 |
| Farmland Fund-Board Designated | - | 70,866 |
| Operations Fund-Board Designated | 113,150 | 148,451 |
| Total Unrestricted | 296,253 | 396,043 |
| Temporarily Restricted | 697,418 | 590,608 |
| Permanently Restricted | 1,767,521 | 1,484,395 |
| Total Net Assets | 2,761,192 | 2,471,046 |
| Total Liabilities and Net Assets | \$ 2,771,738 | \$ 2,504,176 |

The accompanying notes are an integral part of these financial statements

North Olympic Land Trust
A Washington Not For Profit Organization

Statement of Activities and Changes in Net Assets

| Year Ended December 31, | 2011 | | | |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Support and Revenue: | | | | |
| Grants | \$ 1,449,333 | \$ - | \$ 283,126 | \$ 1,732,459 |
| Contributions | 79,237 | 130,388 | - | 209,625 |
| Dues | 16,692 | - | - | 16,692 |
| Fundraising-net of \$4,495 in Direct | | | | |
| Benefits to Donors | 2,950 | 31,940 | - | 34,890 |
| Fee for Service | 33,827 | - | - | 33,827 |
| Interest Income | 8,668 | 333 | - | 9,001 |
| Inkind Donations | 63,000 | - | - | 63,000 |
| Released from Restrictions | 71,679 | (71,679) | - | - |
| Total Support and Revenue | 1,725,386 | 90,982 | 283,126 | 2,099,494 |
| Expenses: | | | | |
| Program Services | 1,599,670 | - | - | 1,599,670 |
| Management and General | 99,106 | - | - | 99,106 |
| Fundraising | 36,581 | - | - | 36,581 |
| Total Expenses | 1,735,357 | - | - | 1,735,357 |
| Other Revenue & Expenses: | | | | |
| Gain (Loss) on Sale of Assets | (82,843) | - | - | (82,843) |
| Investment Income (Loss) | (6,976) | 15,828 | - | 8,852 |
| Total Other Revenue & Expenses | (89,819) | 15,828 | - | (73,991) |
| Increase (Decrease) in Net Assets | (99,790) | 106,810 | 283,126 | 290,146 |
| Net Assets, Beginning of Year | 396,043 | 590,608 | 1,484,395 | 2,471,046 |
| Net Assets, End of Year | \$ 296,253 | \$ 697,418 | \$ 1,767,521 | \$ 2,761,192 |

The accompanying notes are an integral part of these financial statements.

North Olympic Land Trust
A Washington Not For Profit Organization

Statement of Activities and Changes in Net Assets

| Year Ended December 31, | 2010 | | | |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Support and Revenue: | | | | |
| Grants | \$ 81,271 | \$ - | \$ 372,895 | \$ 454,166 |
| Contributions | 91,607 | 50,826 | - | 142,433 |
| Dues | 6,597 | 1,320 | - | 7,917 |
| Fundraising-net of \$7,710 in Direct | | | | |
| Benefits to Donors | 24,824 | 34,594 | - | 59,418 |
| Interest Income | 270 | - | - | 270 |
| Inkind Donations | 88,603 | | 25,500 | 114,103 |
| Released from Restrictions | 58,716 | (58,716) | - | - |
| Total Support and Revenue | 351,888 | 28,024 | 398,395 | 778,307 |
| Expenses: | | | | |
| Program Services | 304,561 | - | - | 304,561 |
| Management and General | 55,585 | - | - | 55,585 |
| Fundraising | 22,184 | - | - | 22,184 |
| Total Expenses | 382,330 | - | - | 382,330 |
| Other Revenue & Expenses: | | | | |
| Investment Income (Loss) | 15,197 | 34,946 | - | 50,143 |
| Total Other Revenue & Expenses | 15,197 | 34,946 | - | 50,143 |
| Increase (Decrease) in Net Assets | (15,245) | 62,970 | 398,395 | 446,120 |
| Net Assets, Beginning of Year | 411,288 | 268,914 | 1,086,000 | 1,766,202 |
| Merger With Friends of the Fields (Note R) | - | 258,724 | - | 258,724 |
| Net Assets, End of Year | \$ 396,043 | \$ 590,608 | \$ 1,484,395 | \$ 2,471,046 |

The accompanying notes are an integral part of these financial statements.

North Olympic Land Trust
A Washington Not For Profit Organization

Statement of Cash Flows

| Year Ended December 31, | 2011 | 2010 |
|--|-------------------|-------------------|
| Cash Flows from Operating Activities: | | |
| Increase (Decrease) in Net Assets | \$ 290,146 | \$ 446,120 |
| Adjustments to Reconcile Increase in Net Assets to Net Cash Provided (Used) in Operating Activities: | | |
| Capitalized Inkind Donations | (33,000) | (25,500) |
| Unrealized (Gains) Losses on Investments | (9,069) | (42,155) |
| Realized (Gains) Losses on Investments | 217 | - |
| Loss on Sale of Assets | 82,843 | - |
| (Increase) Decrease in Grants Receivable | (32,265) | (21,872) |
| (Increase) Decrease in Accounts Receivable | 700 | 434 |
| (Increase) Decrease in Pledges Receivable | 2,320 | (8,350) |
| (Increase) Decrease in Deposits and Advances | (600) | - |
| Increase (Decrease) in Accounts Payable | (13,952) | 13,651 |
| Increase (Decrease) in Vacation Payable | - | 7,015 |
| Increase (Decrease) in Payroll Taxes Payable | (8,632) | 3,720 |
| Net Cash Provided (Used) by Operating Activities | 278,708 | 373,063 |
| Cash Flows from Investing Activities: | | |
| Purchase of Investments | (106,769) | (7,803) |
| Cash Paid for Land Purchases | (250,126) | (372,895) |
| Net Cash Provided (Used) by Investing Activities | (356,895) | (380,698) |
| Cash Flows from Financing Activities: | | |
| Merger Proceeds | - | 258,724 |
| Net Cash Provided (Used) by Financing Activities | - | 258,724 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (78,187) | 251,089 |
| Cash at Beginning of Year | 459,044 | 207,955 |
| Cash at End of Year | \$ 380,857 | \$ 459,044 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash Paid During the Year for Interest | \$ - | \$ - |

The accompanying notes are an integral part of these financial statements.

North Olympic Land Trust
A Washington Not For Profit Organization

Statement of Functional Expenses

Year Ended December 31,

2011

| | Program Services | Management & General | Fundraising | Total |
|---------------------------------|-----------------------------|-------------------------------------|--------------------|---------------------|
| Salaries & Wages | \$ 69,483 | \$ 62,537 | \$ 23,606 | \$ 155,626 |
| Employee Benefits | 2,992 | 2,693 | 1,016 | 6,701 |
| Payroll Taxes | 5,905 | 5,314 | 2,006 | 13,225 |
| Occupancy | 4,902 | 4,412 | 1,665 | 10,979 |
| Insurance | 1,382 | 1,243 | 469 | 3,094 |
| Supplies | 12,616 | 3,125 | 328 | 16,069 |
| Printing & Publications | 2,130 | 1,450 | 300 | 3,880 |
| Licenses and Taxes | 23,945 | 5,621 | 60 | 29,626 |
| Professional Services | 160,967 | 4,342 | 3,341 | 168,650 |
| Information Technology | 236 | 1,347 | - | 1,583 |
| Easement Acquisition Expense | 1,275,478 | - | - | 1,275,478 |
| Conferences, Meetings, & Events | 295 | 1,570 | 100 | 1,965 |
| Travel, Mileage, and Meals | 6,603 | 3,686 | 17 | 10,306 |
| Advertising | 320 | - | 3,103 | 3,423 |
| Bank & Credit Card Charges | - | 1,766 | 570 | 2,336 |
| Inkind Expense | 30,000 | - | - | 30,000 |
| Donations | 2,416 | - | - | 2,416 |
| Total | \$ 1,599,670 | \$ 99,106 | \$ 36,581 | \$ 1,735,357 |

The accompanying notes are an integral part of these financial statements.

North Olympic Land Trust
A Washington Not For Profit Organization

Statement of Functional Expenses

Year Ended December 31,

2010

| | Program Services | Management & General | Fundraising | Total |
|-------------------------------------|-----------------------------|-------------------------------------|--------------------|-------------------|
| Salaries & Wages | \$ 105,919 | \$ 16,404 | \$ 8,602 | \$ 130,925 |
| Employee Benefits | 2,644 | 70 | 7 | 2,721 |
| Payroll Taxes | 9,628 | 1,643 | 882 | 12,153 |
| Rent Expense | 4,973 | 772 | 405 | 6,150 |
| Telephone | 2,079 | 323 | 169 | 2,571 |
| Insurance | 3,044 | 356 | 187 | 3,587 |
| Office Expense | 2,337 | 4,194 | 176 | 6,707 |
| Printing & Postage | 5,792 | 4,848 | 1,840 | 12,480 |
| Property Taxes | 2,084 | - | - | 2,084 |
| Dues | - | 3,667 | - | 3,667 |
| Professional Services | 49,645 | 6,420 | - | 56,065 |
| Utilities | 602 | 94 | 49 | 745 |
| Land Stewardship & Easement Expense | 31,587 | - | - | 31,587 |
| Conferences, Meetings, & Events | 2,514 | 1,004 | 2,571 | 6,089 |
| Training | 2,530 | 6,622 | 2,630 | 11,782 |
| Advertising | 500 | - | - | 500 |
| Bank & Credit Card Charges | - | 95 | 1,329 | 1,424 |
| Inkind Expense | 78,592 | 6,674 | 3,337 | 88,603 |
| Miscellaneous | 91 | 2,399 | - | 2,490 |
| Total | \$ 304,561 | \$ 55,585 | \$ 22,184 | \$ 382,330 |

The accompanying notes are an integral part of these financial statements.

North Olympic Land Trust
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Notes to Financial Statements

December 31, 2011 and 2010

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization, purpose and principal program--

The mission of the North Olympic Land Trust (The Trust) is to preserve land and wildlife habitat. The Trust receives conservation easements on various properties and receives grant funds for landowner education, easement purchases, property acquisitions, and general operations. The Trust has voluntarily adopted and implemented the Land Trust Standards and Practices as promulgated by the Land Trust Alliance (a National Land Trust Organization).

The Trust receives a substantial amount of its annual support in the form of government grants. In the event one or more of the government programs from which the grants are received were to end or experience significant budget cuts, The Trust could experience a significant loss of support.

Basis of accounting--

The Trust's policy is to prepare its financial statements on the accrual basis of accounting. Revenue is recognized when earned, and expenditures are recognized when incurred.

Grant funds are accounted for as unrestricted, temporarily restricted, or permanently restricted as provided in the particular terms of the respective grant contracts. When restrictions on grant funds are met in the same year the funds are awarded, it is The Trust's policy to record the grant funds as unrestricted on the statement of activities and changes in net assets.

Property and equipment--

Property and equipment are recorded at cost. Property and equipment donated to The Trust are capitalized at their estimated fair market value. Depreciation is provided using the straight-line method. Maintenance and repairs are charged to expense as incurred; major renewals and improvements are capitalized. When items of equipment are sold or are otherwise disposed of, the appropriate cost and related accumulated depreciation amounts are removed from the accounts and any gain or loss is included in income.

Management has elected to capitalize only equipment purchases in excess of \$5,000. As of December 31, 2011 and 2010, no equipment purchases exceeded this policy.

Estimates--

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

North Olympic Land Trust
A Washington Not For Profit Organization

Notes to Financial Statements

December 31, 2011 and 2010

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Advertising--

The Trust's policy is to expense advertising costs as they are incurred.

Cash and Cash Equivalents--

For purposes of the Statement of Cash Flows, The Trust considers cash, checking, and money market accounts to be cash and cash equivalents.

B. RECOGNITION OF CONTRIBUTION REVENUE:

The Trust reports gifts of cash and other assets as restricted support if they are received with donor stipulations limiting the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

The Trust reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets having explicit restrictions specifying how the assets are to be used, and gifts of cash or other assets to be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, The Trust reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

If the restrictions on a contribution are met in the same year that the contribution is received, it is The Trust's policy to record the contribution as unrestricted on the statement of activities and changes in net assets.

C. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets include land that was purchased with grant contracts and donor contributions that permanently restrict the land use. As of December 31, 2011 and 2010, the permanently restricted net assets balance was \$1,767,521 and \$1,484,395, respectively.

D. ECONOMIC DEPENDENCY:

For 2011 and 2010, the funding used to acquire land was primarily provided by Clallam County and the State of Washington Recreation and Conservation Office.

North Olympic Land Trust
A Washington Not For Profit Organization

Notes to Financial Statements

December 31, 2011 and 2010

E. TEMPORARILY RESTRICTED AND BOARD DESIGNATED NET ASSETS:

Temporarily restricted net assets balance as of December 31, 2011 and 2010, was \$697,418 and \$590,608, respectively, and is comprised of \$423,080 and \$303,731, respectively, of donor contributions that are restricted for use in stewardship activities and \$274,338 and \$286,877, respectively, in funds restricted for use for farmland acquisition, farmland development rights acquisition, and activities and projects directly associated with sustaining agriculture.

The Trust board has designated funds for the following specific purposes:

Landowner Assistance Fund: Board Designated to provide landowners with assistance during property and easement acquisitions. The fund balance was \$28,929 as of December 31, 2010.

Farmland Fund: Board Designated for use in Farm Land acquisitions. The fund had a balance of \$70,866 as of December 31, 2010.

Opportunity Fund: The Trust board, in 2011, combined the Landowner Assistance Fund and the Farmland Fund into a new fund to carry out the functions detailed above. The fund had a balance of \$85,145 as of December 31, 2011.

Operations Fund: Board Designated as an operating reserve. \$113,150 and \$148,451 balance as of December 31, 2011 and 2010, respectively.

F. LEASES:

The Trust conducts its operations from leased facilities. The office lease expense for the years ended December 31, 2011 and 2010 was \$6,600 and \$6,150, respectively. The lease is a month to month lease.

G. INVESTMENTS & FAIR VALUE MEASUREMENTS:

The investments in mutual funds and common stock are accounted for at fair value. As of December 31, 2011 and 2010, the investments had a cost basis of \$508,158 and \$396,732 and a fair value of \$533,752 and \$413,474, respectively. Investment income on the statement of activities and changes in net assets is the following:

North Olympic Land Trust
A Washington Not For Profit Organization

Notes to Financial Statements

December 31, 2011 and 2010

G. INVESTMENTS & FAIR VALUE MEASUREMENTS (CONTINUED):

| | <u>2011</u> | <u>2010</u> |
|------------------------|-----------------|------------------|
| Unrealized Gain (Loss) | \$ 9,069 | \$ 42,115 |
| Realized Gain (Loss) | (217) | 0 |
| Interest & Dividends | <u>0</u> | <u>8,028</u> |
| Total | \$ <u>8,852</u> | \$ <u>50,143</u> |

The Trust adopted Accounting Standards Codification 958 as of January 1, 2009. ASC 958, Fair Value Measurements, 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 or liabilities (Level 1 Measurements) and the lowest priority to unobservable inputs (Level 3 Measurements). The three levels of the fair value hierarchy under ASC 958 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that The Trust has the ability to access.

Level 2: Inputs to valuation methodology include:

Quoted prices for similar assets or liabilities in active markets.

Quoted prices for identical or similar assets or liabilities in inactive markets.

Inputs other than quoted prices that are observable for the asset or liability.

Inputs that are principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2011.

North Olympic Land Trust
A Washington Not For Profit Organization

Notes to Financial Statements

December 31, 2011 and 2010

G. INVESTMENTS & FAIR VALUE MEASUREMENTS (CONTINUED):

Mutual funds: Valued at the net asset value (NAV) of shares held by The Trust at year end.

Common Stock: Quoted market prices on public exchanges.

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 Trust 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 following table sets forth by level, within the fair value hierarchy, The Trust's assets at fair value as of December 31, 2011:

| Assets at Fair Value as of December 31, 2011 | | | | |
|--|------------|---------|---------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutal Funds | \$ 470,313 | \$ - | \$ - | \$ 470,313 |
| Common Stock | 63,439 | - | - | 63,439 |
| Total Assets at Fair Value: | \$ 533,752 | \$ - | \$ - | \$ 533,752 |

The following table sets forth by level, within the fair value hierarchy, The Trust's assets at fair value as of December 31, 2010:

| Assets at Fair Value as of December 31, 2010 | | | | |
|--|------------|---------|---------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutal Funds | \$ 392,194 | \$ - | \$ - | \$ 392,194 |
| Common Stock | 21,280 | - | - | 21,280 |
| Total Assets at Fair Value: | \$ 413,474 | \$ - | \$ - | \$ 413,474 |

North Olympic Land Trust
A Washington Not For Profit Organization

Notes to Financial Statements

December 31, 2011 and 2010

H. GRANTS RECEIVABLE:

Grants receivable are recorded to the extent of qualifying grant expenditures made during the current year that are to be reimbursed after year end.

Historically, bad debts have been immaterial. The Trust uses the direct write-off method, which is not in accordance with generally accepted accounting principles. When an amount becomes uncollectible, it is charged to expense in the year it is deemed to be uncollectible. During 2011 and 2010, respectively, there were bad debts of \$0. As of December 31, 2011, management estimated that all grants receivable were collectible.

Management considers accounts outstanding over 90 days to be past due. No interest is charged on past due receivables. As of December 31, 2011, there were no past due accounts.

I. CONTINGENCIES:

Amounts received or receivable from federal and state government agencies are subject to audit and potential adjustment by the contracting agencies. Any disallowed claims, including amounts already collected, would become a liability of The Trust if so determined in the future. It is management's belief that no material amounts received or receivable will be required to be returned in the future.

J. INKIND REVENUE:

The Trust received donations valued at \$33,000 and \$25,500, which consisted of the difference between appraised value and purchase price, on property acquired during 2011 and 2010, respectively. These donations were recorded as inkind revenue and capitalized as land on the statement of financial position. The Trust also received inkind donations of legal, accounting, other services and goods during 2011 and 2010. These donations have been recorded both as inkind revenue and expense in the financial records.

K. INCOME TAX & UNCERTAIN TAX POSITION:

The Trust is a tax exempt non-profit organization under the Internal Revenue Code Section 501(c)(3) and is not classified as a private foundation. Accordingly, the financial statements do not include any provision for income taxes.

The Trust files income tax returns in the U.S. federal jurisdiction. The Trust is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2008. Currently, there is no examination or pending examination with the Internal Revenue Service (IRS).

North Olympic Land Trust
A Washington Not For Profit Organization

Notes to Financial Statements

December 31, 2011 and 2010

K. INCOME TAX & UNCERTAIN TAX POSITIONS (CONTINUED):

The Trust adopted the provisions of FASB ASC 740-10, Accounting for Uncertainty in Income Taxes, on January 1, 2009. As of December 31, 2011, there are no tax positions for which the deductibility is certain but for which there is uncertainty regarding the timing of such deductibility.

L. SUBSEQUENT EVENTS:

No events have occurred through July 27, 2012, which is the date the financial statements were available to be issued, based on client facts and circumstances, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2011.

M. PLEDGES RECEIVABLE:

The Trust received contribution pledges from various donors during 2011 and 2010. The pledges are scheduled to be collected in 2012 and later years. No discount to present value has been presented as the amount is immaterial to the financial statements. No allowance for uncollectible pledges has been recorded as management believes all pledges will be collected as scheduled.

N. RELATED PARTY TRANSACTIONS:

The Trust uses the legal services of Platt Irwin (A Port Angeles Law Firm) to process land purchases, easement purchases, and easement donations. An attorney from this firm is a member of The Trust's board of directors. The Trust paid Platt Irwin \$9,700 and \$8,036 during 2011 and 2010, respectively, and owed the firm an additional \$4,575 at December 31, 2010. Additionally, Platt Irwin provided donated services valued at \$30,000 and \$30,000 during 2011 and 2010, respectively, which are recorded as inkind revenue and expense in the financial records.

The Trust, during 2010, used the accounting services of Garnero, Smith, Hurd, and Miller (A Port Angeles CPA Firm). One member of the firm was a board member of the Trust. The Trust paid the firm \$1,987 for accounting services during 2010. The firm donated services valued at \$13,348 to The Trust, which are recorded as inkind revenue and expense in the financial records.

O. EASEMENTS:

The Trust holds a number of conservation easements. The Trust has determined that these easements have no measurable value as they include no affirmative rights and require The Trust to monitor and defend the easements on an ongoing basis. This practice is in line with the approach advocated by the Land Trust Alliance.

North Olympic Land Trust
A Washington Not For Profit Organization

Notes to Financial Statements

December 31, 2011 and 2010

P. VACATION LIABILITY:

The Trust provides for vacation benefits in accordance with current policy. As of December 31, 2011 and 2010, respectively, the vacation benefit liability was \$7,015.

Q. CONCENTRATIONS OF CREDIT RISK:

The Trust, at times, maintains cash and investment balances that exceed insurance coverage amounts provided by the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation. The FDIC provides cash balance insurance coverage for the first \$250,000 in deposits per institution. The SPIC provides a maximum of \$500,000 coverage per institution, with a limit of \$250,000 for cash balances. Management does not believe The Trust is subject to significant risk as a result of these excess balances.

R. MERGER:

The Trust, during 2010, completed a merger with Friends of the Fields (FOF). FOF was a Washington non-profit corporation dedicated to the preservation of farm land and sustainable agriculture. FOF transferred cash balances of \$258,724 to The Trust. The funds, with the exception of \$30,000 to be used to fund Trust operations, are restricted to use for farmland acquisition, farmland development rights acquisition, and activities and projects directly associated with sustaining agriculture. The Trust formed a new fund, the Sustainable Agriculture Fund, to carry on the mission of FOF.

S. SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Trust and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of the financial statements.

NORTH OLYMPIC LAND TRUST
A Washington Not For Profit Organization

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2011

| Federal Grantor/ Pass-through Grantor/ Program Title | Federal CFDA Number | Pass-through Grantor's Number | Federal Expenditures |
|---|------------------------------------|--|---------------------------------|
| Department of the Interior | | | |
| Passed Through Ducks Unlimited: | | | |
| North American Wetlands Conservation Act | 15.623 | US-WA-190-2 | \$ 255,513 |
| Total: Department of the Interior: | | | 255,513 |
| Department of Agriculture | | | |
| Passed Through Clallam County: | | | |
| Farm & Ranch Lands Protection Program | 10.913 | 73-0546-10-003 | 410,000 |
| Passed Through US Forest Service: | | | |
| Secure Rural Schools & Community Self Determination Act | 10.665 | 10-CA-11060900-032 | 44,743 |
| Total: Department of Agriculture: | | | 454,743 |
| Department of Commerce | | | |
| Passed Through Recreation & Conservation Office: | | | |
| Salmon Restoration | 11.438 | NAO8NMF4380435 | 13,758 |
| | | NAO9NMF4380363 | 1,240 |
| Total: Department of Commerce: | | | 14,998 |
| Total Expenditures of Federal Awards: | | | \$ 725,254 |

NORTH OLYMPIC LAND TRUST
A Washington Not For Profit Organization

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2011

No matters were reported.

**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***

July 27, 2012

To the Board of Directors
North Olympic Land Trust
PO Box 2013
Port Angeles, WA 98362

We have audited the financial statements of the North Olympic Land Trust (The Trust) as of and for the year ended December 31, 2011, and have issued our report thereon dated July 27, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Trust's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We consider Findings 2011-01, 2011-02, 2011-03 and 2011-04 to be material weaknesses which are described in the accompanying schedule of findings and questioned costs.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Trust's financial statements are free of 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*.

This report is intended for the information of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Aiken & Sanders".

Aiken & Sanders, Inc., PS
Certified Public Accountants
& Management Consultants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

July 27, 2012

To the Board of Directors
North Olympic Land Trust
PO Box 2013
Port Angeles, WA 98362

Compliance

We have audited the North Olympic Land Trust's (The Trust) compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of The Trust's major federal programs for the year ended December 31, 2011. The Trust's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of The Trust's management. Our responsibility is to express an opinion on The Trust's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 The Trust's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of The Trust's compliance with those requirements.

In our opinion, The Trust complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of The Trust is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered The Trust's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Trust's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-05 to be a material weakness.

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. We did not note any deficiencies in internal control over compliance that we consider to be significant weaknesses.

This report is intended for the information of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Aiken & Sanders, Inc., PS
Certified Public Accountants
& Management Consultants

NORTH OLYMPIC LAND TRUST
A Washington Not For Profit Organization

Schedule of Findings and Questioned Costs

Year Ended December 31, 2011

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified: Yes

Significant deficiencies identified not considered to be material weaknesses: No.

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

Material weaknesses identified: Yes

Significant deficiencies identified not considered to be material weaknesses: No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a): Yes

Identification of major programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program</u> |
|---------------------|---------------------------------------|
| 10.913 | Farm & Ranch Lands Protection Program |

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee: No.

NORTH OLYMPIC LAND TRUST
A Washington Not For Profit Organization

Schedule of Findings and Questioned Costs

Year Ended December 31, 2011

Section II – Financial Statement Findings:

MATERIAL WEAKNESS

2011-01-OMISSION OF GRANTS

Criteria: Generally accepted accounting principles require the recording of all grants in the financial records.

Condition: The Trust, during 2011, received grants from various sources to assist in the purchase of property and conservation easements. Funds provided for purchases were often paid directly by the grantors into an escrow account. These funds were not received directly by The Trust. In several cases, Trust accounting personnel did not record the receipt of the grant in the accounting records of the Trust, and failed to record an offsetting asset or expense.

Effect: Omission of grants resulted in a material understatement of revenue for 2011. Additionally, fixed assets and easement acquisition expense were understated

Cause: Trust accounting personnel were lacking in the experience and training necessary to understand and account for these transactions. Trust management did not perform a sufficient review of financial activity related to these specific transactions to ensure that all acquisitions were properly recorded.

Recommendation: We recommend that The Trust take steps to improve its process for training accounting personnel to make sure personnel are properly experienced and trained and that accounting functions are performed in accordance with generally accepted accounting principles and Trust accounting policy. Management should review accounting records and transactions and verify completeness of those records.

Managements Response:

Management agrees with this finding. A new executive director was hired in April 2012. He is modifying internal controls and increasing training for personnel in order to ensure all financial transactions associated with grants are fully accounted for in the organization's records. These modified controls include review of all financial transactions by the executive director and the organization's bookkeeper with an eye to ensuring accurate and complete accounting.

2011-02-PROPERTY SALE

Criteria: The sale of assets requires the removal of the assets from the accounting records and the recognition of any gain or loss on the sale.

Condition: The Trust sold a piece of property during 2011 but did not remove the property from the accounting records or record a loss realized on the disposition.

Effect: Trust assets were overstated and expense was understated.

NORTH OLYMPIC LAND TRUST
A Washington Not For Profit Organization

Schedule of Findings and Questioned Costs

Year Ended December 31, 2011

Cause: Trust management did not direct, and accounting personnel did not record, the disposition in the accounting records.

Recommendation: We recommend that The Trust ensure that assets are removed and proper gain or loss treatment is reflected in the accounting records for future sales.

Managements Response:

Management agrees with this finding. Internal controls are being modified and training for personnel increased in order to ensure all financial transactions associated with sale of assets are fully accounted for in the organization's records. These modified controls include review of all financial transactions by the executive director and the organization's bookkeeper with an eye to ensuring accurate and complete accounting.

2011-03-GRANTS RECEIVABLE

Criteria: Generally accepted accounting principles require the recording of revenue when earned.

Condition: The Trust did not record revenue and grants receivable on a number of grants for which work had been performed at December 31, 2011.

Effect: Revenue and grants receivable were materially understated at December 31, 2011.

Cause: Trust personnel did not understand that they needed to accrue revenue and grants receivable for all earned income at year end. They only recorded revenue when a billing was sent to grantors, which, on the amounts in question, did not occur until 2012.

Recommendation: We recommend that The Trust review all open grants at periods or year ends and make sure that all earned amounts are recorded in the proper period.

Managements Response:

Management agrees with this finding. Internal controls are being modified in order to ensure all revenue and grants receivables are accrued to the proper financial period. Recording receivables for work performed on open grants prior to the end of the fiscal year is a priority.

2011-04-DOCUMENTATION

Criteria: Receipt and disbursement transactions should be supported by documentation attesting to the accuracy of amounts recorded in the financial records.

Condition: Trust personnel could not locate documentation for several receipt and disbursement transactions selected for testing during the audit.

Effect: The Trust could not support the accuracy of these specific transactions.

NORTH OLYMPIC LAND TRUST
A Washington Not For Profit Organization

Schedule of Findings and Questioned Costs

Year Ended December 31, 2011

Cause: The Trust had a change in executive director at the end of 2011. The prior executive director was involved in the accounting function and maintained supporting documentation for transactions. The new executive director, hired in 2012, was not able to locate some of the items from 2011 as the records were kept in both paper and electronic form and were not organized in a logical and easy to understand manner.

Recommendation: We recommend that The Trust maintain complete records with supporting documentation for all transactions. These records should be kept in a way that allows for more than one individual in the organization to access and search when necessary.

Managements Response:

Management agrees with this finding. Internal controls are being modified to standardize the documentation of all financial transactions and to ensure that in the event of a change in key personnel, information is still accessible.

Section III – Federal Award Findings and Questioned Costs:

2011-05-OMISSION OF GRANTS

| | |
|---------------------------|--|
| CFDA Number and Title: | 10.913 Farm & Ranch Lands Protection Program |
| Federal Grantor Name: | Department of Agriculture |
| Pass-Through Entity Name: | Clallam County |
| Grant Name: | Finn Hall Farm |

Material Weakness: As discussed in finding 2011-01, certain payments by grantors directly to escrow to purchase properties and easements during 2011 were not recorded as revenue, assets, or expense by The Trust. Failure to record these amounts resulted in a material misstatement of The Trust's revenue, assets, and expense during 2011. Procedures and training should be implemented to provide assurance that all revenue, assets, and expense are recorded in the financial records.

Questioned Costs for Finding 2011-05: No questioned costs were noted related to this finding.