

Lancaster Farmland Trust

Financial Report

December 31, 2018



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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 statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lancaster Farmland Trust as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, in 2018, the Trust adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and ASU No. 2018-08, *Clarifying the scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

A large, stylized handwritten signature in black ink that reads "Simon Lever LLC". The signature is fluid and cursive, with the letters "S", "L", and "C" being particularly prominent.

Simon Lever LLC
Lititz, PA

July 9, 2019

FINANCIAL STATEMENTS

Lancaster Farmland Trust

STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
	<u>\$</u>	<u>\$</u>
ASSETS		
Cash and cash equivalents	415,532	477,903
Cash and cash equivalents designated for land preservation	665,250	658,273
Grants receivable	275,933	272,082
Contributions receivable	46,679	57,052
Prepaid expenses	8,591	5,534
Investments designated for Stewardship Fund	4,402,235	4,663,837
PROPERTY AND EQUIPMENT		
Building and improvements	728,525	723,187
Land	60,000	60,000
Office equipment	112,249	85,172
Furniture and fixtures	35,311	35,311
Vehicle	18,639	18,639
Total	<u>954,724</u>	<u>922,309</u>
Less accumulated depreciation	<u>(414,829)</u>	<u>(375,792)</u>
Property and Equipment, Net of Accumulated Depreciation	<u>539,895</u>	<u>546,517</u>
<u>TOTAL ASSETS</u>	<u>6,354,115</u>	<u>6,681,198</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	289,064	144,232
Accrued payroll and vacation	33,538	14,129
Other accrued expenses	6,018	7,639
Total Liabilities	<u>328,620</u>	<u>166,000</u>
NET ASSETS		
Without donor restrictions		
Undesignated	513,188	823,375
Board designated	<u>5,067,485</u>	<u>5,322,110</u>
Total without Donor Restrictions	5,580,673	6,145,485
With donor restrictions	<u>444,822</u>	<u>369,713</u>
Total Net Assets	<u>6,025,495</u>	<u>6,515,198</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>6,354,115</u>	<u>6,681,198</u>

See Notes to Financial Statements

Lancaster Farmland Trust

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
	\$	\$	\$
Contributions and Other Support			
Easements in-kind	1,582,523	0	1,582,523
Contributions	524,428	39,100	563,528
Grants	421,401	300,840	722,241
Lancaster County matching grant	250,000	0	250,000
Special events, net of direct expenses of \$33,651	182,380	0	182,380
Gifts in-kind	1,891	0	1,891
Land Trust reimbursement program	55,000	0	55,000
Total Contributions and Other Support	<u>3,017,623</u>	<u>339,940</u>	<u>3,357,563</u>
Other Revenue			
Net unrealized loss on investments	(415,177)	0	(415,177)
Dividends	112,262	0	112,262
Realized gain on investments	7,629	0	7,629
Fee for service revenue	43,640	0	43,640
Net assets released from restrictions	264,831	(264,831)	0
Total Other Revenue	<u>13,185</u>	<u>(264,831)</u>	<u>(251,646)</u>
Total Revenue	<u>3,030,808</u>	<u>75,109</u>	<u>3,105,917</u>
Functional Expenses			
Program Services	3,292,000	0	3,292,000
Supporting Services			
General and administrative	82,934	0	82,934
Fundraising	220,686	0	220,686
Total Functional Expenses	<u>3,595,620</u>	<u>0</u>	<u>3,595,620</u>
Change in Net Assets	(564,812)	75,109	(489,703)
Net Assets at Beginning of Year	<u>6,145,485</u>	<u>369,713</u>	<u>6,515,198</u>
<u>Net Assets at End of Year</u>	<u><u>5,580,673</u></u>	<u><u>444,822</u></u>	<u><u>6,025,495</u></u>

See Notes to Financial Statements

Lancaster Farmland Trust

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
	\$	\$	\$
Contributions and Other Support			
Easements in-kind	1,937,694	0	1,937,694
Contributions	728,217	44,900	773,117
Grants	1,159,321	268,122	1,427,443
Lancaster County matching grant	250,000	0	250,000
Special events, net of direct expenses of \$36,277	186,086	0	186,086
Gifts in-kind	4,936	0	4,936
Land Trust reimbursement program	70,000	0	70,000
Total Contributions and Other Support	<u>4,336,254</u>	<u>313,022</u>	<u>4,649,276</u>
Other Revenue			
Net unrealized gain on investments	496,730	0	496,730
Dividends	100,531	0	100,531
Realized gain on investments	54,333	0	54,333
Fee for service revenue	97,769	0	97,769
Net assets released from restrictions	425,326	(425,326)	0
Total Other Revenue	<u>1,174,689</u>	<u>(425,326)</u>	<u>749,363</u>
Total Revenue	<u>5,510,943</u>	<u>(112,304)</u>	<u>5,398,639</u>
Functional Expenses			
Program Services	4,140,469	0	4,140,469
Supporting Services			
General and administrative	80,954	0	80,954
Fundraising	236,891	0	236,891
Total Functional Expenses	<u>4,458,314</u>	<u>0</u>	<u>4,458,314</u>
Change in Net Assets	1,052,629	(112,304)	940,325
Net Assets at Beginning of Year	<u>5,092,856</u>	<u>482,017</u>	<u>5,574,873</u>
<u>Net Assets at End of Year</u>	<u>6,145,485</u>	<u>369,713</u>	<u>6,515,198</u>

See Notes to Financial Statements

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	Program	General and Administrative	Fundraising	Total
	\$	\$	\$	\$
Easements in-kind	1,582,523	0	0	1,582,523
Easement acquisition	544,922	0	0	544,922
Appraisal fees	14,075	0	0	14,075
Bank fees	2,248	44	1,678	3,970
Depreciation	28,645	3,658	6,734	39,037
Dues and subscriptions	10,933	934	2,558	14,425
Employee benefits	36,482	2,797	5,776	45,055
Event food and beverage	0	0	16,228	16,228
Event rentals	0	0	6,935	6,935
Insurance	32,592	923	1,557	35,072
Meetings and other	5,438	507	1,950	7,895
Miscellaneous	3,443	0	2,723	6,166
Newsletters and print materials	12,363	96	22,812	35,271
Outside services	472,503	3,065	6,255	481,823
Payroll taxes	29,774	3,605	6,882	40,261
Postage	3,848	148	2,645	6,641
Professional fees	43,285	4,302	46,378	93,965
Repairs and maintenance	4,547	263	497	5,307
Salaries and wages	431,168	59,007	103,875	594,050
Supplies	2,111	223	11,453	13,787
Telephone and internet	10,235	1,283	2,333	13,851
Training	10,619	1,321	2,513	14,453
Travel	6,110	255	1,605	7,970
Utilities	4,136	503	950	5,589
	3,292,000	82,934	254,337	3,629,271
Less: Direct expenses related to special events	0	0	(33,651)	(33,651)
Total Functional Expenses	3,292,000	82,934	220,686	3,595,620

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

	Program	General and Administrative	Fundraising	Total
	\$	\$	\$	\$
Easements in-kind	1,937,694	0	0	1,937,694
Easement acquisition	773,644	0	0	773,644
Appraisal fees	12,350	0	0	12,350
Bank fees	2,324	33	2,026	4,383
Depreciation	24,234	3,029	6,395	33,658
Dues and subscriptions	10,086	1,483	2,203	13,772
Employee benefits	46,475	3,181	8,492	58,148
Event food and beverage	0	0	17,473	17,473
Event rentals	0	0	6,104	6,104
Insurance	32,644	1,804	1,804	36,252
Meetings and other	10,227	556	683	11,466
Miscellaneous	3,669	0	6,877	10,546
Newsletters and print materials	10,022	205	28,164	38,391
Outside services	744,270	4,073	8,823	757,166
Payroll taxes	31,553	3,691	8,404	43,648
Postage	4,667	448	5,208	10,323
Professional fees	50,758	3,592	41,031	95,381
Repairs and maintenance	4,026	783	783	5,592
Salaries and wages	411,513	51,790	110,708	574,011
Supplies	2,137	697	13,128	15,962
Telephone and internet	9,587	1,864	1,864	13,315
Training	9,026	2,553	804	12,383
Travel	4,849	255	1,277	6,381
Utilities	4,714	917	917	6,548
	4,140,469	80,954	273,168	4,494,591
Less: Direct expenses related to special events	0	0	(36,277)	(36,277)
Total Functional Expenses	4,140,469	80,954	236,891	4,458,314

See Notes to Financial Statements

Lancaster Farmland Trust

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	(489,703)	940,325
Adjustment to reconcile change in net assets to net cash used in operating activities:		
Depreciation	39,037	33,658
Unrealized (gain) loss on investments	399,273	(511,638)
Realized gain on investments	(7,629)	(54,333)
Change in assets and liabilities:		
Grants receivable	(3,851)	(48,112)
Contributions receivable	10,373	(17,392)
Prepaid expenses	(3,057)	300
Accounts payable	144,832	137,283
Accrued payroll and vacation	19,409	(13,721)
Other accrued expenses	(1,621)	6,482
Net Cash Provided by Operating Activities	<u>107,063</u>	<u>472,852</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(345,809)	(742,032)
Proceeds from sale of investments	215,767	613,492
Purchase of property and equipment	(32,415)	(26,102)
Net Cash Used in Investing Activities	<u>(162,457)</u>	<u>(154,642)</u>
Net Change in Cash and Cash Equivalents	(55,394)	318,210
Cash and Cash Equivalents:		
Beginning	<u>1,136,176</u>	<u>817,966</u>
<u>Ending</u>	<u><u>1,080,782</u></u>	<u><u>1,136,176</u></u>

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 net assets without donor restrictions unless a donor places a restriction on 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.

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies – Continued

Net Assets – The Trust is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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 consist of the following:

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations. Net assets that have been designated by the board for specific purposes are included as net assets without donor restrictions.

Net Assets with Donor Restrictions – 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. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Trust.

Public Support and Revenue – Contributions received are recorded as support without donor restrictions unless they are restricted by donor-imposed stipulations. Gifts of cash and other assets are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a restriction ends, or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. For restricted contributions where the restrictions are satisfied in the same period as receipt of contributions, the Trust reports these contributions as support without donor restrictions.

Grant revenue is reported as support without donor restrictions, 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 support with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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 \$13,003 and \$15,082 for the years ended December 31, 2018 and 2017, respectively.

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies – 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 \$1,628 and \$8,646 for the years ended December 31, 2018 and 2017, respectively. In addition, the Trust receives a significant amount of donated services from unpaid volunteers who assist in program and fundraising activities. For the years ended December 31, 2018 and 2017, 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 \$1,582,523 and \$1,937,694 for the years ended December 31, 2018 and 2017, respectively. The amount recorded as in-kind contributions is equal to the fair market value of the easements contributed less acquisition cost.

Functional Allocation of Expenses – 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.

Income Taxes – 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.

Retirement Plan – 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 years ended December 31, 2018 and 2017, retirement plan expense totaled \$17,064 and \$17,578, respectively.

Advertising Costs – The Trust expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2018 and 2017 totaled \$5,641 and \$2,872, respectively.

Accrued Interest and Penalties Related to Unrecognized Tax Benefits – 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 years ended December 31, 2018 and 2017.

Subsequent Events – Events that occurred subsequent to December 31, 2018 have been evaluated by the Trust's management through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

Notes to Financial Statements

Note 2 – New Accounting Standards*Adopted*

During 2018, the Trust adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, “Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.” The guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about not-for-profit entity’s liquidity, financial performance, and cash flows. A main provision of this guidance is presentation of two classes of net assets versus the previously required three. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. A summary of the net asset reclassifications caused by the adoption of ASU 2016-14 as of December 31, 2017 follows:

	ASU 2016-14 Classifications		
	Without donor restrictions	With donor restrictions	Total Net Assets
	\$	\$	\$
Net Assets Classifications			
As previously presented:			
Unrestricted	6,145,485	0	6,145,485
Temporarily restricted	0	369,713	369,713
Net assets, as reclassified	<u>6,145,485</u>	<u>369,713</u>	<u>6,515,198</u>

The adoption of ASU 2016-14 also caused reclassifications to net assets released from restrictions and net assets at beginning of year on the statement of activities for the year ended December 31, 2017. The amount of net assets released to net assets without donor restrictions from net assets with donor restrictions was decreased by \$1,331 and \$1,331 was reclassified to net assets without donor restrictions beginning of year from net assets with donor restrictions beginning of year.

During 2018, the Trust adopted FASB ASU No. 2018-08, “Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions received and Contributions Made.” The guidance is intended to clarify whether transactions should be accounted for as a contribution or an exchange transaction and to clarify when a contribution is conditional. The guidance clarifies an exchange transaction is when a resource provider receives commensurate value for resources provided. A resource provider is not considered to receive commensurate value when the public receives the benefits of the resources provided or when the resource provider is following out their own mission. The guidance also clarifies that a contribution is conditional when it involves a barrier and a right of return or right of release from the provider’s obligations. This ASU has a modified prospective application so there are no adjustments to 2017.

Notes to Financial Statements

Note 2 – New Accounting Standards – Continued

Issued, not yet adopted

In May 2014, the FASB issued 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 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 2018, the FASB issued ASU 2018-13, “Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820).” This ASU requires disclosure of the changes in unrealized gains or losses for Level 3 assets or liabilities held at the end of the period and the range and weighted-average of the significant unobservable inputs used in determining the fair value of Level 3 assets and liabilities. This ASU removes the requirement to disclose the transfers between Level 1 and Level 2 of the fair value hierarchy and the valuation process for determining Level 3 fair value measurements. ASU 2018-13 will be effective for annual periods beginning after December 15, 2019. Early application is permitted.

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

Lancaster Farmland Trust

Notes to Financial Statements

Note 3 – Liquidity and Availability

As of December 31, 2018, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses and capital expenditures not financed with debt, were as follows:

	<u>\$</u>
Financial assets:	
Cash and cash equivalents	415,532
Cash and cash equivalents designated for land preservation	665,250
Grants receivable	275,933
Contributions receivable	46,679
Investments designated for Stewardship Fund	<u>4,402,235</u>
Total financial assets available within one year	5,805,629
Less those unavailable for general expenditures within one year:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(444,822)
Board designations:	
Amounts designated for land preservation	(665,250)
Amounts designated for Stewardship Fund	<u>(4,402,235)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>293,322</u></u>

The Trust sets a goal of having financial assets on hand to meet 90 days of normal operating expenses, which are, on average, around \$200,000. As part of its liquidity management the Trust has a goal to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due.

Note 4 – Investments

Investments at December 31, 2018 and 2017 are comprised of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
2018			
Mutual funds			
Equity securities - domestic	1,577,935	1,850,419	272,484
Equity securities - international	1,264,815	1,176,548	(88,267)
Fixed income securities	<u>1,411,093</u>	<u>1,375,268</u>	<u>(35,825)</u>
<u>Total Investments</u>	<u><u>4,253,843</u></u>	<u><u>4,402,235</u></u>	<u><u>148,392</u></u>

Notes to Financial Statements

Note 4 – Investments – Continued

	Cost	Market Value	Unrealized Gain (Loss)
	\$	\$	\$
2017			
Mutual funds			
Equity securities - domestic	1,542,701	1,959,475	416,774
Equity securities - international	1,169,550	1,312,121	142,571
Fixed income securities	1,403,918	1,392,241	(11,677)
<u>Total Investments</u>	<u>4,116,169</u>	<u>4,663,837</u>	<u>547,668</u>

Note 5 – 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, 2018.

Lancaster Farmland Trust

Notes to Financial Statements

Note 5 – Fair Value Measurements – Continued

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.

The following table sets forth, by level within the fair value hierarchy, the Trust's assets at fair value as of December 31, 2018 and 2017:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
2018				
Mutual funds				
Equity securities - domestic	1,850,419	0	0	1,850,419
Equity securities - international	1,176,548	0	0	1,176,548
Fixed income securities	1,375,268	0	0	1,375,268
<u>Total Assets at Fair Value</u>	<u>4,402,235</u>	<u>0</u>	<u>0</u>	<u>4,402,235</u>
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
2017				
Mutual funds				
Equity securities - domestic	1,959,475	0	0	1,959,475
Equity securities - international	1,312,121	0	0	1,312,121
Fixed income securities	1,392,241	0	0	1,392,241
<u>Total Assets at Fair Value</u>	<u>4,663,837</u>	<u>0</u>	<u>0</u>	<u>4,663,837</u>

Note 6 – Net Assets without Donor Restrictions

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, 2018 and 2017 was \$665,250 and \$658,273, respectively.

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, 2018 and 2017 was \$4,402,235 and \$4,663,837, respectively.

All board designated funds are included as net assets without donor restrictions.

Lancaster Farmland Trust

Notes to Financial Statements

Note 7 – Net Assets with Donor Restrictions

As of December 31, 2018 and 2017, net assets with donor restrictions are subject to the following purpose restrictions:

	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
Subject to purpose restrictions:		
Brecknock Township land preservation	0	133,122
Caernarvon Township land preservation	108,982	101,591
East Lampeter Township land preservation	135,940	0
Municipalities Water Quality Options project	0	100,000
Lancaster Farmer Outreach project	118,000	0
Lancaster County land preservation	11,900	0
Risser Mill land preservation	70,000	35,000
<u>Total Net Assets with Donor Restrictions</u>	<u>444,822</u>	<u>369,713</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restrictions specified by donors during the years ended December 31, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
Subject to purpose restrictions:		
Blank Farm preservation	0	152,500
Brecknock Township land preservation	133,122	0
Bringing Back the Buzz project	0	16,050
Caernarvon Township land preservation	31,709	26,026
Capacity building	0	6,780
Clay Township land preservation	0	133,970
Municipalities Water Quality Options project	100,000	90,000
<u>Total Net Assets Released from Restrictions</u>	<u>264,831</u>	<u>425,326</u>

Note 8 – 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 \$15,986,067 and \$15,319,666 as of December 31, 2018 and 2017, respectively. 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. Conservation easements held directly by the Trust totaled 30,260 acres and 29,689 acres as of December 31, 2018 and 2017, respectively.

Notes to Financial Statements

Note 9 – Operating Leases

The Trust leased office equipment under an operating lease that expired in July 2017. Lease payments under the expired agreement totaled \$2,387 for the year ended December 31, 2017.

In 2017, the Trust entered into an operating lease agreement for office equipment. The lease requires monthly rent payments of \$215 through November 2021. Lease payments under the agreement totaled \$2,591 and \$290 for the years ended December 31, 2018 and 2017, respectively. Future minimum operating lease payments required under the agreement are as follows: 2019-\$2,580; 2020-\$2,580; 2021-\$2,365.

Note 10 – Major Contributors

The Trust received contributions from one grantor totaling \$415,966, which is more than 10% of its total contribution revenue for the year ended December 31, 2018. There were no grantors who contributed more than 10% of total contribution revenue for the year ended December 31, 2017.

Note 11 – Reclassification

Certain items in the financial statements for the year ended December 31, 2017 have been reclassified in order to conform to the current year's financial statements presentation.