Lancaster Farmland Trust

Financial Report

December 31, 2016

SIMON LEVER
BUSINESS ADVISORS & CPAs
ADVICE WHEN IT MATTERS MOST
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Lancaster Farmland Trust
Strasburg, Pennsylvania

We have audited the accompanying financial statements of Lancaster Farmland Trust (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2016, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lancaster Farmland Trust as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Simon Lever LLP

Simon Lever LLP
Lancaster, PA

July 26, 2017

FINANCIAL STATEMENTS

Lancaster Farmland Trust

STATEMENT OF FINANCIAL POSITION
December 31, 2016

	$
ASSETS	
Cash and cash equivalents	197,349
Cash and cash equivalents designated for land preservation	620,617
Grants receivable	223,970
Contributions receivable	39,660
Prepaid expenses	5,834
Investments designated for Stewardship Fund	3,969,326
PROPERTY AND EQUIPMENT	
Building and improvements	705,919
Land	60,000
Office equipment	82,849
Furniture and fixtures	28,800
Vehicle	18,639
Total	896,207
Less accumulated depreciation	(342,134)
Property and Equipment, Net of Accumulated Depreciation	554,073
TOTAL ASSETS	5,610,829
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	6,949
Accrued payroll and vacation	27,850
Other accrued expenses	1,157
Total Liabilities	35,956
NET ASSETS	
Unrestricted net assets	
Undesignated	501,582
Board designated	4,589,943
Total Unrestricted Net Assets	5,091,525
Temporarily Restricted Net Assets	483,348
Total Net Assets	5,574,873
TOTAL LIABILITIES AND NET ASSETS	5,610,829

See Notes to Financial Statements

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
	$	$	$
Contributions and Other Support			
Easements in-kind	1,742,339	0	1,742,339
Contributions	893,001	0	893,001
Grants	166,905	404,210	571,115
Lancaster County matching grant	250,000	0	250,000
Special events, net of direct expenses of $57,440	132,085	0	132,085
Gifts in-kind	8,849	0	8,849
Land Trust reimbursement program	85,000	0	85,000
Total Contributions and Other Support	3,278,179	404,210	3,682,389
Other Revenue			
Unrealized gain on investments	208,339	0	208,339
Dividends	90,992	0	90,992
Realized gain on investments	3,261	0	3,261
Fee for service revenue	78,601	0	78,601
Net assets released from restrictions	16,393	(16,393)	0
Total Other Revenue	397,586	(16,393)	381,193
Total Revenue	3,675,765	387,817	4,063,582
Functional Expenses			
Program Services	3,416,531	0	3,416,531
Supporting Services			
General and administrative	75,990	0	75,990
Fundraising	170,280	0	170,280
Total Functional Expenses	3,662,801	0	3,662,801
Change in Net Assets	12,964	387,817	400,781
Net Assets at Beginning of Year	5,078,561	95,531	5,174,092
Net Assets at End of Year	5,091,525	483,348	5,574,873

See Notes to Financial Statements

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016

	Program	General and Administrative	Fundraising	Total
	$	$	$	$
Easements in-kind	1,742,339	0	0	1,742,339
Easement acquisition	832,229	0	0	832,229
Appraisal fees	21,500	0	0	21,500
Bank and investment fees	13,891	15	4,921	18,827
Depreciation	26,890	2,445	5,587	34,922
Dues and subscriptions	10,170	1,574	2,611	14,355
Employee benefits	54,169	3,045	9,579	66,793
Insurance	32,614	1,768	1,768	36,150
Meetings and other	5,014	1,217	947	7,178
Miscellaneous	3,484	42	42	3,568
Newsletters and print materials	6,950	102	12,038	19,090
Outside services	43,409	3,498	6,711	53,618
Payroll taxes	37,061	3,196	7,453	47,710
Postage	4,467	255	3,128	7,850
Professional fees	33,796	3,199	3,697	40,692
Repairs and maintenance	4,497	968	382	5,847
Salaries and wages	514,588	49,068	107,425	671,081
Supplies	2,265	577	428	3,270
Telephone and internet	8,518	1,658	1,633	11,809
Training	6,579	2,060	190	8,829
Travel	8,109	406	979	9,494
Utilities	3,992	897	761	5,650
Total Functional Expenses	3,416,531	75,990	170,280	3,662,801

See Notes to Financial Statements

Lancaster Farmland Trust

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

	$
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	400,781
Adjustment to reconcile change in net assets to net cash used in operating activities:	
Depreciation	34,922
Unrealized gain on investments	(208,339)
Realized gain on investments	(3,261)
Change in assets and liabilities:	
Grants receivable	(191,105)
Contributions receivable	(24,079)
Prepaid expenses	(3,622)
Accounts payable	(8,781)
Accrued payroll and vacation	10,742
Other accrued expenses	(21,648)
Net Cash Used in Operating Activities	(14,390)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(511,892)
Proceeds from sale of investments	197,395
Purchase of property and equipment	(16,378)
Net Cash Used in Investing Activities	(330,875)
Net Change in Cash and Cash Equivalents	(345,265)
Cash and Cash Equivalents:	
Beginning	1,163,231
Ending	817,966

See Notes to Financial Statements

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

Nature of Activities – Lancaster Farmland Trust (the Trust) is a private nonprofit organization that works to preserve and protect productive agricultural land in Lancaster County, Pennsylvania; to promote and support public policy, laws, and actions toward farmland preservation; to protect and improve agriculture; and to encourage and sustain an environment of improved cooperation for the protection of Lancaster County's countryside and its natural resource base.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – The Trust considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

The Trust maintains accounts with one bank. FDIC insurance is limited to $250,000 per account holder at each bank. In the normal course of operations, the Trust may have deposits in excess of FDIC insurance at times. Based on the historical realization of these deposits, the Trust believes it bears minimal credit risk.

Grants and Contributions Receivable – Grants and contributions receivable are stated at the amount the Trust expects to collect from balances outstanding at year-end. Based on the Trust's assessment of the credit history with grantors and donors having outstanding balances and current relationships with them, it has concluded that no valuation allowance is required. All grants and contributions receivable are expected to be collected within one year.

Investments – The Trust carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their market value in the statement of financial position. Investment income and gains and losses (both realized and unrealized) on investments are reported as increases or decreases in unrestricted net assets unless a donor temporarily or permanently restricts their use.

Property and Equipment – Property and equipment are recorded at cost. Expenditures that significantly add to productive capacity or useful life of an asset are capitalized. Maintenance and repairs are charged to expense as incurred. When depreciable property is retired or otherwise disposed of, the cost and related accumulated depreciation is eliminated from the accounts and the resultant gain or loss is reflected in change in net assets. Depreciation is computed by the straight-line method at rates based on estimated service lives.

Long-Lived Assets – Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset and long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Note 1 – Summary of Significant Accounting Policies – Continued

Net Assets – The Trust reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Under these provisions, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Trust and changes therein are classified as follows:

> Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.
>
> Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Trust and/or the passage of time.
>
> Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Trust.

Public Support and Revenue – All contributions are considered available for unrestricted use unless specifically restricted by the donor. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if the contribution is designated for use in a future period. 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 reported in the statement of activities as net assets released from restrictions. The Trust classifies donor-restricted contributions as unrestricted support when the restrictions are satisfied in the same reporting period in which the contributions were received. For gifts of long-lived assets with no explicit donor stipulations that specify how long the assets must be maintained, the Trust reports the expiration of donor restrictions when the donated or acquired long-lived assets are placed in service.

Grant revenue is reported as unrestricted support, unless the funds are received with grantor stipulations that limit the use of the grant funds. When stipulations of use exist, the grant revenue is reported as temporarily restricted support. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Governmental grant revenue, which is deemed to be received in respect of exchange transactions, is classified as unrestricted revenue or deferred revenue, as appropriate, when received or receivable. Such grant revenue is not deemed to be a contribution since the proceeds thereof are used to pursue objectives of the grantor.

The Trust also receives fee-for-service revenue for work which is contracted by other organizations or governmental entities, including easement monitoring and farm assessments.

Donated Materials and Services – Donated materials are reflected as contributions and special event revenues in the accompanying statements of activities, based on the use of the donated items, at their estimated fair market value on the date received. Donated materials amounted to $15,548 for the year ended December 31, 2016.

<u>Note 1 – Summary of Significant Accounting Policies</u> – Continued

Donated services are reflected in the financial statements at the fair value of the services received. Donated services are recognized as contributions in accordance with generally accepted accounting principles, if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Donated services for supporting activities amounted to $8,780 for the year ended December 31, 2016. In addition, the Trust receives a significant amount of donated services from unpaid volunteers who assist in program and fundraising activities. For the year ended December 31, 2016, no amounts for the value of these services have been recognized in the statements of activities because the criteria for recognition under generally accepted accounting principles have not been satisfied.

The Trust has recorded easements contributed in-kind of $1,742,339 for the year ended December 31, 2016. The amount recorded as in-kind contributions is equal to the fair market value of the easements contributed less acquisition cost.

<u>Functional Allocation of Expenses</u> – The cost of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

<u>Income Taxes</u> – The Trust has obtained a determination letter from the Internal Revenue Service stating that the Trust is considered a public charity, exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Management believes that the Trust continues to be operated in such a manner that it is exempt from federal and state income taxes.

<u>Retirement Plan</u> – The Trust offers a SIMPLE Individual Retirement Account (IRA) plan to all employees who make, or are expected to make, at least $5,000 annually. The Trust will match employee contributions up to 3% of the employee's base salary. For the year ended December 31, 2016, retirement plan expense was $19,810.

<u>Advertising Costs</u> – The Trust expenses advertising costs as they are incurred. Advertising expense for the year ended December 31, 2016 was $2,583.

<u>Accrued Interest and Penalties Related to Unrecognized Tax Benefits</u> – The Trust reports accrued interest and penalties related to unrecognized tax benefits as interest and penalties expense, respectively. There were no interest or penalties related to unrecognized tax benefits for the year ended December 31, 2016.

<u>Subsequent Events</u> – The date to which events occurring after December, 31, 2016, the date of the most recent statements of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is July 26, 2017, which is the date on which the financial statements were available to be issued.

Note 2 – New Accounting Standards

Issued

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which clarifies the principles for recognizing revenue from contracts with customers. This update will replace nearly all current U.S. GAAP guidance related to revenue recognition and will eliminate industry specific guidance. The core principle of this new standard is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled for those goods and services. The standard also requires certain financial statement disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized. ASU 2014-09 will be effective for annual periods beginning after December 15, 2018. Early application is not permitted.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than twelve months. Recognition, measurement, and presentation of expenses will depend on classification as finance or operating lease. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted.

In August 2016, the FASB issued ASU No. 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities." The amendments in this update include, but are not limited to, requirements for qualitative and quantitative assessments of net asset classes, investment returns, natural and functional expenses, liquidity and the availability of resources, and presentation of operating cash flows. ASU 2016-14 will be effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. Early application is permitted.

The Trust is currently evaluating the impact these updates will have on its financial statements.

Note 3 – Investments

Investments at December 31, 2016 are comprised of the following:

	Cost	Market Value	Unrealized Gain (Loss)
	$	$	$
Mutual funds			
Equity securities - domestic	1,851,526	1,983,456	131,930
Equity securities - international	884,897	811,187	(73,710)
Fixed income securities	1,196,873	1,174,683	(22,190)
Total Investments	3,933,296	3,969,326	36,030

Note 4 – Fair Value Measurements

Generally accepted accounting principles establish 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 are described below.

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 the 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 derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset's 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.

The 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, 2016.

Mutual funds: Valued at quoted market prices which represent the net asset value of shares held by the Trust at year-end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while 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.

<u>Note 4 – Fair Value Measurements</u> – Continued

The following table sets forth, by level within the fair value hierarchy, the Trust's assets at fair value as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Mutual funds				
Equity securities - domestic	1,983,456	0	0	1,983,456
Equity securities - international	811,187	0	0	811,187
Fixed income securities	1,174,683	0	0	1,174,683
Total Assets at Fair Value	3,969,326	0	0	3,969,326

Note 5 – Unrestricted Net Assets

The Trust's Board of Trustees designated a Land Preservation Fund account to be used toward acquisitions of land easements and expenses related to the general operations of the Trust. The fund balance as of December 31, 2016 was $620,617.

The Board of Trustees designated the Amos Funk Stewardship Fund for the perpetual stewardship of the conservation easements held by the Trust. The fund balance as of December 31, 2016 was $3,969,326.

All board designated funds are included as unrestricted net assets.

Note 6 – Temporarily Restricted Net Assets

At December 31, 2016, temporarily restricted net assets are available for the following purposes:

	$
Blank Farm preservation	152,500
Clay Township land preservation	133,970
Caernarvon Township land preservation	82,717
Municipalities Water Quality Options project	90,000
Bringing Back the Buzz project	16,050
Capacity building	6,780
Hybrid vehicle	1,331
Total Temporarily Restricted Net Assets	483,348

Note 6 – Temporarily Restricted Net Assets – Continued

Net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restrictions specified by donors during the year ended December 31, 2016 as follows:

	$
Lancaster County Community Foundation	15,581
Hybrid vehicle	812
Total Net Assets Released from Restrictions	16,393

Note 7 – Conservation Interests Held

The Trust acquires conservation interests in land by donation and purchase of conservation easements. The cumulative costs of the conservation interests acquired totaled $14,723,500 as of December 31, 2016. There is no asset on the statement of financial position for purchased or donated easements because conservation easements do not meet the criteria for asset recognition under generally accepted accounting principles. As of December 31, 2016, conservation easements held directly by the Trust totaled 29,015 acres.

Note 8 – Operating Leases

The Trust leases office equipment under an operating lease expiring in July 2017. Total lease payments amounted to $2,365 for the year ended December 31, 2016. Future minimum lease payments required under the lease for 2017 are $1,505.

Note 9 – Commitments

The Trust has entered into a two-year contract to monitor farms preserved by the Lancaster County Agricultural Preserve Board for a total contract amount not to exceed $40,000 per year.

Note 10 – Reclassification

Certain reclassifications have been made to reclassify additional releases of restrictions and change the amounts of temporarily restricted and unrestricted net assets at the beginning of the year to conform to the current year's presentation.

Note 11 – Subsequent Event

In January 2017, the Lancaster County Board of Commissioners approved a $250,000 matching challenge grant to the Trust, to permanently preserve prime farmland in areas planned for agriculture in accordance with guidelines prepared for the program.