

Groundswell Conservancy, Inc. – June 30, 2022
Wegner Audit Summary

Overall Audit Results

- Unmodified Opinion
- We examined internal control policies and procedures and noted a material weakness:
 - There were 5 audit adjustments totaling \$1,066,653. Many of these transactions were around the transition from Jim to Angela
 - Donated land held for sale (\$550K)
 - Grants at closing to purchase an easement (\$439.8K)
 - A promise to give (\$35K)
 - 2 land acquisitions with donated value totaling \$41.9K
- There were some reclassifications and closing entries that changed balances reported internally
 - ERTC revenue and receivables \$159K
 - Adjustment to GAAP presentation for restricted activity and MCF distributions

Key Financial Indicators

1. Operating Fundraising Efficiency – contributions for operations over total fundraising expenses
 - a. Expressed in the amount of contributions dollars received for each dollar spent on fundraising

2022	2021	2020	2019	2018	2017
\$6.55	\$6.32	\$4.68	\$5.18	\$3.54	\$3.23

2. Functional Allocation of Operating Expenses: 68% average program efficiency
 - a. Does not include - land and easement transactions or grants and contributions to others
 - i. This is better information for most management decisions

	2022	2021	2020	2019	2018	2017
Conservation, Outreach and Education	70%	76%	72%	68%	66%	67%
Management and General	8%	10%	11%	12%	13%	14%
Fundraising	22%	14%	17%	19%	21%	19%

- b. Total easement acquisition and land contribution expense and as a percent of total expenses

2022	2021	2020	2019	2018	2017
\$859,291	\$236,550	\$512,768	\$2,187,188	\$0	\$2,301,353
51%	25%	48%	82%	0%	81%

3. Liquid Unrestricted Net Assets (LUNA): Undesignated net assets without donor restriction, net of fixed assets, land held for conservation and net of related liabilities
 - b. This is one of various measures of operating reserve as it reports net assets available to be expended in operations free from restrictions and designations.
 - c. 2022 is calculated from the Statement of Financial Position as follows:
 - i. \$9.9M Total Net Assets at 6/30/22
 - ii. Minus \$528K balances with donor restrictions
 - iii. Minus \$404K Board Designated Fund balances
 - iv. Minus \$7.6M Land Held for Conservation
 - v. Minus \$1.5K Furniture and Equipment, net

2022	2021	2020	2019	2018	2017
\$1,416,709	\$813,731	\$621,394	\$613,039	\$636,789	\$363,712

ASU 2016-02, Lease Accounting

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. Under this standard, entities are required to recognize assets and liabilities for all leases, with certain exceptions, and disclose key information about leasing arrangements. Transitioning to the new standard is a complex, time-consuming process. The standard is effective for your financial statements beginning with the year ending August 31, 2023. Some key considerations are summarized below. We will be happy to answer any questions you may have about the standard. We will also be happy to assist you in implementing the standard as service separate from the audit of your financial statements.

How Will Accounting for Leases Change?

The most significant change under the new standard is the accounting by lessees. Current leasing guidance requires lessees to recognize assets and liabilities that arise from capital leases but does not require this recognition on the statement of financial position as it relates to operating leases. Under the new standard, there continues to be a differentiation between finance leases (previously referred to a capital leases) and operating leases. However, the new standard requires lessees to recognize on the statement of financial position a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term for both finance leases and operating leases. In other words, the new standard puts operating leases on the statement of financial position of many entities for the first time ever.

The accounting by lessors remains largely unchanged from current guidance. However, the new standard contains some targeted improvements that are intended to align, where necessary, lessor accounting with lessee accounting and with the FASB's updated guidance on recognizing revenue from contracts with customers.

Lease Inventory

One of the first steps in preparing for the new standard is to gather all contracts that are or may contain leases. A lease does not have to be called a lease to be considered. Leases can be embedded in many different kinds of contracts such as contracts for outsourced warehousing, information technology services, freight shipping, and outdoor advertising, just to name a few. Basically, if a contract conveys the right to control the use of a specified asset over a period of time in exchange for consideration, it may be a lease, even if it is just part of a broader contract for goods or services.

Locating and organizing all the relevant documents may be a challenge. These documents include not just the initial contract but all amendments, exhibits, addenda, supplements, and enhancements. The documents themselves could be stored as hard copies, images, or searchable PDF files and may be scattered across multiple departments and office locations. People from various departments in addition to accounting, such as procurement, information technology, and legal, may be needed to help compile a complete inventory of all leases.

Lease Data

Once all leases have been identified, another challenge involves capturing all appropriate data to calculate the right-of-use asset and lease liability. Under the new standard, entities need to keep track of critical dates, payment amounts, and other relevant information regarding their leases. Capturing this data can get complicated, particularly if there are multiple amendments.

The new standard requires an estimate of the lease term. Similar to current guidance, the starting point is the noncancelable term of the lease. Under the new standard, entities must assess whether it is reasonably certain the lease will continue into periods covered by renewal or termination options. Lease payments are determined after the lease term has been established. Lease payments include all fixed payments. Variable lease payments based on changes in rates or indexes such as the consumer price index are included in the initial calculation using the rate or index at the commencement of the lease. Variable payments based

on performance or use of the asset such as units of production are not included as lease payments but are recognized as incurred by lessees. Also, optional payments to purchase the underlying asset should be included in lease payments if the lessee is reasonably certain to exercise the purchase option.

Lessees then use a discount rate to determine the present value of lease payments when calculating the lease liability. A lessee will typically use its incremental borrowing rate, which is a collateralized rate. However, having existing debt may not be enough to determine this rate. The new standard requires that the incremental borrowing rate reflect a fully collateralized obligation, over a term similar to the lease, and in a similar economic environment. A lessee without debt or with only unsecured debt will need to estimate its incremental borrowing rate either by looking to similar entities with similar credit ratings or by adjusting its own rate to reflect a collateralized basis. An assessment of the lessee's specific facts and circumstances will be necessary to determine the appropriate rate.

Disclosures

Besides the accounting changes, the new standard requires revised and expanded disclosures designed to help financial statement users understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative information about the nature of the leases, significant judgments and assumptions used to account for the leases, and the related amounts recognized in the financial statements. In addition, lessees are required to disclose information about any significant leases they have entered into that have not yet commenced.

Practical Expedients

The new standard includes several practical expedients that may ease both transition and subsequent application. For example, a lessee can elect not to recognize assets and liabilities related to leases with a term of one year or less. A lessee can also elect to account for the nonlease components (for example, maintenance services) in a contract as part of the lease component to which they are related. A lessee that is not a public business entity can elect to use a risk-free discount rate in lieu of its incremental borrowing rate when calculating its lease liabilities. Some practical expedients must be elected as a package, and the impact of the available elections will need to be broadly considered. For example, electing to combine lease and nonlease components or to use a risk-free discount rate may be simpler but will likely result in recognizing a larger asset and liability.

Related Party Leases

The new standard makes a significant change to the accounting for related party leases. Under current guidance, related party leases are accounted for based on the economic substance of the lease. Under the new standard, related party leases are accounted for on the basis of the legally enforceable terms and conditions of the lease. Related party leases are often informal agreements, requiring the exercise of judgment in assessing the legally enforceable terms and conditions. When the terms and conditions of the lease are unclear, it may require the involvement of legal counsel. Related party leases may need to be more formally documented to obtain the desired accounting treatment.

Internal Controls

Implementation of the new standard does not conclude at the effective date. Perhaps the greatest challenge will be tracking ongoing changes to the lease population. Processes and internal controls will be needed to track new leases being signed, expiring leases being terminated or renewed, and existing leases being modified. Similar to other accounting changes in the past, implementation of the new lease accounting standard will likely be a learn, analyze, and refine process until the desired result becomes another recurring accounting activity.