



**THE LAND TRUST FOR
SANTA BARBARA COUNTY**

FINANCIAL STATEMENTS

June 30, 2018

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*D*AMITZL
*B*ROOKS
*N*IGHTINGALE
*T*URNER
*M*MORRISSET



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Land Trust for Santa Barbara County

We have audited the accompanying statements of The Land Trust for Santa Barbara County (the Land Trust), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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



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

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, 2018, 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.

Report on Summarized Comparative Information

We have previously audited the financial statements of the Land Trust as of June 30, 2017, and we expressed an unmodified audit opinion on those financial statements in our report dated January 1, 2018. In our opinion, the summarized comparative financial information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

DAMITZ, BROOKS, NIGHTINGALE, TURNER & MORRISSET

Damitz, Brooks, Nightingale,
Turner & Morrisset
Santa Barbara, California
November 12, 2018

THE LAND TRUST FOR SANTA BARBARA COUNTY
Statement of Financial Position
June 30, 2018
(With Summarized Information as of June 30, 2017)

<i>Assets</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
<i>Current Assets</i>					
Cash and cash equivalents	\$ 3,117,172	\$ 503,603	\$ -	\$ 3,620,775	\$ 4,276,966
Pledges receivable	-	39,000	-	39,000	155,744
Accounts receivable	-	334,778	-	334,778	26,475
Accrued interest	-	-	-	-	8,694
Prepaid expenses	8,195	-	-	8,195	5,955
<i>Total current assets</i>	<u>3,125,367</u>	<u>877,381</u>	<u>-</u>	<u>4,002,748</u>	<u>4,473,834</u>
<i>Other Assets</i>					
Investments	2,178,478	3,388,015	1,201,000	6,767,493	5,008,998
Pledges receivable	-	150,356	-	150,356	209,889
Deposit	1,132	-	-	1,132	-
Property held for conservation purposes	-	6,000,000	41	6,000,041	6,000,038
Net property and equipment	40,496	9,650	-	50,146	24,436
<i>Total other assets</i>	<u>2,220,106</u>	<u>9,548,021</u>	<u>1,201,041</u>	<u>12,969,168</u>	<u>11,243,361</u>
<i>Total assets</i>	<u>\$ 5,345,473</u>	<u>\$ 10,425,402</u>	<u>\$ 1,201,041</u>	<u>\$ 16,971,916</u>	<u>\$ 15,717,195</u>
<i>Liabilities and Net Assets</i>					
<i>Current Liabilities</i>					
Accounts payable	\$ 178,470	\$ -	\$ -	\$ 178,470	\$ 43,057
Accrued expenses	49,276	-	-	49,276	45,458
Notes payable, current	-	-	-	-	50,000
Deposits received	12,766	-	-	12,766	12,500
Deferred revenue	450	-	-	450	450
<i>Total current liabilities</i>	<u>240,962</u>	<u>-</u>	<u>-</u>	<u>240,962</u>	<u>151,465</u>
<i>Net Assets</i>					
Unrestricted					
Board designated	3,788,929	-	-	3,788,929	976,910
Other unrestricted net assets	1,315,582	-	-	1,315,582	3,475,731
	<u>5,104,511</u>	<u>-</u>	<u>-</u>	<u>5,104,511</u>	<u>4,452,641</u>
Temporarily restricted	-	10,425,402	-	10,425,402	9,772,517
Permanently restricted	-	-	1,201,041	1,201,041	1,340,572
<i>Total net assets</i>	<u>5,104,511</u>	<u>10,425,402</u>	<u>1,201,041</u>	<u>16,730,954</u>	<u>15,565,730</u>
<i>Total liabilities and net assets</i>	<u>\$ 5,345,473</u>	<u>\$ 10,425,402</u>	<u>\$ 1,201,041</u>	<u>\$ 16,971,916</u>	<u>\$ 15,717,195</u>

THE LAND TRUST FOR SANTA BARBARA COUNTY
Statement of Activities
Year Ended June 30, 2018
(With Summarized Information for the Year Ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
<i>Support, Revenues, Gains and Losses</i>					
Public Support					
Individual contributions and membership	\$ 77,222	\$ 23,214	\$ -	\$ 100,436	\$ 186,379
Major gifts	612,971	1,049,734	-	1,662,705	3,687,095
Foundation, corporate and other grants	35,000	289,602	-	324,602	432,845
Governmental grants	-	98,406	-	98,406	109,142
In-kind contributions of land and easements	-	6,200,000	3	6,200,003	-
In-kind contributions of services	18,900	13,512	-	32,412	38,362
Total public support	<u>744,093</u>	<u>7,674,468</u>	<u>3</u>	<u>8,418,564</u>	<u>4,453,823</u>
Revenues, Gains and Losses					
Merchandise:					
Merchandise sales	237	660	-	897	323
Merchandise costs	(1,252)	(648)	-	(1,900)	-
Net merchandise sales	<u>(1,015)</u>	<u>12</u>	<u>-</u>	<u>(1,003)</u>	<u>323</u>
Investment income	300,169	67,309	-	367,478	548,967
Gain on sale of property	-	-	-	-	78,485
Other income	-	10,033	-	10,033	20,192
Net assets released from restrictions	7,238,471	(7,098,937)	(139,534)	-	-
Total revenues, gains and losses	<u>7,537,625</u>	<u>(7,021,583)</u>	<u>(139,534)</u>	<u>376,508</u>	<u>647,967</u>
Total support, revenues, gains and losses	<u>8,281,718</u>	<u>652,885</u>	<u>(139,531)</u>	<u>8,795,072</u>	<u>5,101,790</u>
Expenses					
Projects					
Carpinteria Salt Marsh	9,091	-	-	9,091	8,532
Rincon Bluffs	102,786	-	-	102,786	206,904
Big Bend Ranch	-	-	-	-	113,777
Arroyo Hondo Preserve	118,350	-	-	118,350	151,739
Coronado Butterfly Preserve	7,920	-	-	7,920	7,061
Careaga Canyon	1,233,071	-	-	1,233,071	15,096
Education Programs	69,850	-	-	69,850	48,082
Hot Springs Canyon	-	-	-	-	13,066
La Purisima Conservation Bank	2,971	-	-	2,971	3,411
Land Action Fund	-	-	-	-	1
Modoc Preserve	8,030	-	-	8,030	3,499
Wetland Mitigation	1,320	-	-	1,320	5,298
Conservation Easement Stewardship	78,531	-	-	78,531	121,861
Gaviota Coast Program	33,777	-	-	33,777	18,546
New project development	5,311,191	-	-	5,311,191	167,925
Upper Devereux	3,522	-	-	3,522	46,173
Other land projects	136,520	-	-	136,520	2,406
Conservation Plan - LEAF	127,858	-	-	127,858	377,617
Total projects	<u>7,244,788</u>	<u>-</u>	<u>-</u>	<u>7,244,788</u>	<u>1,310,994</u>
Supporting Services					
Management and general	161,049	-	-	161,049	157,973
Fundraising	224,011	-	-	224,011	242,154
Total supporting services	<u>385,060</u>	<u>-</u>	<u>-</u>	<u>385,060</u>	<u>400,127</u>
Total expenses	<u>7,629,848</u>	<u>-</u>	<u>-</u>	<u>7,629,848</u>	<u>1,711,121</u>
Increase (decrease) in net assets	651,870	652,885	(139,531)	1,165,224	3,390,669
Net assets, beginning of year	<u>4,452,641</u>	<u>9,772,517</u>	<u>1,340,572</u>	<u>15,565,730</u>	<u>12,175,061</u>
Net assets, end of year	<u>\$ 5,104,511</u>	<u>\$ 10,425,402</u>	<u>\$ 1,201,041</u>	<u>\$ 16,730,954</u>	<u>\$ 15,565,730</u>

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

THE LAND TRUST FOR SANTA BARBARA COUNTY
Statement of Functional Expenses
Year Ended June 30, 2018
(With Summarized Information for the Year Ended June 30, 2017)

	Projects					Supporting Services			Total 2018	Total 2017
	Nature Preserves	Stewardship Programs	New Project Development	Strategic Plan LEAF	Total Projects	General Services	Fundraising Membership	Total Supporting		
Salaries, wages and benefits	\$ 90,549	\$ 75,662	\$ 298,014	\$ 42,231	\$ 506,456	\$ 80,606	\$ 160,672	\$ 241,278	\$ 747,734	\$ 686,660
Indirect Costs										
Accounting	-	-	-	-	-	40,900	-	40,900	40,900	38,092
Administrative allocation	1,489	1,377	5,117	782	8,765	(11,802)	3,056	(8,746)	19	-
Advertising	5,551	-	-	-	5,551	-	5,000	5,000	10,551	5,460
Banking fees	396	(75)	551	-	872	584	2,578	3,162	4,034	6,669
Continuing education	-	520	-	-	520	1,168	653	1,821	2,341	2,842
Depreciation	1,371	-	-	-	1,371	9,466	-	9,466	10,837	10,176
Dues and fees	279	432	-	-	711	5,713	300	6,013	6,724	6,736
Information technology	2,786	778	2,742	371	6,677	1,523	4,752	6,275	12,952	17,338
Insurance	12,336	410	-	-	12,746	8,128	-	8,128	20,874	21,955
Interest expense	545	-	-	-	545	-	-	-	545	72,894
Meetings and events	49	625	2,230	17	2,921	2,783	15,771	18,554	21,475	20,891
Membership services	-	-	700	-	700	100	-	100	800	7
Miscellaneous	-	-	-	-	-	-	-	-	-	1,459
Occupancy	4,259	4,091	16,137	2,273	26,760	6,123	9,285	15,408	42,168	40,032
Office supplies	559	114	113	-	786	3,941	42	3,983	4,769	6,111
Travel, mileage and parking	1,357	3,310	2,073	-	6,740	2,441	669	3,110	9,850	12,675
Total indirect costs	30,977	11,582	29,663	3,443	75,665	71,068	42,106	113,174	188,839	263,337
Direct Costs										
Acquisition expense	-	-	6,200,000	-	6,200,000	-	-	-	6,200,000	-
Consulting fees	507	2,436	-	-	2,943	609	-	609	3,552	1,798
Improvements	50,028	(15)	143,521	-	193,534	2,555	-	2,555	196,089	158,802
Legal fees	1,092	1,906	50,661	-	53,659	319	-	319	53,978	54,846
Printings and mailings	1,613	942	8,598	-	11,153	3,273	12,139	15,412	26,565	31,711
Professional services	51,099	2,134	53,129	82,184	188,546	2,500	6,887	9,387	197,933	494,402
Programs and other direct costs	5,922	80	823	-	6,825	-	2,131	2,131	8,956	10,511
Publications and subscriptions	-	193	-	-	193	-	76	76	269	50
Property taxes	1,728	25	-	-	1,753	119	-	119	1,872	4,417
Utilities	4,061	-	-	-	4,061	-	-	-	4,061	4,587
Total direct costs	116,050	7,701	6,456,732	82,184	6,662,667	9,375	21,233	30,608	6,693,275	761,124
2018 Total expenses	\$ 237,576	\$ 94,945	\$ 6,784,409	\$ 127,858	\$ 7,244,788	\$ 161,049	\$ 224,011	\$ 385,060	\$ 7,629,848	
2017 Total expenses	\$ 500,329	\$ 180,993	\$ 252,059	\$ 377,613	\$ 1,310,994	\$ 157,973	\$ 242,154	\$ 400,127		\$ 1,711,121

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

THE LAND TRUST FOR SANTA BARBARA COUNTY
Statement of Cash Flows
Year Ended June 30, 2018
(With Summarized Information for the Year Ended June 30, 2017)

	2018	2017
<i>Cash flows from operating activities</i>		
Increase in net assets	\$ 1,165,224	\$ 3,390,669
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Depreciation	10,837	10,175
Net realized gain on investments	(217,172)	(101,344)
Net increase (decrease) in unrealized loss on investments	115,796	(410,257)
Net realized gain on sale of Big Bend Ranch	-	(78,485)
Donated securities	(51,844)	(2,561,867)
(Increase) decrease in:		
Pledges receivable	176,277	313,463
Accounts receivable	(308,303)	55,073
Prepaid expenses	(2,240)	2,680
Accrued interest	8,694	(8,508)
Deposit	(1,132)	1,824
Increase (decrease) in:		
Accounts payable	135,413	(3,555)
Accrued liabilities	3,818	1,909
Deposits received	266	7,500
	1,035,634	619,277
<i>Net cash provided by operating activities</i>		
<i>Cash flows from investing activities</i>		
Purchase of property and equipment	(36,550)	(698)
Proceeds from sales of securities	4,929,710	2,719,084
Proceeds from sale of Big Bend property	-	1,325,000
Purchase of investments	(6,534,985)	4,927
	(1,641,825)	4,048,313
<i>Net cash provided (used) by investing activities</i>		
<i>Cash flows from financing activities</i>		
Payments of note payable	(50,000)	(2,950,000)
	(50,000)	(2,950,000)
<i>Net cash used by financing activities</i>		
Net increase (decrease) in cash and cash equivalents	(656,191)	1,717,590
<i>Cash and cash equivalents, beginning of year</i>	4,276,966	2,559,376
<i>Cash and cash equivalents, end of year</i>	\$ 3,620,775	\$ 4,276,966

THE LAND TRUST FOR SANTA BARBARA COUNTY
Notes to Financial Statements
June 30, 2018

1. ORGANIZATION AND ACTIVITIES

Nature of 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 to acquire and steward priority lands, 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. 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 Land Trust was one of the first in the nation to receive this recognition. The accreditation review is performed every 5 years. The Land Trust was granted re-accreditation in 2015.

Activities

The Land Trust acquires land and conservation easements by purchase and by donation. As of June 30, 2018, the Land Trust has completed conservation transactions protecting 26,876 acres of land throughout Santa Barbara County. All transactions are in conformity with the Uniform Standards of Professional Appraisal Practice and reviewed in accord with the Standards and Practices of the national Land Trust Alliance. Donated interests in lands, where the landowner wishes to be 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). When used to substantiate a tax deduction or credit, 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 for the Land Trust 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.

1. ORGANIZATION AND ACTIVITIES (Cont.)

During the year ended June 30, 2018, the Land Trust was actively involved in several land conservation, restoration, public access and education projects, including, but not limited to:

A. Nature Preserves (Owned by the Land Trust)

Arroyo Hondo Preserve – 782 acre ranch owned and managed by the Land Trust as a natural and historic preserve with youth and adult outdoor education, volunteer and art programs, and designated open public access days. Ongoing restoration work funded by foundation grants included eradication of highly invasive plant species, installation of native plants and maintenance of previously restored creek habitat. On-going improvements include redesign of the barn space to create a Discovery Center to improve education programs, and maintenance of the historic adobe. With funding from the Coastal Ranch Conservancy, U.S. Department of Agriculture (USDA) and Natural Resources Conservation Service, the Land Trust is engaging in an experimental grazing project to reduce fire fuel loads and enable native plant species to reestablish on the property. Small scale native plant restoration continued at this Land Trust preserve, building on a major restoration project completed in 2010. Volunteers and University of California, Santa Barbara (UCSB) interns worked to install native plants purchased with grants from the UCSB Coastal Fund and John S. Kiewit Memorial Foundation.

Carpinteria Salt Marsh Reserve – This 35 acre Land Trust property is open to public access on an Americans with Disabilities Act (ADA) compliant nature trail. The property allows public access on established trails. The Land Trust conducts routine monitoring and maintenance work. The Land Trust also holds conservation easements on private parcels in the Marsh, and cooperates with UCSB and other owners on research, planning and stewardship of the 230 acre Carpinteria Salt Marsh.

Coronado Butterfly Preserve – 9.3 acres owned and managed by the Land Trust for monarch butterfly habitat, native plant restoration and outdoor education programs. The Land Trust, in partnership with the city of Goleta, conducts school group and public hikes through the property during the Monarch butterfly season. Ongoing planting and maintenance is done largely by volunteers with the help of grants from the County of Santa Barbara and the Goleta West Sanitary District. The Land Trust has worked to enhance interpretive signs and passive education.

Hot Springs Canyon – The 40 acre parcel owned and managed by the Land Trust as Hot Springs Canyon Parcel 2 was purchased in 2012 as part of a 462 acre property near the Montecito community east of the City of Santa Barbara. The property, commonly known as “Hot Springs Canyon,” is regularly used by the public for hiking, biking and horseback riding. In fiscal year 2014, the Land Trust conveyed the majority of the property (422 acres) to the U.S. Forest Service.

1. ORGANIZATION AND ACTIVITIES (Cont.)

B. Conservation Easements and Stewardship

The Land Trust holds conservation easements on 41 properties in Santa Barbara County, protecting in perpetuity 18,553 acres of ranch, farm, wildlife habitat and community open space land. Each easement is monitored annually for compliance. Three new easements were acquired in fiscal year 2018. In addition, the Land Trust holds ownership of 887 acres of property open and accessible to the public for educational and recreational use. The Land Trust has also helped purchase or preserve an additional 7,436 acres of land which were transferred to other entities including Hot Springs Canyon, Rancho Las Cruces and the Sedgwick Reserve. These transferred properties are further detailed in footnote 6.

C. Ongoing, Prior Year Completed Projects, and New Project Development

Kick On Ranch - The Land Trust provides ongoing efforts to protect two ranches in the hills west of Los Alamos through acquisition of two conservation easements. Both easements have significant habitat value for the federally endangered California Tiger Salamander. During the year ended June 30, 2018 a second easement was donated to the Land Trust and an in-kind contribution of \$1.2 million was recorded based on the fair value of the easement.

Rincon Bluffs – This 21 acre Land Trust property on the Carpinteria Bluffs is open to public access and was purchased in June 2016. The Land Trust is engaging in preservation efforts with partners, which include habitat restoration, interpretive trails, and designating public parking areas. The future transfer of the property to the city of Carpinteria is subject to meeting certain restrictions on the use of the property imposed under the terms of the purchase agreement.

Gaviota Coast Program – Ongoing landowner education and outreach to promote voluntary land conservation. The Land Trust is communicating with two private landowners interested in conservation options. The Gaviota Coast Fund is a tool that allows the Land Trust to respond in short order to new land protection opportunities along the Gaviota Coast as they arise.

Hay Hill Preserve – The Land Trust received a donated conservation easement of 88 acres of open space for wildlife and plant habitat located in Carpinteria. During the year ended June 30, 2018, the Land Trust recorded an in-kind contribution of \$4.0 million based on the fair value of the easement.

1. ORGANIZATION AND ACTIVITIES (Cont.)

Las Cumbres Ranch – The Land Trust received a donated conservation easement of 954 acres of grassland, scrub, maritime chaparral, and oak woodland located in the Purisima hills near Los Alamos. During the year ended June 30, 2018, the Land Trust recorded an in-kind contribution of \$1.0 million based on the fair value of the easement.

D. Strategic Planning and LEAF

The Land Trust, in partnership with the Santa Barbara Foundation’s Landscapes, Ecosystems, Agriculture and Food Systems Initiative (LEAF) and the Cachuma Resource Conservation District, developed the Santa Barbara County Conservation Blueprint. The Blueprint provides a county-wide science-based decision-making platform for conservation and land protection. It clearly depicts what resources need to be preserved for the future and the community’s appetite for their preservation. It also describes opportunities and needs for land conservation, restoration and stewardship as well as threats that are on the horizon. The Land Trust serves as the fiscal managing partner for the project.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

Accounting principles generally accepted in the United States of America (GAAP) require that the Land Trust report information regarding its financial position and activities according to three classes of net assets based on the existence and nature of donor-imposed restrictions as follows:

Unrestricted net assets generally result from unrestricted contributions less operating expenses and represent unrestricted resources available for current support of the Land Trust activities.

Temporarily restricted net assets are classified as such based on donor stipulations that they be used in a later period or for a specific purpose. Temporarily restricted net assets also include investment income on permanently restricted assets where the income has not yet been appropriated for expenditure. When a restriction expires or is met, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently restricted net assets consist of assets where the donor has imposed permanent restrictions on use of the principal of assets donated. The investment income on funds restricted by the donor are 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 Universal Prudent Management of Institutional Funds Act (UPMIFA.)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Prior-Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not presented by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Land Trust's financial statements for the year ended June 30, 2017 from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consists of cash on hand, cash in banks, cash in money market funds and certificates of deposit and exclude cash equivalents held for investment. The Land Trust includes in cash equivalents certificates of deposit regardless of maturity date. Certificates of deposit are valued utilizing benchmark yields, reported trades or broker dealer quotes and are Level 2 (see *Fair Value Measurements* below.)

Pledges Receivable

Pledges receivable are measured at fair value on the date a written unconditional promise to give is received from the donor. On this date, the fair value is measured using an income approach which incorporates inputs including estimated credit risk, estimated timing of cash receipts, and an appropriate present value discount factor.

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. Donated securities are recorded at their fair value at date of receipt. Investment advisory fees were approximately \$3,600 and \$1,600 for the years ended June 30, 2018 and 2017, respectively.

Property and Equipment

The Land Trust's investment in farm vehicles, furniture and computer equipment is stated at cost, or fair market value if donated. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is calculated using the straight-line method over an estimated useful life of five to ten years.

Fair Value Measurements

Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* issued by the Financial Accounting Standards Board (FASB) defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. Pursuant to ASC 820, assets and liabilities recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure fair value. ASC 820 establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

Following is a description of the valuation methodologies used for investments measured at fair value.

Cash: Valued at face value (Level 1)

Cash equivalents – money market funds: Valued at face value. (Level 1)

Cash equivalents – certificates of deposit: Valued utilizing benchmark yields, reported trades or broker dealer quotes. (Level 2)

Mutual and exchange traded funds: Valued utilizing quoted prices available in active markets for identical investments as of the reporting date. (Level 1)

The Investment Fund for Foundations (TIFF) Multi-Asset and Short Term Funds: Value is based on Net Asset Value (NAV) per the most recent audited financial statements and interim information provided by the fund manager. (Level 2)

Real Estate: Represents a shared 69.23% equity interest in housing for the executive director purchased in June 2018. Valued at purchase price and will be assessed annually using market value as estimated by independent real estate data. (Level 3)

Contributed Services

The Land Trust recognizes contribution revenue for specialized services that would otherwise be purchased by the Land Trust in an amount equal to the fair value of those services. Contributed services, which meet certain authoritative criteria and can be objectively valued, have been reflected as contributions in-kind in the accompanying statements. Trustees contributed approximately \$2,200 and \$13,100 in pro-bono legal services for the years ended June 30, 2018 and 2017, respectively. In addition approximately \$30,200 of other professional services were contributed during the year ended June 30, 2018.

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 using various statistical bases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Property Held for Conservation Purposes

Property held for conservation purposes includes purchased or donated properties to be sold or transferred to governmental agencies or other individuals and organizations for conservation purposes or maintained as a nature preserve. Purchased land is stated at the lesser of cost or fair market value. Donated properties are initially recorded at their appraised values at the date of contribution, and are carried at the lower of this amount or fair market value. Preserved land and conservation easements are treated as commitments and are recorded in property held for conservation purposes as \$1 each and also permanently restricted net assets. All nature reserve land and buildings have fair market values of \$0 due primarily to deed restrictions, which affect potential sales.

Grants

The majority of grants are received from federal, state, and local agencies, as well as from private organizations, to be used for specific programs and land purchases. Costs incurred under the government grants are subject to audit by government agencies. Management believes that the disallowance of costs, if any, would not be material to the financial statements.

Tax Exempt Status

The Land Trust is an exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Revenue and Taxation Code, and is considered a public charity.

Uncertain Tax Positions

Financial Accounting Standards Board's ASC 740-10, *Accounting for Uncertainty in Income Taxes*, prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Land Trust files tax returns in the U.S. federal jurisdiction and in the state of California. The Land Trust's tax returns from the year 2014 to the present remain subject to examination by the IRS for federal tax purposes, and the tax years from 2013 to the present remain subject to examination by the state of California. Management has evaluated its tax positions for all jurisdictions in which the statute of limitations remains open and has determined that the Land Trust had taken no uncertain tax positions that require adjustment to the financial statements. The Land Trust is not aware of any activities that are subject to tax on unrelated business income, excise or other taxes.

Use of Estimates

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements

Subsequent Events

Management has evaluated subsequent events through November 12, 2018, the date which the financial statements were available to be issued.

3. INVESTMENTS

Investments consist of the following as of:

<u>June 30, 2018</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Deficit of Fair Value over Cost</u>
Cash equivalents	\$ 104,840	\$ 104,840	\$ -
Fixed income funds	282,972	271,979	(10,993)
Equity funds	5,792,642	5,590,051	(202,591)
Real estate	<u>800,623</u>	<u>800,623</u>	<u>-</u>
	<u>\$ 6,981,077</u>	<u>\$ 6,767,493</u>	<u>\$ (213,584)</u>

<u>June 30, 2017</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Deficit of Fair Value over Cost</u>
Cash equivalents	\$ 72,197	\$ 72,197	\$ -
Fixed income funds	300,327	299,993	(334)
Equity funds	<u>4,733,637</u>	<u>4,636,808</u>	<u>(96,829)</u>
	<u>\$ 5,106,161</u>	<u>\$ 5,008,998</u>	<u>\$ (97,163)</u>

Investment income (loss) consists of the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Dividends and interest, net	\$ 266,727	\$ 37,366
Net realized gain	217,172	101,343
Net change in unrealized gain (loss)	<u>(116,421)</u>	<u>410,258</u>
	<u>\$ 367,478</u>	<u>\$ 548,967</u>

4. FAIR VALUE MEASUREMENTS

The following sets forth by level, within the fair value hierarchy, the Land Trust's assets at fair value as of June 30, 2018:

	Fair Value (Level 1)	Fair Value (Level 2)	Fair Value (Level 3)
Cash and cash equivalents	\$ 104,840	\$ -	\$ -
Mutual funds:			
U.S. equity	1,688,940	-	-
Int'l equity	238,003	-	-
U.S. fixed income	271,979	-	-
Exchange traded funds:			
U.S. equity	1,136,989	-	-
Int'l equity	263,104		
Institutional commingled funds:			
TIFF funds	-	2,263,015	-
Real Estate	-		800,623
	<u>\$ 3,703,855</u>	<u>\$ 2,263,015</u>	<u>\$ 800,623</u>

The following sets forth by level, within the fair value hierarchy, the Land Trust's assets at fair value as of June 30, 2017:

	Fair Value (Level 1)	Fair Value (Level 2)	Fair Value (Level 3)
Cash and cash equivalents	\$ 72,197	\$ -	\$ -
Mutual funds:			
U.S. equity	621,047	-	-
Int'l equity	64,462	-	-
U.S. fixed income	299,993	-	-
Exchange traded funds:			
U.S. equity	51,781	-	-
Institutional commingled funds:			
TIFF funds	-	3,899,518	-
	<u>\$ 1,109,480</u>	<u>\$ 3,899,518</u>	<u>\$ -</u>

The fair value of the Land Trust's investment in TIFF funds is calculated using the net asset value (NAV) per share as a practical expedient to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) are in investment companies or similar entities that report their investment assets at fair value.

4. FAIR VALUE MEASUREMENTS (Cont.)

The Land Trust's investment in TIFF fund assets have been classified as Level 2 assets in the June 30, 2018 financial statements based on the availability of an audited NAV for this investment as of December 31, 2017 to support the valuation of the Land Trust's investment in the alternative investment as of June 30, 2018.

The TIFF Investment Program (TIP) is comprised of no-load mutual funds available primarily to foundations, endowments, other 501(c)(3) organizations and certain other non-profit organizations meeting specified accreditation requirements. The funds seek to achieve a total return net of expenses that, over a majority of market cycles, exceeds inflation plus 5% per annum through a globally diversified portfolio. The funds have no restrictions on redemption of funds but are subject to a 0.50% withdrawal fee. The Land Trust has no unfunded commitments at June 30, 2018.

5. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2018, includes \$50,000 related to the Carpinteria Bluffs III acquisition and \$168,000 which is part of a contractual agreement dating back to 2005 which has been donor designated for use in stewardship activities. These amounts are considered fully collectible and therefore no allowance for uncollectible receivables has been recorded. A discount factor of 3% is applied to amounts receivable in more than one year. Pledges receivable are expected to be collected as follows:

In one year or less	\$	39,000
One to five years		81,000
In more than five years		<u>98,000</u>
		218,000
Less present value discount		<u>(28,644)</u>
Total	\$	<u>189,356</u>

6. CONSERVATION LAND AND EASEMENTS

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

Carpinteria

Carpinteria Salt Marsh Reserve – 35 acres of coastal wetland habitat

Rincon Bluffs – 21 acres of coastal habitat

Gaviota

Arroyo Hondo Preserve – 782 acres of coastal habitat and open space

Goleta

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

6. CONSERVATION LAND AND EASEMENTS (Cont.)

Land held in fee title ownership by the Land Trust include (cont.):

Montecito

Hot Springs Canyon – 40 acres retained by the Land Trust in fee title ownership of the 462 acres of foothill and creek habitat including historic trails used by the public

Private or public land protected by conservation easements include:

Buellton and Los Alamos Area

Kick On Vineyard – 533 acres near Los Alamos composed of farmland and endangered California Tiger Salamander habitat

Las Cumbres Ranch – 954 acres of grassland, scrub, maritime chaparral, and oak woodland in the Purisima hills near Los Alamos

Long Canyon – 592 acres near Los Alamos composed of farmland and endangered California Tiger Salamander habitat.

Los Flores Hunt Property – 653 acres of scenic rangeland, oak woodland and coastal scrub habitat adjacent to U.S. Highway 101 north of Los Alamos

Marcelino Springs Ranch – 70 acres of agricultural open space

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

Carpinteria

Carpinteria Marsh/Sandyland – Four easements totaling 53 acres of coastal wetlands visible from Highway 101

Hay Hill Preserve – 88 acres of open space for wildlife and plant habitat.

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

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

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

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

6. CONSERVATION LAND AND EASEMENTS (Cont.)

Private or public land protected by conservation easements include (cont.):

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

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

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

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

Goleta

Fairview Gardens – 12 acres of scenic, organic vegetable farm

UCSB South Parcel Nature Park – 69 acres of coastal wetland and upland habitat with public trails

Lompoc

Anderson/Purisima – 16 acres of wildlife habitat

Big Bend Ranch – 109 acres of agricultural land, oak woodland, and riparian habitat

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

Brasseur Santa Rosa – 46 acres of agricultural land and riparian habitat along Santa Ynez River

Briggs Memorial Preserve – 40 acres of agricultural land and riparian habitat along Santa Ynez River

Burton Ranch Chaparral Preserve – 95 acres of rare chaparral habitat including public trails, adjacent to existing State of California preserve

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

Jordan Farm – 780 acres near Lompoc composed of farmland and river bottom

La Purisima Conservation Bank – 837 acres in the Purisima Hills near Lompoc composed of grassland and an endangered California Tiger Salamander habitat

6. CONSERVATION LAND AND EASEMENTS (Cont.)

Private or public land protected by conservation easements include (cont.):

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

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

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

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

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

Santa Ynez Valley

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

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

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

Rancho la Rinconda – 127 acres of scenic oak woodland adjacent to vineyards along Santa Rosa Road

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

Private or public land acquired and transferred to other entities include:

Carpinteria Bluffs Nature Preserve – 52 acres of scenic, recreational open space visible from Highway 101 were transferred to the City of Carpinteria

Hot Springs Canyon - 422 acres of foothill and creek habitat including historic trails used by the public, were transferred to the U.S. Forest Service

6. CONSERVATION LAND AND EASEMENTS (Cont.)

Private or public land acquired and transferred to other entities include (cont.):

More Mesa – 36 acres of open space property with oak woodland and riparian habitat was acquired and transferred to the County of Santa Barbara in 1991

Point Sal – 130 acres of coastal hillsides, bluffs and beaches with 11 different habitats near Santa Maria was purchased and transferred to the County of Santa Barbara

Rancho Las Cruces – Mountainous wildlife habitat on 900 acres in Gaviota Pass, scenic views from U.S. Highway 101. During the year ended June 30, 2018, the easement was transferred to California Rangeland Trust.

Sedgwick Reserve – 2 parcels totaling 5,896 acres in the San Rafael Mountains now maintained by UCSB Natural Reserve System as a research conservation and education facility

7. PROPERTY HELD FOR CONSERVATION PURPOSES

Property held for conservation purposes is summarized by major classifications as follows at June 30:

	<u>2018</u>	<u>2017</u>
Stewardship conservation land easements (see Notes 2 and 6– Property Held for Conservation Purposes)	\$ 41	\$ 38
Land and Building (see Note 1)	<u>6,000,000</u>	<u>6,000,000</u>
	<u>\$ 6,000,041</u>	<u>\$ 6,000,038</u>

8. PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classifications as follows at June 30:

	<u>2018</u>	<u>2017</u>
Farm vehicles	\$ 42,144	\$ 42,144
Automobile	36,548	-
Computers and furniture	<u>25,388</u>	<u>30,827</u>
	104,080	72,971
Less accumulated depreciation	<u>(53,934)</u>	<u>(48,535)</u>
	<u>\$ 50,146</u>	<u>\$ 24,436</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was approximately \$10,800 and \$10,200, respectively.

9. OPERATING LEASE

The organization leases its office and has rent payments of \$3,113 per month.

10. NOTE PAYABLE

In June 2016 the organization executed a secured note payable of \$3,000,000 to finance a portion of the Rincon Bluffs purchase. The note was secured by the land and the proceeds from any future sale of the land. The note bore interest at 3.27% annually with interest payments due monthly. Interest expense for the year ended June 30, 2018 was approximately \$500. The remaining \$50,000 balance on the note was paid in September 2017.

11. CONDITIONAL GRANT

As part of the La Purisima Conservation Bank Endowment Fund, the Land Trust is the conditional grant recipient of temporarily restricted funds which will become unconditional upon approval and release of final mitigation credits from the United States Fish and Wildlife Service. The funds will be spent for the maintenance and stewardship of the associated property. In June 2017 the grant agreement was amended to adjust the payment terms of the remaining funds due to the Land Trust. The amendment did not change the amounts due to the Land Trust, however, due to the contingent nature of the grant payments the grant receivable of \$232,590 recorded in a prior period was reversed during the year ended June 30, 2016. In May 2018 the second payment of \$262,539, including a CPI adjustment was received. During 2018 it was determined that the initial grant of \$139,554 received in 2014 was not permanently restricted and has been released to temporarily restricted net assets as of June 30, 2018. As of June 30, 2018, the unrecorded conditional grant, as outlined in the grant agreement, totaled approximately \$558,200.

12. CONCENTRATIONS AND RISKS

Credit Risk

The Land Trust maintains cash balances at several financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. Cash balances held in brokerage accounts are insured by the Securities Investor Protection Corporation (SIPC) up to \$250,000 per institution. Uninsured cash balances at June 30, 2018 totaled approximately \$2,337,600. The uninsured cash balances primarily consisted of funds invested in short term insured funds.

12. CONCENTRATIONS AND RISKS (Cont.)

Market Risk

The Land Trust holds its investments in a diversified portfolio, pursuant to a Board adopted investment policy. 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 investments, 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.

13. COMMITMENTS

The Land Trust has agreed to undertake annual monitoring and enforcement activities to ensure compliance with the terms and conditions of 41 conservation easements. The Land Trust is the owner of five properties restricted to open space uses.

14. ENDOWMENT FUNDS

The Land Trust's endowment consists of five donor restricted funds established for a variety of purposes as well as 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 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 endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the donor gift instrument.

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

14. ENDOWMENT FUNDS (Cont.)

Endowment net asset composition by type of fund as of June 30, 2018, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ -	\$ 151,100	\$ 1,201,021	\$ 1,352,121
Board-restricted	<u>3,788,929</u>	<u>-</u>	<u>-</u>	<u>3,788,929</u>
Total endowment funds	<u>\$ 3,788,929</u>	<u>\$ 151,100</u>	<u>\$ 1,201,021</u>	<u>\$ 5,141,050</u>

Changes in endowment net assets for the year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,475,731	\$ 178,059	\$ 1,340,572	\$ 4,994,362
Net investment return (investment income, realized and unrealized gain/loss)	94,249	10,785	-	105,034
Contributions/additions	430,948	-	3	430,951
Releases from restrictions	-	(37,744)	(139,554)	(177,298)
Appropriation of endowment assets for expenditure	<u>(211,999)</u>	<u>-</u>	<u>-</u>	<u>(211,999)</u>
Endowment net assets, end of year	<u>\$ 3,788,929</u>	<u>\$ 151,100</u>	<u>\$ 1,201,021</u>	<u>\$ 5,141,050</u>

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ -	\$ 178,059	\$ 1,340,572	\$ 1,518,631
Board-restricted	<u>3,475,731</u>	<u>-</u>	<u>-</u>	<u>3,475,731</u>
Total endowment funds	<u>\$ 3,475,731</u>	<u>\$ 178,059</u>	<u>\$ 1,340,572</u>	<u>\$ 4,994,362</u>

14. ENDOWMENT FUNDS (Cont.)

Changes in endowment net assets for the year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,127,728	\$ 174,442	\$ 1,340,571	\$ 3,642,741
Net investment return (investment income, realized and unrealized gain/loss)	249,704	55,117	-	304,821
Contributions/additions	1,095,857	-	1	1,095,858
A portion of Big Bend sales proceeds	124,304	-	-	124,304
Appropriation of endowment assets for expenditure	<u>(121,862)</u>	<u>(51,500)</u>	<u>-</u>	<u>(173,362)</u>
Endowment net assets, end of year	<u>\$ 3,475,731</u>	<u>\$ 178,059</u>	<u>\$ 1,340,572</u>	<u>\$ 4,994,362</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.

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. There were no such deficiencies as of June 30, 2018 or 2017.

14. ENDOWMENT FUNDS (Cont.)

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 endowment fund balance. In some instances, the Board may decide to appropriate an amount greater or less 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. 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, Rincon Bluffs and the Modoc Preserve, have donor-specified investment and spending policies which are overseen by committees associated with the original donations.

15. NET ASSETS

Unrestricted Net Assets

Unrestricted net assets consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Operating fund	\$ 1,315,582	\$ 976,910
Board designated:		
Operating endowment	1,540,212	1,261,699
Operating reserve	1,081,986	1,216,361
Arroyo Hondo endowment	585,561	450,294
Stewardship endowment	426,571	449,860
Carpinteria Bluffs endowment	154,617	97,517
Total unrestricted net assets	<u>\$ 5,104,529</u>	<u>\$ 4,452,641</u>

15. NET ASSETS (Cont.)

Temporarily Restricted Net Assets

Temporarily restricted net assets, including receivables and un-appropriated earnings on permanently restricted endowments, were restricted for the following projects as of June 30:

	<u>2018</u>	<u>2017</u>
Conservation Easement Stewardship	\$ 1,135,971	\$ 969,869
Arroyo Hondo Preserve	514,418	623,317
Carpinteria Bluffs	126,034	153,034
Rincon Bluffs	7,276,687	7,273,138
Carpinteria Salt Marsh	52,508	40,732
Coronado Butterfly Preserve	8,683	9,012
Gaviota Coast Program	775,905	589,049
Hot Springs Canyon	77,224	71,723
La Purisima	402,413	1,614
Modoc Preserve	28,228	25,023
Wetland Mitigation	10,718	-
Other Lands	<u>16,613</u>	<u>16,006</u>
Total temporarily restricted net assets	<u>\$ 10,425,402</u>	<u>\$ 9,772,517</u>

Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Arroyo Hondo Endowment	\$ 200,410	\$ 200,410
Carpinteria Bluffs Endowment	504,100	504,100
Carpinteria Salt Marsh Endowment	218,715	218,715
La Purisima Conservation Bank Endowment	-	139,554
Modoc Preserve Endowment	77,977	77,977
Operating Endowment	199,778	199,778
Stewardship Conservation Land Interests	<u>41</u>	<u>38</u>
Total permanently restricted net assets	<u>\$ 1,201,021</u>	<u>\$ 1,340,572</u>