

**THE LAND TRUST FOR
SANTA BARBARA COUNTY**

FINANCIAL STATEMENTS

JUNE 30, 2011

THE LAND TRUST FOR SANTA BARBARA COUNTY

June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Land Trust for Santa Barbara County
Santa Barbara, California

We have audited the accompanying statement of financial position of The Land Trust for Santa Barbara County (a non-profit organization) as of June 30, 2011, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended June 30, 2010, is presented for comparative purposes only and was extracted from the financial statements for that year, on which an unqualified opinion dated October 19, 2010, was expressed.

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 of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Land Trust for Santa Barbara County as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGowan Guntermann

October 13, 2011

THE LAND TRUST FOR SANTA BARBARA COUNTY

STATEMENT OF FINANCIAL POSITION
 June 30, 2011
 (With Comparative Totals as of June 30, 2010)

	ASSETS				(Memo)
	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Current Assets					
Cash and cash equivalents	\$ 12,667	\$ 1,892,781	\$ 1,000	\$ 1,906,448	\$ 1,966,768
Grants receivable	421,178	-	-	421,178	263,690
Pledges receivable	-	5,424,533	-	5,424,533	64,000
Accounts receivable	10,818	-	-	10,818	1,522
Prepaid expenses	7,895	-	-	7,895	10,558
Total Current Assets	<u>452,558</u>	<u>7,317,314</u>	<u>1,000</u>	<u>7,770,872</u>	<u>2,306,538</u>
Other Assets					
Investments	906,714	1,912,365	1,198,757	4,017,836	3,640,532
Pledges receivable	-	288,500	-	288,500	634,000
Net property and equipment	6,176	3,459	33	9,668	11,273
Total Other Assets	<u>912,890</u>	<u>2,204,324</u>	<u>1,198,790</u>	<u>4,316,004</u>	<u>4,285,805</u>
Total Assets	<u>\$ 1,365,448</u>	<u>\$ 9,521,638</u>	<u>\$ 1,199,790</u>	<u>\$ 12,086,876</u>	<u>\$ 6,592,343</u>
	LIABILITIES AND NET ASSETS				
Current Liabilities					
Accounts payable	\$ 41,882	\$ -	\$ -	\$ 41,882	\$ 13,856
Accrued expenses	14,964	-	-	14,964	16,583
Total Current Liabilities	<u>56,846</u>	<u>-</u>	<u>-</u>	<u>56,846</u>	<u>30,439</u>
Other Liabilities					
Deferred revenue	-	54,936	-	54,936	311,284
Total Liabilities	<u>56,846</u>	<u>54,936</u>	<u>-</u>	<u>111,782</u>	<u>341,723</u>
Net Assets					
Unrestricted	1,308,602	-	-	1,308,602	1,123,603
Temporarily restricted	-	9,466,702	-	9,466,702	3,979,829
Permanently restricted	-	-	1,199,790	1,199,790	1,147,188
Total Net Assets	<u>1,308,602</u>	<u>9,466,702</u>	<u>1,199,790</u>	<u>11,975,094</u>	<u>6,250,620</u>
Total Liabilities and Net Assets	<u>\$ 1,365,448</u>	<u>\$ 9,521,638</u>	<u>\$ 1,199,790</u>	<u>\$ 12,086,876</u>	<u>\$ 6,592,343</u>

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

THE LAND TRUST FOR SANTA BARBARA COUNTY

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2011

(With Comparative Totals for the Year Ended June 30, 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>(Memo) 2010 Total</u>
Public Support and Revenue					
Public Support					
Individual gifts and membership	\$ 38,952	\$ 27,898	\$ 1,100	\$ 67,950	\$ 53,584
Major gifts	133,775	5,422,059	31,502	5,587,336	541,202
Governmental grants	-	3,857,956	-	3,857,956	751,252
Foundation, corporate, and other grants	20,750	248,972	20,000	289,722	87,638
Gifts of interest in land	-	187,125	-	187,125	1,250,002
In-kind contributions	3,213	50,000	-	53,213	37,603
Total Public Support	<u>196,690</u>	<u>9,794,010</u>	<u>52,602</u>	<u>10,043,302</u>	<u>2,721,281</u>
Revenue					
Merchandise sales (net of expenses of \$1,107 and \$26,922)	30	331	-	361	11,703
Special events (net of expenses of \$16,036 and \$13,357)	433	4,361	-	4,794	5,843
Dividends and interest	43,894	64,548	-	108,442	133,429
Realized and unrealized gain on investments	106,400	307,664	-	414,064	265,162
Net assets released from restrictions	4,684,041	<u>(4,684,041)</u>	-	-	-
Total Revenue	<u>4,834,798</u>	<u>(4,307,137)</u>	<u>-</u>	<u>527,661</u>	<u>416,137</u>
Total Support and Revenue	<u>5,031,488</u>	<u>5,486,873</u>	<u>52,602</u>	<u>10,570,963</u>	<u>3,137,418</u>
Expenses					
Projects					
Arroyo Hondo	188,764	-	-	188,764	218,936
Carpinteria Creek	219,030	-	-	219,030	4,223
Carpinteria Marsh	21,798	-	-	21,798	38,847
Coronado Preserve	3,323	-	-	3,323	2,452
Franklin Trail	6,506	-	-	6,506	-
Gaviota Coast	14,451	-	-	14,451	20,626
Hibbits Ranch	2,786,216	-	-	2,786,216	11,037
Hot Springs Canyon	99,342	-	-	99,342	434
Wetland Mitigation	1,117,313	-	-	1,117,313	520,827
Conservation easement stewardship	73,479	-	-	73,479	66,503
Other land projects	75,098	-	-	75,098	1,737,466
Total Projects	<u>4,605,320</u>	<u>-</u>	<u>-</u>	<u>4,605,320</u>	<u>2,621,351</u>
Supporting Services					
General	79,774	-	-	79,774	87,649
Fundraising	152,796	-	-	152,796	151,985
Land project development	8,599	-	-	8,599	12,445
Total Supporting Services	<u>241,169</u>	<u>-</u>	<u>-</u>	<u>241,169</u>	<u>252,079</u>
Total Expenses	<u>4,846,489</u>	<u>-</u>	<u>-</u>	<u>4,846,489</u>	<u>2,873,430</u>
Change in Net Assets	184,999	5,486,873	52,602	5,724,474	263,988
Net Assets, July 1	<u>1,123,603</u>	<u>3,979,829</u>	<u>1,147,188</u>	<u>6,250,620</u>	<u>5,986,632</u>
Net Assets, June 30	<u>\$ 1,308,602</u>	<u>\$ 9,466,702</u>	<u>\$ 1,199,790</u>	<u>\$ 11,975,094</u>	<u>\$ 6,250,620</u>

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

THE LAND TRUST FOR SANTA BARBARA COUNTY

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2011
(With Comparable Totals for the Year Ended June 30, 2010)

	Projects												Supporting Services			2011 Total	(Memo) 2010 Total	
	Arroyo Hondo	Carp Creek	Carp Marsh	Coronado Preserve	Franklin Trail	Gaviota Coast	Hibbitts Ranch	Hot Springs Canyon	Wetland Mitigation	Cons Easement Stewardship	Other Land Projects	Total Projects	General Services	Fundraising	Land Project Development			Total Supporting
Salaries, wages, and benefits	\$ 42,780	\$ 1,910	\$ 7,344	\$ 1,344	\$ 1,044	\$ 10,478	\$ 19,986	\$ 36,831	\$ 17,799	\$ 45,575	\$ 14,268	\$ 199,359	\$ 59,395	\$ 100,334	\$ 4,372	\$ 164,101	\$ 363,460	\$ 368,254
Indirect Costs																		
Banking and investment fees	4,563	15	1,398	8	19	66	30	245	116	3,324	2,426	12,210	4,778	664	26	5,468	17,678	17,021
Computer	132	12	40	8	17	57	62	216	104	250	72	970	82	1,966	27	2,075	3,045	2,581
Continuing education	24	1	14	5	4	23	15	123	20	88	43	360	85	216	4	305	665	105
Dues	261	40	53	11	309	71	121	268	150	1,867	141	3,292	576	2,728	20	3,324	6,616	4,886
Insurance	2,832	77	295	211	62	422	753	1,842	725	1,858	332	9,409	2,304	4,048	173	6,525	15,934	16,682
Accounting	778	92	358	67	76	514	939	2,239	880	2,257	381	8,581	2,795	4,916	209	7,920	16,501	16,000
Membership services	65	4	30	4	6	41	102	168	80	185	20	705	215	9,259	24	9,498	10,203	2,270
Occupancy	4,960	106	413	76	84	588	1,396	2,491	995	2,554	90	13,753	4,694	5,605	247	10,546	24,299	22,770
Office supplies	396	16	121	23	26	178	352	801	245	716	82	2,956	799	1,450	71	2,320	5,276	6,015
Telecommunication equipment and service	1,354	24	100	18	21	151	282	640	238	620	78	3,526	760	1,339	59	2,158	5,684	6,956
Travel, mileage, and parking	1,192	103	409	60	31	980	503	1,000	751	2,081	439	7,549	2,004	3,614	300	5,918	13,467	13,221
Depreciation	3,966	8	37	7	6	54	84	187	95	242	37	4,723	301	524	102	927	5,650	5,926
Total Indirect Costs	20,523	498	3,268	498	661	3,145	4,639	10,220	4,399	16,042	4,141	68,034	19,393	36,329	1,262	56,984	125,018	114,433
Direct Costs																		
Acquisition	-	-	-	-	-	-	2,752,623	1,000	-	-	-	2,753,623	-	-	-	-	2,753,623	1,250,000
Improvements	93,297	216,585	9,997	1,421	1,662	-	-	-	1,047,992	2,402	37,245	1,410,601	-	-	-	-	1,410,601	902,973
Legal fees	40	8	427	3	1,772	694	3,634	33,573	1,012	8,555	655	50,373	205	431	2,150	2,786	53,159	39,404
Professional services	28,458	17	647	1	-	-	1,063	16,855	45,894	272	18,752	111,959	139	2,405	772	3,316	115,275	169,278
Printings and mailings	436	12	80	17	1,366	125	4,257	832	201	596	35	7,957	600	12,766	38	13,404	21,361	25,007
Property taxes	427	-	23	39	1	9	14	31	16	37	2	599	42	85	5	132	731	449
Programs and materials	2,803	-	12	-	-	-	-	-	-	-	-	2,815	-	446	-	446	3,261	3,632
Total Direct Costs	125,461	216,622	11,186	1,481	4,801	828	2,761,591	52,291	1,095,115	11,862	56,689	4,337,927	986	16,133	2,965	20,084	4,358,011	2,390,743
2011 Total Expenses	\$188,764	\$219,030	\$21,798	\$ 3,323	\$ 6,506	\$14,451	\$2,786,216	\$ 99,342	\$1,117,313	\$ 73,479	\$ 75,098	\$4,605,320	\$79,774	\$ 152,796	\$ 8,599	\$ 241,169	\$4,846,489	
2010 Total Expenses (Memo)	\$218,936	\$ 4,223	\$38,847	\$ 2,452	\$ -	\$20,626	\$ 11,037	\$ 434	\$ 520,827	\$ 66,503	\$ 1,737,466	\$2,621,351	\$87,649	\$ 151,985	\$ 12,445	\$ 252,079		\$2,873,430

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

THE LAND TRUST FOR SANTA BARBARA COUNTY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2011

(With Comparative Totals for the Year Ended June 30, 2010)

	<u>2011</u>	<u>(Memo) 2010</u>
Cash Flow from Operating Activities		
Change in net assets	\$ 5,724,474	\$ 263,988
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	5,650	5,926
Donated stock	-	(29,750)
Contributions restricted for long-term investment	(52,602)	(71,529)
Realized and unrealized gain on investments	(414,064)	(265,162)
Increase (decrease) in accounts receivable	(9,296)	2,534
Increase in grants and pledges receivable	(5,172,520)	(16,476)
(Increase) decrease in prepaid expenses	2,663	(884)
Increase (decrease) in accounts payable and accrued liabilities	26,409	(154,329)
Decrease in deferred revenue	(256,349)	(193,343)
Net Cash Used by Operating Activities	<u>(145,635)</u>	<u>(459,025)</u>
Cash Flow from Investing Activities		
Purchase of property and equipment, and leasehold improvements	(4,045)	(2,553)
Proceeds from sale of securities	157,658	1,158,006
Purchase of securities	(120,900)	(921,581)
Net Cash Provided by Investing Activities	<u>32,713</u>	<u>233,872</u>
Cash Flow from Financing Activities		
Contributions restricted for long-term investment	<u>52,602</u>	<u>71,529</u>
Net Cash Provided by Financing Activities	<u>52,602</u>	<u>71,529</u>
Decrease in Cash and Cash Equivalents	(60,320)	(153,624)
Cash at Beginning of the Year	<u>1,966,768</u>	<u>2,120,392</u>
Cash at End of the Year	<u>\$ 1,906,448</u>	<u>\$ 1,966,768</u>
Supplemental Disclosure of Cash Flow Information		
Non-cash transactions consisted of the following:		
In-kind contribution of land, goods, and professional services	\$ 240,338	\$ 1,287,605

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

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1 - ORGANIZATION AND ACTIVITIES

Organization

The Land Trust for Santa Barbara County (the Land Trust), a California non-profit public benefit corporation, was established and incorporated in 1982. The Land Trust's purpose is to conserve, restore, and manage agricultural, natural and open space lands for public benefit. The Land Trust facilitates and manages partnerships among private landowners, educational institutions and government agencies in the acquisition and stewardship of conservation land, and provides information and materials to the public on land conservation issues.

Accreditation

In May 2009, the Land Trust Accreditation Commission, an independent program of the Land Trust Alliance, awarded accredited status to the Land Trust for Santa Barbara County. This accreditation indicates the Land Trust meets national quality standards for protecting important natural places and working lands forever and lets the public know that the accredited land trust has undergone an extensive, external review of the governance and management of its organization and the systems and policies it uses to protect land. The accreditation is renewable in 2014.

Activities

The Land Trust acquires land and conservation easements by purchase and by donation. As of June 30, 2011, the Land Trust has completed conservation transactions protecting 22,380 acres of land throughout Santa Barbara County. All transactions are based on an independent real estate appraisal, in conformity with the Uniform Standards of Professional Appraisal Practice. Donated interests in lands, where the landowner is eligible for certain federal and state conservation tax benefits, are required to have an appraisal commissioned by the landowner, in accordance with U.S. Internal Revenue Code Section 170(f)(11). Landowner appraisals are subject to federal and state tax audit, including penalties for misstatement of values in the appraisal. Purchased land interests require an appraisal prepared to the standards of the federal, state or local funding agency or private foundation. The Land Trust also engages in land stewardship and natural resource restoration projects, small scale and large, in collaboration with private landowners, public agencies and local community groups.

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1 - ORGANIZATION AND ACTIVITIES (continued)

Activities (continued)

During the year ended June 30, 2011, the Land Trust was actively involved in several land conservation, restoration, public access and education projects, including, but not limited to:

A. Nature Preserves

Arroyo Hondo Preserve – 782 acre ranch owned and managed by the Land Trust as a natural and historic preserve with school and adult outdoor education, volunteer and art programs, and designated open public access days. On-going restoration work funded by state and foundation grants included eradication of highly invasive plant species, installation of native plants and maintenance of previously restored creek habitat.

Carpinteria Salt Marsh – This 34 acre Land Trust property is open to public access on an ADA compliant nature trail. In recent years, significant wetland and upland habitat restoration has been completed. The Land Trust also holds conservation easements on private parcels in the Marsh, and cooperates with UC Santa Barbara and other owners on research, planning and stewardship of the 230 acre Carpinteria Salt Marsh Reserve. The property underwent major habitat restoration in 2004-08.

Coronado Butterfly Preserve – 9.3 acres owned and managed by the Land Trust for monarch butterfly habitat, native plant restoration and outdoor education programs.

Modoc Preserve – cooperative stewardship of 22 acre community open space for wildlife habitat, public trails and water resource protection.

B. Current Conservation Easements

The Land Trust holds conservation easements on 29 properties in Santa Barbara County, protecting in perpetuity 15,440 acres of ranch, farm, wildlife habitat and community open space land. Each easement is monitored annually for compliance.

C. New Land Projects

Careaga Canyon/Las Flores Ranch – Multi-ranch conservation plan underway to protect regional wildlife connecting corridor, endangered California tiger salamander habitat, and compatible agriculture on approximately 4,200 acres near Los Alamos. The Land Trust completed the first phase of the project in December 2009 – the donation of a conservation easement on 654 acres known as Los Flores Hunt Property and continues working to identify grant funding for future phases.

Gaviota Coast Program – Ongoing landowner education to promote voluntary land conservation. Appraisals completed and negotiations underway to acquire conservation interests on two large private ranches near Gaviota State Park.

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1 - ORGANIZATION AND ACTIVITIES (continued)

Activities (continued)

C. New Land Projects (continued)

South Parcel Nature Park – The University of California Santa Barbara conveyed a conservation easement to the Land Trust on May 25, 2010, protecting 68 acres of upland and wetland habitat near the Devereux Slough. This project furthers a regional conservation strategy for the Ellwood-Devereux Coast in Goleta. The Land Trust has secured a state grant for soils study needed to plan property restoration efforts.

Hibbits Ranch – In the year ending June 30, 2011, the Land Trust completed purchase of an agricultural conservation easement to protect a 394 acre, highly productive farm near the eastern limit of the City of Lompoc. Acquisition grants were awarded by the California Farmland Conservancy Program and the USDA Farm and Ranch Lands Protection Program, and supplemented by two foundation grants and many private donations.

Anderson Purisima Hills – Assisted private landowner, County of Santa Barbara and U.S. Fish and Wildlife Service, in negotiating a conservation easement and management plan to protect endangered California tiger salamander breeding habitat in the Purisima Hills near Lompoc. Grant of easement and implementation of management plan is contingent upon final settlement agreement between County and Service.

Burton Ranch Chaparral Preserve – As a mitigation requirement for a new housing development in the City of Lompoc, a developer has purchased a 100 acre property that is a private in-holding surrounded by the Burton Mesa Ecological Reserve. Negotiation is underway for a conservation easement to protect 95 acres of Burton Mesa chaparral, oak woodland and coastal scrub habitat on the property. City of Lompoc approved the easement terms in June 2011, with grant of the easement expected to occur in the first quarter of fiscal year 2012.

Hot Springs Canyon – On March 31, 2011, the Land Trust entered into an option agreement to purchase a privately-owned, 462-acre property in the foothills of the Santa Ynez Mountains behind Santa Barbara. The property commonly known as “Hot Springs Canyon” is the historic site of a resort and spa that operated from the mid-1800s until 1964, when it burned in the Coyote Fire. Hot Springs Canyon is a private inholding within the boundaries of Los Padres National Forest, but is zoned for residential development. It has long been used by the public for hiking, biking and horseback riding. The Land Trust launched a fundraising campaign in May 2011 designed to raise \$8.5 million toward purchase of the land (based on an independent real estate appraisal) and another \$150,000 for project management and future maintenance costs. The Land Trust proposes to convey the property to the U.S. Forest Service if it is acquired.

Landowner Assistance – Work is ongoing with several landowners on evaluation of land conservation options, appraisals, and project feasibility.

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1 - ORGANIZATION AND ACTIVITIES (continued)

Activities (continued)

D. Habitat Restoration Projects

Arroyo Hondo Creek – Continued restoration of upstream creek habitat, including erosion and invasive weed control and native planting, with funding from State of California, the UCSB Coastal Fund, John S. Kiewit Memorial Foundation and volunteers.

Carpinteria Creek – In 2010, received approval of \$220,000 in grant funding from the State Coastal Conservancy to construct a bioengineered slope stabilization and native plant revegetation project on land owned by Cate School along Carpinteria Creek. Construction, in partnership with Earth Island Institute's South Coast Habitat Restoration program, was completed as of June 30, 2011.

Refugio Creek Restoration – This project completed in 2007-2010 in partnership with three private ranch owners, using state, federal and landowner funding to eradicate invasive weeds, control erosion and plant native species to enhance wildlife values on this major Gaviota Coast creek is now in the monitoring and maintenance phase.

West Goleta Slough – Completed Phase II of project to expand wetland and restore upland habitat on 35 acre site owned by California Department of Fish and Game. Secured supplemental grant funding of \$593,333 from the U.S. Army Corps of Engineers Estuary Habitat Restoration Program to construct Phase III in fiscal year 2012. Land Trust to provide 3-5 years of monitoring and maintenance.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

In accordance with generally accepted accounting principles, the Land Trust is required to report information regarding its financial position and activities into three net asset categories according to externally (donor) imposed restrictions as follows:

Unrestricted Net Assets

The unrestricted group of net assets represents unrestricted resources available for current support of the Land Trust activities.

Temporarily Restricted Net Assets

Temporarily restricted net assets include planned giving and gifts that may have time restrictions, as requested by the donors. Earnings on temporarily restricted net assets are reported as an increase in temporarily restricted net assets. When a restriction expires (when a stipulated time restriction ends, purpose restriction is accomplished, or funds are appropriated by the board for expenditure), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as "net assets released from restrictions".

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Land Trust. Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the Operating Endowment fund assets can be used to support the Land Trust's operations and is reported with unrestricted amounts on the statement of activities. The Arroyo Hondo, Carpinteria Bluffs, Carpinteria Salt Marsh, and Modoc Endowment income is reported in temporarily restricted net assets.

Cash and Cash Equivalents

The Land Trust includes in cash equivalents all certificates of deposit regardless of maturity date.

Investments

Investments in marketable securities with readily determinable fair values and all investments in marketable debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Donated securities are recorded at their estimated value at date of receipt.

Property and Equipment

The Land Trust's investment in equipment and leasehold improvements is stated at cost, or fair market value if donated. Depreciation is calculated using the straight-line method over an estimated useful life of five to ten years.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Functional Expenses

The Land Trust allocates its expenses on a functional basis among its various projects and support services. Expenses that can be identified with a specific project and support service are allocated directly according to their expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Land Trust is a California nonprofit public benefit corporation, which is exempt from income taxes under Internal Revenue Code Section number 501(c)(3) and State of California Revenue and Taxation Code Section 23701(d); therefore, no provision for income taxes is required. The Land Trust qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Land Trust evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2011, the Land Trust had no uncertain tax positions requiring accrual. The Land Trust files tax returns in California and U.S. federal jurisdictions. The Land Trust is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2007.

Donated Services

Some individuals and organizations have donated time to the Land Trust, to further its programs and objectives. Donated items are reflected as contributions in the accompanying statements at their estimated fair market values at the date of receipt. Donated services, which meet certain authoritative criteria and can be objectively valued, have been reflected as contributions in-kind in the accompanying statements. This includes Trustees who have contributed \$53,159 in pro bono legal services.

Grants and Contracts

The Land Trust receives grants and contracts from federal, state, and local agencies, as well as from private organizations, to be used for specific programs and land purchases. The Land Trust incurs costs under the government grants that are subject to audit by government agencies. Management believes that the disallowance of costs, if any, would not be material to the financial statements taken as a whole.

Conservation Land and Easements

Purchased land is recorded at cost. Donated land is recorded at appraised fair market value. See Note 1, "activities". During the acquisition process, funds received for purchase are recorded as revenue and acquisition expenditures are recorded as expenses. Preserved land and conservation easements are treated as obligations and are recorded at \$1 each in permanently restricted net assets. During the fiscal year ended June 30, 2011, one additional conservation easement was purchased, with an appraised value of \$2,745,000. This acquisition was a "bargain sale" with the landowner making a charitable deduction of 8% of the value of the easement.

Subsequent Events

The Land Trust has evaluated subsequent events through October 13, 2011, the date which the financial statements were available to be issued.

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 3 - GRANTS AND PLEDGES RECEIVABLE

Grants receivable as of June 30, 2011, represent \$421,178 in direct reimbursements due for expenses already incurred under the conditions of the grant. Pledges receivable at June 30, 2011, includes \$280,000 which is part of a contractual agreement dating back to 2005 which has been donor designated for use in stewardship activities, and \$286,333 of unrestricted pledges from estates and individuals. Pledges for Land Trust projects total \$5,146,700 of which \$5,081,700 are specific to the pending Hot Springs Canyon land acquisition. These amounts are considered fully collectible and therefore no allowance for uncollectible receivables has been recorded. Collection of pledges receivable for the next five years ending June 30 and after is expected to be as follows:

2012	\$ 5,424,533
2013	26,500
2014	24,000
2015	14,000
2016	14,000
Thereafter	<u>210,000</u>
Total	<u>\$ 5,713,033</u>

Note 4 - CONSERVATION LAND AND EASEMENTS

Land held in fee title ownership by the Land Trust includes:

Gaviota

782 acres of coastal habitat and open space (Arroyo Hondo Preserve)

Goleta

Coronado Butterfly Preserve – 9.3 acres of natural open space, trails, creek habitat

Carpinteria

Carpinteria Salt Marsh Reserve – 34 acres of coastal wetland habitat

Private or public land protected by conservation easements includes:

Buellton/Los Alamos Area

Marcelino Springs Ranch – 70 acres of agricultural open space

Rancho La Purisima – 1,007 acres of rangeland and oak woodland habitat

Los Flores Hunt Property – 654 acres of scenic rangeland, oak woodland and coastal scrub habitat adjacent to U.S. Highway 101 north of Los Alamos

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 4 - CONSERVATION LAND AND EASEMENTS (continued)

Private or public land protected by conservation easements (continued) includes:

Carpinteria

Carpinteria Bluffs – 52 acres of scenic, recreational open space visible from Highway 101

Carpinteria Marsh/Sandyland – 45 acres of coastal wetlands visible from Highway 101

Horton Family Ranch – 104 acres of farmland, creek and chaparral habitat along the Franklin Trail

Rancho Monte Alegre – 3,060 acres, including 2,770 of scenic watershed and wildlife habitat and 290 acres of historic agricultural land in the Carpinteria foothills

Rancho Aldea Antigua – 23 acre avocado farm in the Carpinteria foothills

Gaviota Coast

El Capitan Canyon – 447 acres of scenic, agricultural open space and riparian habitat adjacent to El Capitan State Park and Bill Wallace public trail

El Capitan Horse Ranch – 200 acre scenic equestrian ranch along U.S. Highway 101

Freeman Ranch – 660 acre cattle ranch including rare vernal pond, oak woodland and creek habitat; protects views from Refugio State Beach

Rancho Dos Vistas – 1,406 acres of mountain forest and chaparral, adjacent to Los Padres National Forest and historic Reagan Ranch, including public hiking trail easement

Rancho Las Cruces – Mountainous wildlife habitat on 900 acres in Gaviota Pass, scenic views from U.S. Highway 101

La Paloma Ranch – 745 acre historic family ranch including farming, creek habitat and scenic views from trails in Los Padres National Forest

Hvolboll Trust Property – 6 acre ranch parcel adjacent to Freeman Ranch which protects views from state beach

Goleta

Fairview Gardens – 12 acres of scenic, organic vegetable farm

UCSB South Parcel Nature Park – 68 acres of coastal wetland and upland habitat with public trails

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 4 - CONSERVATION LAND AND EASEMENTS (continued)

Private or public land protected by conservation easements (continued) includes:

Lompoc

Bodger Oak Woodland – 8 acres of oak woodland visible from Santa Rosa Road and buffer to adjacent county park

Briggs Memorial Preserve – 86 acres of agricultural land and riparian habitat along Santa Ynez River

Burton Mesa Chaparral – 17 acres of chaparral, community open space and trails within community of Vandenberg Village

Hibbits Ranch – 394 acres of scenic and highly productive farmland near the eastern boundary of the City of Lompoc, visible from Mission la Purisima State Historic Park

Montecito

Ennisbrook Woodland & Trail – 44 acres of oak woodland and monarch butterfly habitat, plus a public trail

Mar y Cel Property – 150 acres of oak woodland, chaparral and public easement on West Fork Cold Springs Trail

Santa Barbara

San Roque Ranch – 880 acres of riparian oak woodland and chaparral habitat visible from public Arroyo Burro Trail

Rowny Preserve – 134 acres of oak and chaparral habitat visible from Tunnel Trail, Mission Canyon

Modoc Preserve – 25 acres of open space for wildlife habitat, public trails and scientific purposes

Santa Ynez Valley

Great Oak Ranch – 1,128 acres of rangeland and oak woodland adjacent to Lake Cachuma

Rancho Felicia – 214 acre scenic horse breeding/training ranch along Happy Canyon Road

Williams Ranch – 100 acre ranch, formerly part of Rancho Felicia

Rancho la Rinconda – 125 acres of scenic oak woodland adjacent to vineyards along Santa Rosa Road

Midland School – 2,727 acres of oak woodland, rangeland and creek habitat with managed public access near Figueroa Mountain

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Land (see note 2)	\$	33
Farm vehicles		23,350
Computers and furniture		<u>22,905</u>
		46,288
Less accumulated depreciation		<u>(36,620)</u>
Net property and equipment	\$	<u>9,668</u>

Note 6 - INVESTMENTS

Investments are presented in the financial statements at fair market value, which is derived from quoted market prices at year end. Investments generally consist of organizational and project-specific endowment funds and operating cash. Each Land Trust investment account has a board-approved investment policy. At June 30, 2011, marketable securities consist of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Excess of Market Over Cost</u>
Cash and money market	\$ 349,852	\$ 349,852	\$ -
Equities	1,778,571	2,128,235	349,664
Fixed income	<u>1,435,472</u>	<u>1,539,749</u>	<u>104,277</u>
Total	<u>\$ 3,563,895</u>	<u>\$ 4,017,836</u>	<u>\$ 453,941</u>

The following summarizes the net change in unrealized gain on investments:

	<u>Cost</u>	<u>Market Value</u>	<u>Excess of Market Over Cost</u>
Balance at end of the year	\$ 3,563,895	\$ 4,017,836	\$ 453,941
Balance at the beginning of the year	<u>3,556,546</u>	<u>3,640,531</u>	<u>83,985</u>
Net change in unrealized gain			<u>\$ 369,956</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2011:

Dividends and interest	\$ 108,442
Net unrealized gains	369,956
Net realized gains	44,108
Investment fees	<u>(15,551)</u>
Return on investments	<u>\$ 506,955</u>

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 7 - FAIR VALUE MEASUREMENT

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurement and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets.
Level 2	Inputs to the valuation methodology may include: quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable for the asset; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset'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 asset measured at fair value.

Money Market Funds	Money market funds valued at the net asset value (NAV) of shares held at year-end.
Equities and Fixed Income	Exchange traded securities and highly-liquid government bonds valued at quoted market prices as of year-end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Land 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 LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 7 - FAIR VALUE MEASUREMENT (continued)

The following table sets forth by level within the fair value hierarchy the assets at fair values as of June 30, 2011:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Cash and money market	\$ 349,853	\$ -	\$ -	\$ 349,853
Equities	2,128,235	-	-	2,128,235
Fixed income	<u>1,539,748</u>	<u>-</u>	<u>-</u>	<u>1,539,748</u>
Total assets measured at fair value	<u>\$ 4,017,836</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,017,836</u>

Note 8 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets in the amount of \$4,684,041 were released from donor restrictions by satisfying the restricted purposes specified by donors.

Note 9 - RECLASSIFICATION

Certain amounts from the June 30, 2010 financial statements have been reclassified to conform to the June 30, 2011 financial statement presentation.

Note 10 - COMMITMENTS AND CONTINGENCIES

The Land Trust has agreed to undertake annual monitoring and enforcement activities to ensure compliance with the terms and conditions of 29 conservation easements. The Land Trust is the owner or steward of four properties restricted to open space uses.

As of June 30, 2011, the Land Trust has remaining contractual obligations to fulfill its Western Goleta Slough Wetland Enhancement Project totaling \$551,951, nursery contracts of \$19,304, and professional services agreements totaling \$5,788.

Note 11 - DEFERRED REVENUE

The amount recorded as deferred revenue as of June 30, 2011, reflects funds which have been transferred to the Land Trust as part of an agreement with the Department of the Army Corps of Engineers. In 2000, the U.S. Army Corps of Engineers ("Corps") agreed to provide the Land Trust with approximately \$850,000 to manage the design, planning and implementation of a wetland restoration project in the Goleta/Santa Barbara Area. The restoration project is being completed on the 34 acre California Department of Fish and Game property. The Land Trust is to hold the funds and all interest earned for the benefit of the Corps. The agreement has been extended to June 30, 2016.

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 12 - CONCENTRATIONS AND RISKS

Concentrations of Revenue

For the year ended June 30, 2011, approximately 81% of total public support and 88% of pledges receivable were derived from one donor. The support and pledges are toward a capital campaign to acquire the Hot Springs Canyon property.

Credit Risk

The Land Trust maintains cash balances at several banks insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, balances may exceed federally insured limits. The Land Trust has not experienced any losses in such accounts. At June 30, 2011, the Land Trust has an excess of \$282,305 over the FDIC insured amount. The Land Trust maintains a majority of cash balances in money market funds. Such balances may not be fully insured.

Market Risk

The Land Trust holds its investments in a diversified portfolio. Nevertheless, these investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated financial statements.

Note 13 - CONDITIONAL GRANTS

In addition to grants reflected on the statement of activities and changes in net assets for the year ended June 30, 2011, the Land Trust has been awarded grants from various state and federal agencies and foundations that require the Land Trust to incur costs before expenses are reimbursed by the grant.

As of June 30, 2011, the Land Trust was awarded grants for expenses to be incurred and reimbursed subsequent to June 30, 2011, as follows:

Wetlands Mitigation – West Goleta Slough Restoration	
California Wildlife Conservation Board	\$ 105,860
NOAA Estuary Restoration Program	207,279
Refugio Creek - Creek Restoration	
State Coastal Conservancy	4,806
Total Conditional Grants	<u>\$ 317,945</u>

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 14 - NET ASSETS

Unrestricted Net Assets

As of June 30, 2011, unrestricted net assets consisted of the following:

Operating	\$ 73,184
Donor-restricted endowment deficit	(13,606)
Board Designated Operating Reserves	100,112
Board Designated Land Action Fund	6,619
Board-restricted Endowments:	
Operating Endowment	855,864
Stewardship Endowment	<u>286,429</u>
Total Unrestricted Net Assets	<u>\$ 1,308,602</u>

Temporarily Restricted Net Assets

As of June 30, 2011, temporarily restricted net assets consisted of the following:

General Operating Fund	\$ 286,333
Stewardship Fund	859,903
Arroyo Hondo	1,052,064
Carpinteria Bluffs	150,343
Carpinteria Salt Marsh	262
Coronado Butterfly Preserve	8,040
Franklin Trail	109,921
Gaviota	529,886
Hot Springs Canyon	6,035,017
Modoc Preserve	33,990
Land Action Fund	55,815
Other Lands	108,793
Wetland Mitigation	<u>236,335</u>
Total Temporarily Restricted Net Assets	<u>\$ 9,466,702</u>

Permanently Restricted Net Assets

As of June 30, 2011, permanently restricted net assets consisted of the following:

Arroyo Hondo Endowment	\$ 199,660
Carpinteria Bluffs Endowment	504,100
Carpinteria Salt Marsh Endowment	218,715
Modoc Endowment	77,977
Operating Endowment	199,305
Stewardship Conservation Land Interest	<u>33</u>
Total Permanently Restricted Net Assets	<u>\$ 1,199,790</u>

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 15 - ENDOWMENT FUNDS

The Land Trust's endowment consists of six individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Land Trust has interpreted the California adopted Universal Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Land Trust classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Land Trust in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with California UPMIFA the Land Trust considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds;

- (1) The duration and preservation of the fund
- (2) The purposes of the Land Trust and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Land Trust
- (7) The investment policies of the Land Trust

Endowment net asset composition by type of Fund as of June 30, 2011, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ (13,606)	\$ 193,331	\$ 1,199,790	\$ 1,379,515
Board-restricted	<u>1,142,293</u>	<u>-</u>	<u>-</u>	<u>1,142,293</u>
Total endowment funds	<u>\$ 1,128,687</u>	<u>\$ 193,331</u>	<u>\$ 1,199,790</u>	<u>\$ 2,521,808</u>

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 15 - ENDOWMENT FUNDS (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Land Trust to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$13,606 as of June 30, 2011. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions to the Carpinteria Salt Marsh endowment and continued appropriation for the Carpinteria Salt March programs that were deemed prudent by the Board of Trustees. Deficiencies as of June 30, 2010 totaled \$32,523.

Changes in endowment net assets for the year ended June 30, 2011 are:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 926,574	\$ 99,719	\$ 1,147,188	\$ 2,173,481
Net investment return (investment income, realized and unrealized gains	138,029	144,583	-	282,612
Contributions	73,313	-	52,602	125,915
Appropriation of endowment assets for expenditure	<u>(9,229)</u>	<u>(50,971)</u>	<u>-</u>	<u>(60,200)</u>
Endowment net assets, end of year	<u>\$ 1,128,687</u>	<u>\$ 193,331</u>	<u>\$ 1,199,790</u>	<u>\$ 2,521,808</u>

Return Objectives and Risk Parameters

The Land Trust has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Land Trust must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The Land Trust expects its endowment funds, over time, to provide an average annual rate of return of approximately five percent. Actual returns in any given year may vary from this amount.

THE LAND TRUST FOR SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 15 - ENDOWMENT FUNDS (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Land Trust relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Land Trust targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Land Trust has a policy of appropriating for distribution each year an amount not to exceed five percent of the five-year rolling average endowment fund balance. In some instances, the Board may decide to appropriate an amount greater than its stated policy if it is specifically deemed prudent to do so. In establishing this policy, the Land Trust considered the long-term expected return on its endowment. Accordingly, over the long term, the Land Trust expects the current spending policy to allow its endowment to grow at an average of three percent annually. This is consistent with the Land Trust's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Two of the Land Trust's endowments, Carpinteria Bluffs and the Modoc Preserve, have donor-specified investment and spending policies which are overseen by committees associated with the original donations.

