

Lancaster Farmland Trust

Financial Report

December 31, 2019



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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, 2019 and 2018, 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, 2019 and 2018, 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.

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

Simon Lever LLC
Lititz, PA

July 17, 2020

FINANCIAL STATEMENTS

Lancaster Farmland Trust

STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

	2019	2018
	\$	\$
ASSETS		
Cash and cash equivalents	182,966	415,532
Cash and cash equivalents designated for land preservation	1,082,699	665,250
Grants receivable	109,714	275,933
Contributions receivable	63,408	46,679
Pledges receivable, net of discounts	455,174	0
Prepaid expenses	10,164	8,591
Investments designated for Stewardship Fund	5,040,585	4,402,235
PROPERTY AND EQUIPMENT		
Building and improvements	737,236	728,525
Land	60,000	60,000
Office equipment	112,078	112,249
Furniture and fixtures	43,106	35,311
Vehicle	20,167	18,639
Total	972,587	954,724
Less accumulated depreciation	(453,927)	(414,829)
Property and Equipment, Net of Accumulated Depreciation	518,660	539,895
<u>TOTAL ASSETS</u>	<u>7,463,370</u>	<u>6,354,115</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	108,471	289,064
Accrued payroll and vacation	22,509	33,538
Other accrued expenses	1,328	6,018
Total Liabilities	132,308	328,620
NET ASSETS		
Without donor restrictions		
Undesignated	1,082,777	513,188
Board designated	5,062,877	5,067,485
Total without Donor Restrictions	6,145,654	5,580,673
With donor restrictions	1,185,408	444,822
Total Net Assets	7,331,062	6,025,495
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>7,463,370</u>	<u>6,354,115</u>

See Notes to Financial Statements

Lancaster Farmland Trust

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
	\$	\$	\$
Contributions and Other Support			
Easements in-kind	2,268,857	0	2,268,857
Contributions	659,716	1,032,784	1,692,500
Grants	490,132	125,000	615,132
Lancaster County matching grant	250,000	0	250,000
Special events, net of direct expenses of \$32,080	147,427	0	147,427
Gifts in-kind	9,464	0	9,464
Land Trust reimbursement program	35,000	0	35,000
Total Contributions and Other Support	<u>3,860,596</u>	<u>1,157,784</u>	<u>5,018,380</u>
Other Revenue			
Net unrealized gain on investments	705,166	0	705,166
Dividends	127,116	0	127,116
Realized gain on investments	56,772	0	56,772
Fee for service revenue	19,353	0	19,353
Net assets released from restrictions	417,198	(417,198)	0
Total Other Revenue	<u>1,325,605</u>	<u>(417,198)</u>	<u>908,407</u>
Total Revenue	<u>5,186,201</u>	<u>740,586</u>	<u>5,926,787</u>
Functional Expenses			
Program Services	4,090,074	0	4,090,074
Supporting Services			
General and administrative	88,285	0	88,285
Fundraising	442,861	0	442,861
Total Functional Expenses	<u>4,621,220</u>	<u>0</u>	<u>4,621,220</u>
Change in Net Assets	564,981	740,586	1,305,567
Net Assets at Beginning of Year	<u>5,580,673</u>	<u>444,822</u>	<u>6,025,495</u>
<u>Net Assets at End of Year</u>	<u><u>6,145,654</u></u>	<u><u>1,185,408</u></u>	<u><u>7,331,062</u></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>5,580,673</u>	<u>444,822</u>	<u>6,025,495</u>

See Notes to Financial Statements

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019

	Program	General and Administrative	Fundraising	Total
	\$	\$	\$	\$
Easements in-kind	2,268,857	0	0	2,268,857
Easement acquisition	807,595	0	0	807,595
Appraisal fees	22,200	0	0	22,200
Bank fees	418	132	2,288	2,838
Depreciation	19,132	2,494	17,472	39,098
Dues and subscriptions	18,745	3,722	10,038	32,505
Employee benefits	36,236	7,073	15,226	58,535
Event food and beverage	0	0	17,146	17,146
Event rentals	0	0	6,522	6,522
Insurance	35,659	2,202	2,412	40,273
Meetings and other	5,793	1,025	2,339	9,157
Miscellaneous	3,079	0	2,515	5,594
Newsletters and print materials	17,280	1,177	30,583	49,040
Outside services	380,015	3,307	7,283	390,605
Payroll taxes	25,027	3,430	22,598	51,055
Postage	4,880	116	3,089	8,085
Professional fees	71,266	5,304	23,884	100,454
Repairs and maintenance	12,934	3,095	3,371	19,400
Salaries and wages	327,042	49,430	292,678	669,150
Supplies	2,352	485	8,806	11,643
Telephone and internet	10,857	2,681	2,912	16,450
Training	9,089	933	482	10,504
Travel	6,925	520	2,039	9,484
Utilities	4,693	1,159	1,258	7,110
	4,090,074	88,285	474,941	4,653,300
Less: Direct expenses related to special events	0	0	(32,080)	(32,080)
Total Functional Expenses	4,090,074	88,285	442,861	4,621,220

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)
<u>Total Functional Expenses</u>	3,292,000	82,934	220,686	3,595,620

See Notes to Financial Statements

Lancaster Farmland Trust

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

	2019	2018
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	1,305,567	(489,703)
Adjustment to reconcile change in net assets to net cash used in operating activities:		
Depreciation	39,098	39,037
Unrealized (gain) loss on investments	(721,063)	399,273
Realized gain on investments	(56,772)	(7,629)
Change in discounts on pledges receivable	37,311	0
Change in assets and liabilities:		
Grants receivable	166,219	(3,851)
Contributions receivable	(16,729)	10,373
Pledges receivable	(492,485)	0
Prepaid expenses	(1,573)	(3,057)
Accounts payable	(180,593)	144,832
Accrued payroll and vacation	(11,029)	19,409
Other accrued expenses	(4,690)	(1,621)
Net Cash Provided by Operating Activities	<u>63,261</u>	<u>107,063</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(197,852)	(345,809)
Proceeds from sale of investments	337,337	215,767
Purchase of property and equipment	(17,863)	(32,415)
Net Cash Provided by (Used in) Investing Activities	<u>121,622</u>	<u>(162,457)</u>
Net Change in Cash and Cash Equivalents	184,883	(55,394)
Cash and Cash Equivalents:		
Beginning	<u>1,080,782</u>	<u>1,136,176</u>
Ending	<u><u>1,265,665</u></u>	<u><u>1,080,782</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 \$8,235 and \$13,003 for the years ended December 31, 2019 and 2018, 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 \$9,203 and \$1,628 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, 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 \$2,268,857 and \$1,582,523 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, retirement plan expense totaled \$20,344 and \$17,064, respectively.

Advertising Costs – The Trust expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2019 and 2018 totaled \$2,282 and \$5,641, 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, 2019 and 2019.

Subsequent Events – Events that occurred subsequent to December 31, 2019 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

Issued, not yet adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards 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 to 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, 2019. 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, 2021. 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, 2019 and 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:

	2019	2018
	\$	\$
Financial assets:		
Cash and cash equivalents	182,966	415,532
Cash and cash equivalents designated for land preservation	1,082,699	665,250
Grants receivable	109,714	275,933
Contributions receivable	63,408	46,679
Pledges receivable, current portion	75,200	0
Investments designated for Stewardship Fund	5,040,585	4,402,235
Total financial assets available within one year	6,554,572	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	(1,185,408)	(444,822)
Board designations:		
Amounts designated for land preservation	(22,292)	(665,250)
Amounts designated for Stewardship Fund	(5,040,585)	(4,402,235)
Add back restricted long-term pledges receivable	379,974	0
Financial assets available to meet cash needs for general expenditures within one year	686,261	293,322

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, 2019 and 2018 are comprised of the following:

	Cost	Market Value	Unrealized Gain
	\$	\$	\$
2019			
Mutual funds			
Equity securities - domestic	1,450,045	2,166,312	716,267
Equity securities - international	1,323,267	1,446,444	123,177
Fixed income securities	1,397,819	1,427,829	30,010
<u>Total Investments</u>	4,171,131	5,040,585	869,454

Notes to Financial Statements

Note 4 – Investments – Continued

	Cost	Market Value	Unrealized Gain (Loss)
	\$	\$	\$
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	1,411,093	1,375,268	(35,825)
<u>Total Investments</u>	<u>4,253,843</u>	<u>4,402,235</u>	<u>148,392</u>

Note 5 – Pledges Receivable

During the year ended December 31, 2019, the Trust began a multi-year capital campaign to raise additional funds for easement acquisition and stewardship expenses. It is anticipated that the Campaign will have an impact on both expenses and revenues through 2023.

The Trust records unconditional promises to give as support at the time the promise is made. At December 31, 2019, the Trust had total pledges receivable of \$455,174. There were no pledges receivable at December 31, 2018. The capital campaign pledges represent multi-year pledges which have been discounted to the estimated present value using a 3.25% rate.

The pledge balances are as follows at December 31, 2019:

	\$
Pledges Receivable	492,485
Less: Discount for Future Payments	(37,311)
<u>Pledges Receivable, net</u>	<u>455,174</u>
Current Pledges Receivable	75,200
Long-Term Pledges Receivable, One to Three Years	379,974
<u>Total</u>	<u>455,174</u>

Note 6 – 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.

Notes to Financial Statements

Note 6 – Fair Value Measurements – Continued

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Trust can 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, 2019.

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, 2019 and 2018:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
2019				
Mutual funds				
Equity securities - domestic	2,166,312	0	0	2,166,312
Equity securities - international	1,446,444	0	0	1,446,444
Fixed income securities	1,427,829	0	0	1,427,829
Total Assets at Fair Value	5,040,585	0	0	5,040,585

Notes to Financial Statements

Note 6 – Fair Value Measurements – Continued

	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>

The following table sets forth by level, within the fair value hierarchy, the Trust's assets that are measured at fair value on a non-recurring basis as of December 31, 2019:

	Level 1	Level 2	Level 3	Total
<u>December 31, 2019</u>	\$	\$	\$	\$
Pledges Receivable	0	0	492,485	492,485
Discounts in Pledges Received	0	0	(37,311)	(37,311)
	<u>0</u>	<u>0</u>	<u>455,174</u>	<u>455,174</u>

The following table sets forth a summary of changes in the fair value of the Trust's level 3 assets for the year ended December 31, 2019:

	Pledges Receivable
	\$
Pledges Receivable, January 1	0
New Pledges	492,485
Change in Present Value Discount	<u>(37,311)</u>
<u>Pledges Receivable, December 31</u>	<u>455,174</u>

The fair value of pledges receivable is determined based on discounted expected future cash flows, using a present value rate of 3.25%.

The preceding method 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 fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Lancaster Farmland Trust

Notes to Financial Statements

Note 7 – 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, 2019 and 2018 was \$22,292 and \$665,250, 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, 2019 and 2018 was \$5,040,585 and \$4,402,235, respectively.

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

Note 8 – Net Assets with Donor Restrictions

As of December 31, 2019 and 2018, net assets with donor restrictions are subject to the following purpose restrictions:

	2019	2018
	\$	\$
Subject to purpose restrictions:		
Caernarvon Township land preservation	56,524	108,982
East Lampeter Township land preservation	0	135,940
Municipalities Water Quality Options project	125,000	0
Lancaster Farmer Outreach project	0	118,000
Lancaster County land preservation	0	11,900
Easement acquisition and land preservation	1,003,884	0
Ressler Mill land preservation	0	70,000
<u>Total Net Assets with Donor Restrictions</u>	<u>1,185,408</u>	<u>444,822</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, 2019 and 2018 as follows:

	2019	2018
	\$	\$
Subject to purpose restrictions:		
Brecknock Township land preservation	0	133,122
Caernarvon Township land preservation	81,358	31,709
East Lampeter Township land preservation	135,940	0
Municipalities Water Quality Options project	0	100,000
Lancaster County land preservation	11,900	0
Lancaster Farmer Outreach project	118,000	0
Ressler Mill land preservation	70,000	0
<u>Total Net Assets Released from Restrictions</u>	<u>417,198</u>	<u>264,831</u>

Notes to Financial Statements

Note 9 – 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 \$16,758,624 and \$15,986,067 as of December 31, 2019 and 2018, 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 31,066 acres and 30,260 acres as of December 31, 2019 and 2018, respectively.

Note 10 – Operating Leases

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 \$2,580 and \$2,591 for the years ended December 31, 2019 and 2018, respectively. Future minimum operating lease payments required under the agreement are as follows: 2020-\$2,580 and 2021-\$2,365.

Note 11 – Major Contributors

There were no grantors who contributed more than 10% of total contribution revenue for the year ended December 31, 2019. The Trust received contributions from one grantor totaling \$415,966, which was more than 10% of its total contribution revenue, for the year ended December 31, 2018.

Note 12 – Subsequent Events

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China and has subsequently spread into the United States and specifically Pennsylvania. For approximately two months beginning in March 2020, an order was in place for all non-life sustaining businesses to close and that all residents stay at home except for essential travel. The Trust expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

Additionally, the United States stock market experienced increased volatility caused by the market's response to the economic uncertainties of the novel coronavirus. As a result, the value of the Trust's investments in marketable securities has decreased.

In April 2020, the Trust secured funding in the amount of \$145,960 through the Paycheck Protection Program administered by the Small Business Administration. The Trust expects a portion of this funding to be forgiven based on the requirements of the program and the remainder will be converted to a loan with interest at a rate of 1% and a maturity date of two years from the date of original disbursement. Payments will begin after a forbearance period which will be the earlier of the date on which forgiveness is determined or approximately one year from the date the funding was received.