

**BIG SUR LAND TRUST**  
**(A California Nonprofit Public Benefit Corporation)**

**FINANCIAL STATEMENTS**  
**with**  
**INDEPENDENT AUDITORS' REPORT**

**Year Ended June 30, 2019**  
**(with summarized comparative information**  
**for the year ended June 30, 2018)**

**McGILLOWAY, RAY, BROWN & KAUFMAN**  
**ACCOUNTANTS & CONSULTANTS**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Big Sur Land Trust  
(A California Nonprofit Public Benefit Corporation)  
Monterey, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Big Sur Land Trust (the Trust) (a California nonprofit corporation), which comprise the statement of financial position as of June 30, 2019, 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' 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 auditors' 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 Big Sur Land Trust as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

### ***Adjustment to Prior Period Financial Statements***

As described in Note 19 to the financial statements, management determined that a beneficial interest in split-interest trust receivable was not recorded. As a result, the Trust restated 2018 beneficial interest in split-interest trust receivables balance and net asset balances. In our original report, we expressed an unmodified opinion on the June 30, 2018 financial statements, and our opinion on the revised statements, as expressed herein, remains unmodified.

### ***Implementation of New Accounting Pronouncements***

As discussed in Note 2, Big Sur Land Trust adopted the provision of Accounting Standards Update (ASU) 2016-14, Not-for-Profit-Entities (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. The requirement of ASU 2016-14 have been retrospectively applied to all periods presented. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

We have previously audited Big Sur Land Trust's financial statements for the year ended June 30, 2018, and we expressed an unmodified audit opinion on those statements in our report dated November 14, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived, except as to the Emphasis of Matters paragraphs above.



McGilloway, Ray, Brown & Kaufman  
Salinas, California  
November 18, 2019

BIG SUR LAND TRUST  
(A California Nonprofit Public Benefit Corporation)  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2019  
(with summarized comparative information for the year ended June 30, 2018)

	2019	Restated 2018
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,940,392	\$ 1,425,846
Investments	7,344,124	5,554,406
Interest and other receivable	42,871	19,608
Pledges receivable - current portion	589,284	488,960
Grants receivable, net of allowance of \$44,758 and \$44,758 at June 30, 2019 and 2018, respectively	117,851	443,515
Note receivable	26,600	26,600
Beneficial interest in split-interest trusts - current portion	94,196	83,629
Other current assets	56,861	60,157
	10,212,179	8,102,721
Property and equipment, net	1,464,558	1,384,511
Other assets		
Pledges receivables, net-less current portion	1,042,726	1,350,288
Conservation land and land deposits	21,973,147	21,973,147
Residual interest in irrevocable charitable unitrust	500,000	500,000
Beneficial interest in assets held by CFMC	1,185,186	685,311
Beneficial interest in split-interest trusts, net-less current portion	2,190,604	2,029,456
Investment in real estate	519,131	519,131
Investments restricted for endowment	6,988,167	6,627,615
	34,398,961	33,684,948
Total assets	\$46,075,698	\$43,172,180

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

BIG SUR LAND TRUST  
(A California Nonprofit Public Benefit Corporation)  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2019

(with summarized comparative information for the year ended June 30, 2018)

	<u>2019</u>	<u>Restated 2018</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 172,267	\$ 59,855
Accrued liabilities	16,705	177,008
Accrued compensated absences	106,767	130,556
Security deposits	3,200	3,200
Loan payable, current portion	<u>70,000</u>	<u>578,028</u>
Total current liabilities	<u>368,939</u>	<u>948,647</u>
Long-term liabilities		
Loans payable, less current portion	<u>210,000</u>	<u>280,000</u>
Total liabilities	<u>578,939</u>	<u>1,228,647</u>
Net assets		
Without donor restrictions		
Undesignated	3,013,079	2,833,873
Board designated	2,429,937	1,785,805
Land fund	14,693,147	14,623,147
Property and equipment fund	<u>1,372,709</u>	<u>876,483</u>
Total without donor restrictions	<u>21,508,872</u>	<u>20,119,308</u>
With donor restrictions		
Purpose and time restrictions	9,999,717	8,196,610
Perpetual in nature	<u>13,988,167</u>	<u>13,627,615</u>
Total with donor restrictions	<u>23,987,884</u>	<u>21,824,225</u>
Total net assets	<u>45,496,756</u>	<u>41,943,533</u>
Total liabilities and net assets	<u><u>\$ 46,075,695</u></u>	<u><u>\$ 43,172,180</u></u>

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

BIG SUR LAND TRUST  
(A California Nonprofit Public Benefit Corporation)  
STATEMENT OF ACTIVITIES  
June 30, 2019  
(with summarized comparative information for the year ended June 30, 2018)

	2019			Restated 2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Support and revenue</b>				
Contributions	\$ 2,823,089	\$ 343,149	\$ 3,166,238	\$ 1,305,948
Pledge revenue, net	-	400,500	400,500	1,831,102
Campaign revenue	-	1,730,891	1,730,891	636,397
Contributed material and services	13,603	-	13,603	6,962
Government grants	289,895	6,645	296,540	554,055
Change in value of split interest trusts	(305)	253,215	252,910	117,619
Investment income, net of fees	155,096	622,171	777,267	1,035,135
Property revenue	94,981	150,380	245,361	171,432
Special events, net	(2,108)	1,787	(321)	-
Other income	28,590	19,792	48,382	67,597
Total support and revenue	<u>3,402,841</u>	<u>3,528,530</u>	<u>6,931,371</u>	<u>5,726,247</u>
Net assets released from restrictions	<u>1,364,871</u>	<u>(1,364,871)</u>	<u>-</u>	<u>-</u>
Total support, revenue and net assets released from restrictions	<u>4,767,712</u>	<u>2,163,659</u>	<u>6,931,371</u>	<u>5,726,247</u>
<b>Expenses</b>				
<b>Program services</b>				
Land conservation	721,195	-	721,195	837,344
Acquisition	109,864	-	109,864	104,251
Stewardship	650,395	-	650,395	919,739
Communications	215,131	-	215,131	269,344
Community engagement	616,357	-	616,357	495,060
Total program services	<u>2,312,942</u>	<u>-</u>	<u>2,312,942</u>	<u>2,625,738</u>
<b>Supporting services</b>				
Management and general	547,173	-	547,173	511,500
Fundraising	518,033	-	518,033	458,555
Total supporting services	<u>1,065,206</u>	<u>-</u>	<u>1,065,206</u>	<u>970,055</u>
Total expenses	<u>3,378,148</u>	<u>-</u>	<u>3,378,148</u>	<u>3,595,793</u>
Change in net assets	1,389,564	2,163,659	3,553,223	2,130,454
Net assets, beginning of year	20,119,308	21,824,225	41,943,533	38,676,534
Prior year adjustment (Note 19)	-	-	-	1,136,545
Net assets, end of year	<u>\$ 21,508,872</u>	<u>\$ 23,987,884</u>	<u>\$ 45,496,756</u>	<u>\$ 41,943,533</u>

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

BIG SUR LAND TRUST  
(A California Nonprofit Public Benefit Corporation)  
STATEMENT OF FUNCTIONAL EXPENSES  
Year ended June 30, 2019  
(with summarized comparative information for the year ended June 30, 2018)

	PROGRAM SERVICES					SUPPORTING SERVICES				TOTALS	
	Land Conservation	Acquisition	Stewardship	Communi- cations	Community Engagement	Total Program Services	Management and General	Fundraising	Total Supporting Services	2019	Restated 2018
<b>EXPENSES</b>											
Salary and benefits	\$ 264,105	\$ 94,406	\$ 317,604	\$ 129,676	\$ 325,162	\$ 1,130,953	\$ 381,576	\$ 346,874	\$ 728,450	\$ 1,859,403	\$ 1,752,566
Professional services	319,062	4,449	129,311	55,037	120,067	627,926	54,820	89,207	144,027	771,953	995,350
Repairs and maintenance	8,911	291	41,684	1,634	21,787	74,307	(2,058)	3,454	1,396	75,703	105,472
Legal	2,518	8,932	1,532	-	-	12,982	1,683	560	2,243	15,225	48,525
Conservation improvements	17,992	-	22,333	-	-	40,325	-	-	-	40,325	129,049
Interest	3,182	111	3,058	472	2,369	9,192	6,068	1,321	7,389	16,581	14,380
Insurance	9,507	333	12,094	1,411	23,938	47,283	30,196	3,946	34,142	81,425	77,339
Occupancy	3,572	125	26,088	530	5,776	36,091	9,418	1,483	10,901	46,992	50,611
Travel	2,715	117	9,249	550	3,838	16,469	(1,961)	3,268	1,307	17,776	31,955
Office and network	3,954	68	6,385	375	1,457	12,239	24,052	6,080	30,132	42,371	45,447
Community & hosted events	-	-	1,421	6,808	6,836	15,065	-	21,905	21,905	36,970	19,130
Other expenses	-	-	991	1,436	566	2,993	3,912	6,747	10,659	13,652	39,233
Office supplies	1,292	41	3,358	2,802	11,028	18,521	2,731	1,957	4,688	23,209	6,498
Education and conferences	2,599	460	2,405	2,767	72,611	80,842	7,136	3,802	10,938	91,780	67,952
Printing	755	60	333	7,001	7,358	15,507	624	15,476	16,100	31,607	25,807
Donations and dues	70,437	103	19,822	1,324	5,407	97,093	4,821	2,395	7,216	104,309	75,952
Postage and mailings	297	8	119	1,780	490	2,694	3,505	5,284	8,789	11,483	10,291
Total expenses before land transactions and depreciation	710,898	109,504	597,787	213,603	608,690	2,240,482	526,523	513,759	1,040,282	3,280,764	3,495,557
<b>Land Transactions and Depreciation</b>											
Property taxes	-	-	42,714	-	-	42,714	546	-	546	43,260	49,735
Escrow expenses and fees	-	-	-	-	-	-	-	-	-	-	444
Depreciation	10,297	360	9,894	1,528	7,667	29,746	20,104	4,274	24,378	54,124	50,057
Total functional expenses	\$ 721,195	\$ 109,864	\$ 650,395	\$ 215,131	\$ 616,357	\$ 2,312,942	\$ 547,173	\$ 518,033	\$ 1,065,206	\$ 3,378,148	\$ 3,595,793
Percentage of total	21%	3%	19%	6%	18%	68%	16%	15%	32%	100%	

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



BIG SUR LAND TRUST  
(A California Nonprofit Public Benefit Corporation)  
STATEMENT OF CASH FLOWS  
JUNE 30, 2019

(with summarized comparative information for the year ended June 30, 2018)

	2019	Restated 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$3,553,223	\$2,130,454
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	54,124	50,057
Investment income, net	(777,267)	(742,960)
Permanently restricted contributions	(210,000)	(200,000)
Change in value of split-interest agreement	(171,715)	4,254
(Increase) decrease in assets		
Accounts receivable	(23,263)	(18,925)
Pledges receivable	207,238	(1,705,619)
Grants receivable	325,664	(269,462)
Investment held by CFMC	-	(86,648)
Bequest and endowment receivable	-	518,750
Other current assets	3,296	(1,530)
Increase (decrease) in liabilities		
Accounts payable	112,412	(152,552)
Accrued liabilities	(160,303)	172,926
Accrued compensated absences	(23,789)	18,542
Deferred revenue	-	(26,000)
Security deposits	-	3,200
Net cash provided (used) by operating activities	2,889,620	(305,513)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(5,918,940)	(4,862,792)
Proceeds from sale of investments	4,046,062	4,704,294
Purchase of property and equipment	(134,171)	(124,363)
Net cash provided (used) by investing activities	(2,007,049)	(282,861)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from permanently restricted contributions	210,000	200,000
Principal payments on loans payable	(578,028)	(134,195)
Net cash provided (used) by financing activities	(368,028)	65,805
Net increase (decrease) in cash and cash equivalents	514,543	(522,569)
CASH AND CASH EQUIVALENTS, beginning of year	1,425,846	1,948,415
CASH AND CASH EQUIVALENTS, end of year	\$1,940,389	\$1,425,846
<b>Supplemental Disclosure of Cash Flows Information</b>		
Cash paid for interest	\$ 16,581	\$ 14,380

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

BIG SUR LAND TRUST  
(A California Nonprofit Public Benefit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**1. Nature of Business**

Big Sur Land Trust (the "Trust"), is a California nonprofit public benefit corporation formed in 1978. The mission of the Trust is to inspire love of the land and conservation of our treasured landscapes. In collaboration with partners and the community, the Trust has protected more than 38,000 acres of land since its inception, including 4,485 acres currently held in fee title, 6,926 acres held in conservation easements, and over 28,000 acres where the Trust has facilitated the transfer of privately held land into protective public and nonprofit ownership.

The Trust is committed to pursuing land and water conservation work that strengthens our communities and inspires a stewardship ethic so that Monterey County can maintain its unique and special place in the world. The goal and commitment of the Trust is to pursue resource conservation that supports the well-being of land and people and sustains our region's unique quality of life for us all.

**2. Summary of Significant Accounting Policies**

***Basis of Accounting***

The financial statements of the Trust have been prepared on the accrual basis of accounting.

***Financial Statement Presentation***

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update 2016-14 (Topic 958) dated August 2016, and the provisions of the American Institute of Certified Public Accountants "Audit and Accounting Guide for Not-for-Profit Organizations."

***Cash and Cash Equivalents***

Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less and exclude donor amounts designated for long-term purposes. The Trust maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Management believes it is not exposed to any significant risk on cash accounts. The Trust has not experienced any losses in such accounts. The Trust has cash balances in brokerage accounts which are not insured or guaranteed by Federal Deposit Insurance Corporation (FDIC) or Securities Investor Protection Corporation (SIPC). The Trust maintains its cash with a high-quality financial institution which the Trust believes limits these risks.

***Investments***

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are stated at fair value based on quoted market prices provided by investment managers. Net investment returns are reported in the statement of activities and consists of dividends and interest income, realized and unrealized capital gains and losses, less investment fees. Net investment returns are accrued as earned and recorded as revenue without donor restriction unless income is restricted by a donor. If the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized, net investment returns are reported as an increase in net assets without donor restrictions.

Investments are composed of mutual funds invested in equity securities, money market funds, beneficial interest in accounts held at the Community Foundation for Monterey County, and investment in split-interest trusts with readily determinable fair values as detailed in Note 4.

BIG SUR LAND TRUST  
(A California Nonprofit Public Benefit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

***Concentrations of Credit Risk***

Financial instruments which potentially subject the Trust to concentrations of credit risk consist primarily of cash and cash equivalents, investments, contributions, and receivables. Risk associated with cash and equivalents are mitigated by banking with creditworthy institutions. The majority of the Trust's cash was held at five financial institutions at June 30, 2019. These accounts are insured up to \$250,000 per depositor by an agency of the federal government. Investments are exposed to various risks, such as interest rate, market and credit risks. The Trust's investments are maintained in a diversified portfolio with the assistance of professional investment advisors. Due to the nature of such risks, it is at least reasonably possible that changes in the fair value of investment securities in the near term could materially affect the Trust's financial position. Receivables consist primarily of promises to give, grants receivable, and trusts receivable and are closely monitored by the Trust for collectability. Contributions and grants are receivables from donors and will be paid according to agreed-upon payment schedules. The Trust believes these amounts are fully collectable.

***Accounts Receivable***

Management believes that all accounts receivable to be fully collectible; accordingly, there is no allowance for doubtful accounts.

***Grants and Pledges Receivable***

The Trust received grants and contracts from state and federal agencies to be used for restoration and open space development projects. The Trust uses the allowance method to determine uncollectible grants receivable, except for state and federal direct reimbursement grants that are fully collectable. An allowance for doubtful accounts is made annually.

Pledges receivable represent amounts unconditionally committed by donors that have not been received by the Trust. Promises to give are recorded at the present value of their net realizable value, using interest rates applicable to the years in which the promises are received to discount the amounts. Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, the Trust used a risk free discount rate for the year ended June 30, 2019.

The Trust uses the allowance method to determine uncollectible pledges receivable. The allowance is based on the Trust's fundraising consultant's recommendation and management's analysis of specific contributions made.

***Note Receivable***

Note receivable is carried at unpaid principal balance. Management has determined that the note receivable is fully collectible; therefore, no allowance for loan losses is reported.

***Beneficial Interest in Split-Interest Agreements***

The Trust recognizes an asset and the related revenue of charitable trusts when they receive notification of an irrevocable interest in this type of contribution. When management expects the cash from these contributions to be received more than one year in the future, the asset and revenue are discounted using a risk-free interest rate applicable to the years in which the cash flows are expected to be received.

***Property and Equipment***

Property and equipment are recorded at cost or estimated fair value for donated items. It is the Trust's policy to capitalize property and equipment purchases over \$2,000. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, which

BIG SUR LAND TRUST  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

range from 3 to 30 years. Depreciation is charged to the activity benefiting from the use of the property or equipment. Donations of property and equipment are recorded as contributions in-kind at their estimated fair market value at the time of donation. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose.

The cost of repairs and maintenance which does not improve or extend the lives of the respective assets is expensed as incurred. When property or equipment is sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is recognized in the year of sale or disposition.

***Conservation Land-Acquisitions***

Acquisitions of land by the Trust frequently occur in the form of gifts or as purchases for amounts which may be below fair market value. When the Trust acquires land at prices below fair market value, contribution revenue is recognized for the difference between the purchase price and the estimated fair market value. Land acquired by purchase is recorded at cost. Direct costs incurred in the acquisition or improvement of land are added to the carrying value.

The Trust records donated land at fair market value as determined under one of the following valuation procedures:

- Values are primarily based on independent professional appraisals performed for the Trust or on appraised values determined or adopted by public agencies.
- Where a current appraisal is readily available from a professionally qualified independent appraiser retained by a third party, such value may be adopted when the Trust is satisfied that the appraisal is reasonable.
- Where neither of the foregoing sources is readily available, the Trust may use the full cash value as established by the local tax assessor, cost if the cash value is minimal, or internal estimates based on management analysis.

***Conservation Land Transfers***

The Trust often conveys land to public agencies and other nonprofit organizations for amounts less than fair market value. The difference between the selling price and the estimated fair market value at the transaction date is recognized as donation expense and is included in the program expenses for land and easement acquisitions. There was no donated land expense for the year ended June 30, 2019.

***Conservation Easements***

The Trust periodically receives or purchases conservation easements which limits the allowable uses of the related property to open space uses consistent with the Trust's mission. Contributed conservation easements received are recorded as land contributions based on the estimated value given up by the landowner by restricting the use of the property with an easement. Because of donor restrictions, contributed conservation easements and conservation easements purchased with restricted donations bear no future benefit to the Trust and are therefore expensed as land and easements conveyed in the year they are acquired. In connection with the transfer or sale of land to governmental agencies, the Trust may retain a conservation easement on the land. Because these easements bear no future financial benefit to the Trust, they are not recorded on the Trust's statement of financial position. The Trust capitalizes the cost of purchased easements only when they are expected to be sold or otherwise result in some future financial benefit to the Trust. There were no capitalized conservation easements for the year ended June 30, 2019.

BIG SUR LAND TRUST  
(A California Nonprofit Public Benefit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

***Offers to Dedicate***

The Trust periodically acquires properties subject to contingent restrictions on the title known as offers to dedicate. Offers to dedicate are sometimes required by grantors as a means to ensure the Trust maintains the land in a manner consistent with the grantor's wishes. These provisions are consistent with the Trust's mission and generally include restrictions regarding the preservation of land for conservation purposes, that the land is not used to secure debt and that the land may not be transferred without prior approval of the grantor. If the Trust were to violate these provisions or to cease business, the offers to dedicate would automatically transfer title to the grantor agencies or another nonprofit entity.

***Net Assets***

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor or grantor restrictions over which the Board of Trustees have discretionary control in carrying out the operations of the Trust.

*Net Assets With Donor Restrictions* – Net assets subject to donor or grantor imposed restrictions and for which the applicable restriction was not met as of the year end of the current reporting period. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

***Revenue Recognition***

The Trust recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the services are provided. Other income and property revenue are reported when earned based upon the contract terms.

Contributions and grants, whether or not restricted, are recognized as revenue at fair value when received by or unconditionally promised to the Trust. The Trust reports gifts of cash and other assets restricted by donors as increase in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor restricted contributions and grants are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises are recorded at net realizable value if expected to be collected in one year and at discounted value if expected to be collected in more than one year. Conditional promises to give, if any, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

***Contributions In-Kind***

Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation and are reported as increases to net assets without donor restrictions unless explicit donor stipulations specify how donated assets must be used. The Trust recognizes the

BIG SUR LAND TRUST  
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fair value of contributed services received if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. No significant contributions of such goods or services were received for the year ended June 30, 2019.

***Expense Allocation***

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salary expense allocation is based on a direct distribution per employee time sheets. Management allocates indirect costs based on the ratio of total allocable indirect costs to total non-salary costs.

***Income Taxes***

Big Sur Land Trust is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. However, income from certain activities not directly related to the Trust's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Trust qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

***Accounting for Uncertainty in Income Taxes***

Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Trust in its federal and state tax returns are more-likely-than-not to be sustained upon examination.

The Trust files information returns in the U.S. federal jurisdiction and state of California. The Trust's federal returns for the tax years 2016 and beyond remain subject to possible examination by the Internal Revenue Service. The Trust's California returns for the tax years 2015 and beyond remain subject to possible examination by the Franchise Tax Board.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Significant estimates used in the preparation of these financial statements include:

- The assumptions used in determining the net present value of the Trust's irrevocable interests in charitable trusts. A description of the assumptions used is included in Note 5.
- The assumptions used in determining the allowance for uncollectible grants and pledges receivable. Management's estimate is based on collection history.

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***Comparative Financial Information***

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Trust's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

***Recently Adopted Accounting Pronouncement***

ASU 2016-14

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU No 2016-14, Not-For-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*. The amendment applies to all not-for-profit entities, and reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations or restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds.

The adoption of the new accounting standard improves the net asset classification requirements and the information in the financial statements and notes about the Trust's liquidity, financial performance, and cash flows presented to provide more useful information to donors, grantors, creditors, and other users of these financial statements. The Trust has adopted the requirements of ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions. The unrestricted net assets class has been renamed net assets without donor restrictions. The ASU has been applied retrospectively to all periods presented. The implementation has no impact on previously reported net assets.

***Upcoming Accounting Pronouncements***

ASU 2014-09

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which amended revenue recognition guidance to clarify the principles for recognizing revenues from contracts with customers. The guidance requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, disclosures are required about customer contracts, significant judgements and changes in judgements, and assets recognized from the costs to obtain or fulfill a contract. ASU No. 2014-09 is effective for annual reporting in fiscal years beginning after December 15, 2018. The Trust currently expects the impact to be de minimis given the immaterial nature of its revenue sources outside of contributions and investment earnings.

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ASU 2018-08

In June 2018, the FASB issued ASU No. 2018-08, Not-For-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this Update provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958- 605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional. The amendments provide for additional clarifying guidance resulting in greater consistency in application and make the accounting for contributions more operable. The guidance is effective for periods beginning after December 15, 2018. The amendments in this Update should be applied on a modified prospective basis. Retrospective application is permitted. The Trust is currently evaluating the impact of the pending adoption of this new standard on its financial statements and expects the impact to be de minimis.

ASU 2016-02

In February 2016, the FASB issued ASU No. 2016-02, which amends the FASB Accounting Standards Codification and creates Topic 842, *Leases*, requiring organizations to recognize lease assets and lease liabilities on the statement of net position and requiring disclosure of key information about leasing arrangements. The guidance is effective for periods beginning after December 15, 2020. ASU No. 2016-02 mandates a modified retrospective transition method. The Trust is currently evaluating the impact of the pending adoption of this new standard on its financial statements and expects the impact to be de minimis.

***Reclassifications***

Certain prior-year amounts have been reclassified to conform to current year presentation. These reclassifications did not have an effect on net assets.

**3. Liquidity and Availability**

Subsequent to the fiscal year end, as part of the Trust's liquidity policy, the Trust's Board of Trustees passed a resolution in September 2019 to designate an operating reserve from their without donor restriction net assets to build and maintain an adequate level of net assets to support the organization's day-to-day operations in the event of unforeseen shortfalls. The operating reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes.

The minimum amount to be designated as operating reserve will be established in an amount sufficient to maintain ongoing operations and programs for a set period of time, measured in months for a target amount equal to 25% of annual operating expenses excluding those funded by public grants and endowments earnings. The reserve is to be recorded in the books of the Trust as Board Designated Operating Reserve. The operating reserve fund will be initially set at \$750,000 funded and available in cash or liquid investments and will continue to be funded with surplus operating funds without donor restrictions.



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Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 1,940,392
Investments	7,863,255
Interest and other receivable	42,871
Pledges receivable - current portion	589,284
Grants receivable, net	117,851
Note receivable	26,600
Beneficial interest in split-interest trusts - current portion	<u>94,196</u>
Total financial assets as of June 30, 2019	10,674,449
Less those unavailable for general expenditures within one year due to:	
Contractual or donor imposed restrictions	
Restricted by donor with purpose restrictions	(5,780,283)
Subject to appropriation and satisfaction of donor restrictions	(1,434,635)
Board designated reserve	<u>(2,429,937)</u>
Total financial assets available to meet cash needs for general expenditure within one year	1,029,594
Other resources available:	
Line of credit	<u>1,500,000</u>
Total financial assets and other resources available to meet cash needs for general expenditure within one year	<u><u>\$ 2,529,594</u></u>

In addition to the financial assets and other resources available for general expenditure within one year, the Trust has board-designated reserve net assets without donor restrictions of \$2,429,937 that, while the Trust does not intend to spend these for purposes other than those identified, the amounts could be made available for current operations, with Board approval, if necessary.

#### 4. Investments

Investments consist of funds that are with donor restriction and without donor restriction funds. These funds are invested with Merrill Lynch and Community Foundation for Monterey County.

The investment objectives of the Trust are reviewed and revised annually as part of the budgeting process. The aim is to obtain a risk tolerance that is consistent with similar non-profit organizations, while helping to achieve the Trust's current objectives. The rate of return will be established to sustain conservation and stewardship spending policies while meeting the Board designated growth target for investment funds. The rate of return objectives will be established in light of the impact of annual inflation, transaction expenses, risk tolerance, and other relevant factors.

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The fair values of the Trust's investments as of June 30, consisted of the following:

	2019	2018
Equity - domestic	\$ 10,014,167	\$ 6,076,869
Equity - international	191,769	2,905,460
Fixed income	3,423,191	2,915,145
Institutional money market	703,164	284,547
Total investments	\$ 14,332,291	\$ 12,182,021

Fair Value Measurements

The Trust measures its assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification (ASC) 820. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

The guidance establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The guidance expands disclosures about instruments measured at fair value. The guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, the guidance does not require any new fair value measurements.

The guidance establishes a three-level valuation hierarchy for disclosure of fair value measurements. The three levels are defined as follows:

- *Level 1* - inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Trust has the ability to access. Level 1 securities include highly liquid U.S. Treasury securities, certain common stocks and mutual funds.
- *Level 2* - inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, inputs to the valuation methodology include quoted prices for identical assets or liabilities in inactive markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial statement. Most debt securities, preferred stocks, certain equity securities, short-term investments, and derivatives are model pricing using observable inputs and are classified as Level 2.
- *Level 3* - inputs to the valuation methodology are unobservable and significant to the fair value measurements. These inputs reflect assumptions of management about pricing the assets or liability including assumptions about risk such as bid/ask spreads and liquidity discounts. Example of Level 3 assets include investment in limited partnership.

A financial instrument'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.

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The following table sets forth by level within the hierarchy, the Trust's assets measured on a recurring basis at fair value as of June 30, 2019:

	Total	Level 1	Level 2	Level 3
Mutual Fund				
Equity - domestic	\$ 10,014,167	\$ 10,014,167	\$ -	\$ -
Equity - international	191,769	191,769	-	-
Fixed income	3,423,191	3,423,191	-	-
	<u>13,629,127</u>	<u>13,629,127</u>	<u>-</u>	<u>-</u>
Beneficial interest in assets held by CFMC	1,185,186	-	-	1,185,186
Beneficial interest in split-interest trusts, net	2,284,800	-	-	2,284,800
	<u>3,469,986</u>	<u>-</u>	<u>-</u>	<u>3,469,986</u>
Total recurring fair value measurements	<u>\$ 17,099,113</u>	<u>\$ 13,629,127</u>	<u>\$ -</u>	<u>\$ 3,469,986</u>
Institutional money market*	<u>\$ 703,164</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Real estate investment**	<u>\$ 519,131</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Investment portfolio total	<u>\$ 18,321,408</u>			

\*Institutional money market included in the investment portfolio are not subject to provisions of fair value measurements as they are recorded at cost.

\*\*The Trust did not elect fair value measurement for the real estate investment; therefore, it is recorded at cost.

The following 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 Trust believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following is a description of the Trust's valuation methodologies for assets measured at fair value:

***Mutual Funds (Cash, Equities and Fixed Income)***

Valued at the closing price as reported on the active market on which the individual securities or funds are traded.

***Community Foundation for Monterey County – CRFREE Fund***

Investments held by the Community Foundation for Monterey County (CFMC) represent amounts held in various Stewardship Funds at Community Foundation. CFMC invests the assets held in the fund. The income can be distributed. The principal may be distributed if approved in writing by three-fourths of the members of the Trust's governing body and a majority of the Board of Directors of the CFMC. If distributed, the principal is to be used according to the purposes set forth in the agreements. The agreements governing the assets include variance power allowing CFMC to modify the restrictions on distributions from the fund. The Trust has used the fair value of its pro-rata share of the investment pool held by CFMC to determine the fair value of the beneficial interest. The unobservable inputs to the valuation are the underlying assets at the CFMC; therefore, these investments are classified as Level 3 assets within the fair value hierarchy.

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***Beneficial Interest in Split-Interest Agreements***

Donations that are held in split-interest trusts where the Trust serves as trustee or does not serve as trustee, representing beneficial interest in trusts. Values are based on the present value of expected cash flows, which approximates fair value.

***Real Estate Investment***

The Trust purchased real estate investment property during the fiscal year 2017-18. This investment is recorded at cost. This investment was valued at its purchase price in February 2018.

The investment consists of 50% interest in a three-bedroom, three bath single family home in Monterey, California. The other half interest was purchased by Jeannette Tuitele-Lewis, the Trust's President/CEO, and serves as her residence pursuant to an Equity Sharing and Tenancy in Common Agreement dated February 2, 2018, and Board Resolution 2017-04 adopted June 14, 2017. The Shared Equity Agreement lays out the basis for cost sharing for major improvements and property taxes, while leaving basic maintenance and upkeep as Jeannette's responsibility. Upon termination of employment, the Land Trust has the right to repurchase Jeannette's 50% interest at the then market value as determined by appraisal.

The following table sets forth a summary of changes in the fair value of the Trust's Level 3 assets at June 30, 2019:

	Beneficial Interest in Assets Held by CFMC	Beneficial Interest in Split-Interest Agreements	Total
Balance, beginning of year	\$ 685,311	\$ 2,113,085	\$ 2,798,396
Additional investments	466,995	-	466,995
Investment income, net	32,880	-	32,880
Distributions	-	(81,195)	(81,195)
Change in value of split-interest trusts	-	252,910	252,910
Balance, end of year	<u>\$ 1,185,186</u>	<u>\$ 2,284,800</u>	<u>\$ 3,469,986</u>

**5. Trusts Receivables**

As of June 30, 2019 the Trust has the following trust receivables:

Beneficial interest in split-interest trusts:	
Remainder beneficiary in trust, net	\$ 1,092,345
Beneficiary in Elliott Trust through 2034	1,192,455
Total beneficial interest in split-interest trust, net	<u>2,284,800</u>
Less current portion of beneficial interest in split-interest trusts	<u>(94,196)</u>
Beneficial interest in split-interest trusts, net - noncurrent portion	<u>\$ 2,190,604</u>
Residual interest in split-interest trusts:	
Residual interest in irrevocable charitable remainder unitrust	<u>\$ 500,000</u>

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The Trust is a trustee and remainder beneficiary of three irrevocable charitable remainder unitrusts, one revocable charitable remainder unitrust and two pooled income funds organized in the form of trusts. Provisions for these various trusts require distributions of the trusts' net income, or a percentage of their net fair value, to designated beneficiaries on a quarterly basis during their lifetimes. At the end of the trusts' term and after payments to any other remainder beneficiaries, the remaining trust assets will be available for the Trust's unrestricted use.

***Charitable Remainder Trusts (Big Sur Land Trust as Trustee)***

In those cases where the Trust acts as trustee, the portion of the unitrusts attributable to the present value of the estimated future benefits to be received by the Trust was recorded as a with donor restricted contribution in the period the unitrusts were established. Assets held in the unitrusts are reported at fair value. On an annual basis, the Trust revalues and records a liability for the present value of required distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated assuming a 6.0% investment return, discount rates of 4.2% to 8.4%, and life expectancies based on applicable mortality tables.

***Pooled Income Funds***

When contributions are made to either of the two pooled income trusts, the Trust records a with donor restricted contribution equal to the present value of the Trust's remainder interest in those trusts. Assets held in the pooled income trusts as of June 30, 2019 and 2018, are reported at fair value. On an annual basis, the pooled income trusts adjust their stated value to reflect the passage of time and any changes in the life expectancy of the income beneficiaries. The present value of the Trust's remainder interest is calculated using a 2.8% discount rate.

The assets held in the split-interest trusts and their related liabilities are summarized below:

	Assets Held	Related Liabilities	Net Assets
As of June 30, 2019:			
Revocable charitable remainder trusts	\$ 450,848	\$ 450,848	\$ -
Irrevocable charitable remainder trusts	2,258,593	1,424,899	833,694
Pooled income funds	287,887	29,236	258,651
Total	<u>\$2,997,328</u>	<u>\$1,904,983</u>	<u>\$1,092,345</u>

	Assets Held	Related Liabilities	Net Assets
As of June 30, 2018:			
Revocable charitable remainder trusts	\$ 454,403	\$ 454,403	\$ -
Irrevocable charitable remainder trusts	2,159,681	1,390,257	769,424
Pooled income funds	279,877	34,594	245,283
Total	<u>\$2,893,961</u>	<u>\$1,879,254</u>	<u>\$1,014,707</u>

Investments held in split-interest trusts where the Trust serves as trustee are stated at fair value and are based on quoted market values. Investments consisted of the following at June 30:

	2019	2018
Equity funds	\$1,063,390	\$ 995,751
Cash and cash equivalents	94,970	65,507
Mutual funds	1,838,968	1,832,703
Total	<u>\$2,997,328</u>	<u>\$2,893,961</u>

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***Elliott Trust Receivable***

The Elliott Trust is a bequeathed fund held by CFMC which engenders an annual payout of 5% of the fund balance of which 50% is payable to Big Sur Land Trust and 50% to another not-for-profit organization. The fund will pay out at this rate for 20 years (beginning in 2015 and ending in 2034), after which the remaining corpus will be turned over to a third not-for-profit organization. Payments from the fund are restricted to purchase fixed assets.

The Trust split-interest receivable as of June 30, consists of the amount due in the following years:

	<u>2019</u>	<u>2018</u>
Beneficial interest in trust receivable in less than one year	\$ 94,196	\$ 83,629
Beneficial interest in trust receivable in one to five years	470,980	418,145
Beneficial interest in trust receivable in more than five years	<u>1,130,352</u>	<u>1,087,177</u>
Total beneficial interest in trust receivable	1,695,528	1,588,951
Less discount to present value	<u>(503,073)</u>	<u>(490,573)</u>
Total beneficial interest in trust receivable - net	<u>\$ 1,192,455</u>	<u>\$ 1,098,378</u>

***Charitable Remainder Trusts (Third Party Trustee)***

The Trust is also a remainder beneficiary of an irrevocable charitable remainder unitrust for which the Trust does not serve as the trustee. Provisions of this trust require annual distribution of actual income up to 9% of the net fair value of the unitrust assets to the named beneficiaries during their lifetimes. The assets remaining after the death of the last surviving noncharitable income beneficiary will be available for the Trust's unrestricted use. The portion of the unitrust attributable to the present value of the estimated future benefits to be received by the Trust was recorded as a contribution with donor restriction and is shown on the statement of financial position as a residual interest in irrevocable charitable remainder unitrust. The present value of the estimated future benefit is \$500,000 for each of the years ended June 30, 2019 and 2018.

**6. Pledges receivable**

Pledges receivable at June 30, consists of the following unconditional promises to give:

	<u>2019</u>	<u>2018</u>
Pledges receivable in less than one year	\$ 589,284	\$ 488,960
Pledges receivable in one to five years	1,189,756	1,553,740
Pledges receivable in more than five years	<u>2,000</u>	<u>-</u>
Total pledges receivable	1,781,040	2,042,700
Allowance for uncollectable pledges	(26,716)	(30,641)
Discount to present value	<u>(122,314)</u>	<u>(172,811)</u>
Total pledges receivable - net	<u>\$ 1,632,010</u>	<u>\$ 1,839,248</u>

Unconditional promises to give (pledges receivable) are from various entities including foundations, corporations, and individuals. The discount rate used by the Trust on long-term pledges receivable as of June 30, 2019 was 4%.

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**7. Property and Equipment, Net**

The cost and accumulated depreciation of property and equipment as of June 30, consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 324,786	\$ 324,786
Buildings	985,705	953,957
Vehicles	111,589	131,809
Equipment	133,839	120,494
Leasehold improvements	370,732	330,541
Furniture and fixtures	<u>112,145</u>	<u>75,126</u>
	2,038,796	1,936,713
Less: Accumulated depreciation	<u>(574,238)</u>	<u>(552,202)</u>
Property and equipment, net	<u>\$ 1,464,558</u>	<u>\$ 1,384,511</u>

Depreciation expense for the years ended June 30, 2019 and 2018 totaled \$54,124 and \$50,057, respectively.

Assets pledged as collateral on loans payable are disclosed in Note 9.

**8. Conservation Land and Land Deposits**

The cost and impairment loss of conservation land and land deposits as of June 30, consisted of the following:

	<u>2019</u>	<u>2018</u>
Conservation land and land deposits	\$ 25,923,147	\$ 25,923,147
Less: Valuation allowance due to irrevocable offer to dedicate to State	<u>(3,950,000)</u>	<u>(3,950,000)</u>
Conservation land and land deposits	<u>\$ 21,973,147</u>	<u>\$ 21,973,147</u>

On January 25, 2017, Big Sur Land Trust purchased 73 acres of agricultural land located in central Salinas, California, within the Carr Lake Basin (the Property). The Property includes storage buildings and two residences. It was acquired by BSLT for the sole purpose of creating a public park, habitat, and open space complex in the center of Monterey County’s most densely populated urban community. The Trust successfully raised \$3,950,000 to purchase the Property through public and private grants. Of this sum, \$3,000,000 was provided by two California state agencies – the State Coastal Conservancy and the California Natural Resources Agency. As a condition of these public grants, the Trust is contractually obligated to dedicate the Property to specific acquisition objectives – public access, open space protection, wildlife habitat and environmental restoration. Both agencies also required documents to be recorded on the title of the Property as additional measures to ensure the permanent dedication of the site for public benefits through specific deed restrictions:

- 1) The State Coastal Conservancy required that an Irrevocable Offer to Dedicate Title in Fee and Declaration of Restrictive Covenants (OTD) be recorded – Document #2017004454 dated 01/25/17 Official Records of Monterey County; and

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- 2) The California Natural Resources Agency required that a Memorandum of Unrecorded Grant Agreement be recorded – Document #2017004455 dated 01/25/17 Official Records of Monterey County.

These documents require the Trust to transfer the Property to the City of Salinas or another appropriate public agency in order to ensure public use into the future once the community engagement and site design phase of this project is complete and funds are secured for implementation. During this process, which could take several years, the Trust plans to continue to lease the site for agricultural and residential use. All lease income derived from this site will be placed in the Property’s stewardship fund, as obligated by the OTD, and solely for developing the Property into a public facility. Agricultural use is capped at seven years from the date of purchase and will end in 2023.

Given the above described restrictions and absence of flexibility not only on external use of income but also in eventual disposition of the Property, the Trust has determined that a valuation allowance, equal in value to the purchase price of the Property, should be recorded on the Trust’s balance sheet, thereby effectively carrying the asset at zero value.

**9. Loans Payable**

The Trust has received financing as follows at June 30:

	2019	2018
Logar, Inc. loan dated November 7, 2008 in the initial amount of \$1,200,000, secured by a deed of trust on the McWhorter-Songbird property. The loan bears no interest and is payable in annual installments. For fiscal years ending 2014 through 2023, the annual principal installments will be \$70,000.	\$ 280,000	\$ 350,000
Loan paid as of June 4, 2019	-	508,028
Total	280,000	858,028
Less current portion	(70,000)	(578,028)
Total, less current portion	\$ 210,000	\$ 280,000

Scheduled maturities for the above loan’s payable are as follows:

Year ending June 30,	Amount
2020	\$ 70,000
2021	70,000
2022	70,000
2023	70,000
Total	\$ 280,000

**10. Line of Credit**

The Trust obtained a \$1,500,000 line of credit arrangement with Pacific Valley Bank on February 16, 2012. The initial line of credit was extended on February 27, 2019 and will mature on March 10, 2020. The line of credit bears interest at 7%. The line of credit is secured by a deed of trust on land in Monterey County. The line of credit had no outstanding balance as of June 30, 2019 and 2018, respectively.



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**11. Board Designated Net Assets**

Board designated net assets consisted of funds designated for easement defense, monitoring, and stewardship in the amount of \$2,429,937 and \$1,785,805 for the years ended June 30, 2019 and 2018, respectively.

**12. Endowment**

The Trust's endowments consist of the Seeley and Virginia Mudd Endowment Fund, and the Catherine L. and Robert O. McMahan Stewardship Endowment. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Trust has the following three endowments:

***Seeley and Virginia Mudd Endowment Fund***

The annual income from the Seeley and Virginia Mudd Endowment Fund is restricted for use in the preservation and management of the Glen Deven Ranch.

The Glen Deven Ranch is an 850-acre property located adjacent to the Palo Colorado Canyon on the Big Sur Coast approximately 15 miles south of Carmel. The Ranch was donated to the Trust in perpetuity to be held and administered in a manner that would preserve the Ranch intact and protect the natural, open space, aesthetic and ecological features of the property and its unique beauty for public benefit.

***The Catherine L. and Robert O. McMahan Stewardship Endowment***

The Catherine L. and Robert O. McMahan Stewardship Endowment is a perpetual with a donor restricted fund for stewardship, restoration and quality management of lands and waters in the Big Sur region. Earnings and gains from the fund are restricted to the care of natural resources, restoring and ensuring healthy habitat, protecting native and endangered plants and animals, and enabling public enjoyment of parks, trails and open space.

**Interpretation of Relevant Law**

The Board of Trustees of the Trust has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 Trust classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with the SPMIFA, the 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 Trust and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effects of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Trust
- (7) The investment policies of the Trust

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**Underwater Endowments**

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the amount required to be maintained by donors or by law (underwater endowments). The Board of Directors of the Trust has interpreted SPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no deficiencies of this nature that would be required to be reported in unrestricted net assets as of June 30, 2019 and 2018.

**Investment Return Objectives, Risk Parameters and Strategies**

**Investment Objective** - Annually, as a component of the budgeting process, management and the Internal Operations Committee (IOC) will establish a target rate of return to sustain conservation and stewardship spending policies and meet Board designated growth for the investment funds. Portfolio return objectives should consider the impact of annual inflation, transaction expenses, risk tolerances, and other relevant factors.

**Asset Allocation Limitations** - Are agreed upon by the investment managers in consultation with the IOC.

**Risk Tolerance** - The investments shall be diversified to manage the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific classes of securities. Diversification strategies shall be recommended by the investment manager and periodically reviewed and approved by the IOC. It is the expectation of the Board that the Trust maintain an investment risk profile similar to that of other non-profit organizations with similar objectives. Establishment of risk tolerance will be reviewed annually, and consideration will be given regarding the current objectives of the Trust and current economic and market conditions.

***Spending Policy***

The Trust's endowment spending policy is determined on an annual basis by the IOC based on investment objectives and current financial conditions. The actual spending rate of 4% for the fiscal year is approved as part of the annual budget approval process.

In establishing this policy, the Trust considered the following factors:

- (1) The duration and preservation of the endowment funds
- (2) The purposes of the Trust and the endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation or deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Trust; and
- (7) The Trust's investment policy

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***Endowment Net Asset Composition and Changes***

Endowment net asset composition by type of fund consisted of the following:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment fund			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity	\$ -	\$6,862,616	\$6,862,616
Purpose restricted funds and accumulated investment gains	-	1,560,186	1,560,186
	<u>\$ -</u>	<u>\$8,422,802</u>	<u>\$8,422,802</u>
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment fund			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity	\$ -	\$6,627,615	\$6,627,615
Purpose restricted funds and accumulated investment gains	-	1,242,919	1,242,919
	<u>\$ -</u>	<u>\$7,870,534</u>	<u>\$7,870,534</u>

Changes in donor-restricted endowment net assets for the fiscal years ended June 30, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2017	\$ -	\$ 7,265,966	\$ 7,265,966
Contributions	-	200,000	200,000
Investment return, net	-	647,482	647,482
Appropriations and spending policy	-	(242,914)	(242,914)
Endowment net assets, June 30, 2018	-	7,870,534	7,870,534
Contributions	-	349,326	349,326
Investment return, net	-	472,844	472,844
Appropriations and spending policy	-	(269,902)	(269,902)
Endowment net assets, June 30, 2019	<u>\$ -</u>	<u>\$ 8,422,802</u>	<u>\$ 8,422,802</u>

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**13. Net Assets With Donor Restrictions**

	2019	2018
Subject to expenditure for specified purpose:		
Activities that benefit the Big Sur region	\$ 582,615	\$ 619,615
Stewardship (CRFREE)	624,755	624,755
Community engagement	228,278	405,592
Stewardship (general)	675,714	390,669
Land acquisition	7,984	12,603
Sobranes Fire	-	52,590
Land conservation and restoration	669,884	-
General and strategic planning	7,216	26,887
Comprehensive campaign	2,883,152	2,207,895
Tangible assets acquisitions	100,685	-
Net assets held in split-interest trusts	1,192,455	1,098,378
Subject to expenditure after passage of time		
Net assets held in split-interest trusts	1,092,344	1,014,707
Residual interest in irrevocable split-interest trust, net	500,000	500,000
Total	8,565,082	6,953,691
Endowment		
Subject to spending policy and appropriation:		
Investment in perpetuity (including the original donor-restricted gift), which, once appropriated, are expendable to support land preservations and maintenance	6,988,167	6,627,615
Subject to appropriation and expenditure when a specified event occurs:		
Income earned on perpetual endowments and purpose restricted endowments gifts by donors for land preservation and maintenance	1,434,635	1,242,919
	8,422,802	7,870,534
Not subject to appropriation or expenditure		
Land required to be preserved and maintained as ranch/open space	7,000,000	7,000,000
Total net assets with donor restrictions	\$ 23,987,884	\$ 21,824,225

**14. Property Revenue**

Property revenue for the year ended June 30, consisted of the following:

	2019	2018
Cell Tower land lease rental income	\$ 61,256	\$ 57,883
Glen Deven property rental income	12,000	-
Carr Lake lease rental income	150,380	113,549
Elk Run House 50% ownership (rental value)	21,725	-
Total property rentals revenue	\$ 245,361	\$ 171,432

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**15. Special Events, Net**

The Trust considers special events as community engagement activities, not fundraising opportunities. Special events for the year ended June 30, 2019 consisted of the following:

	Sponsorships	Tickets	Total Revenue	Expenses	Net
Race for open space	\$ 1,787	\$ 12,918	\$ 14,705	\$ 17,935	\$ (3,230)
Dark watchers concert	-	5,475	5,475	2,566	2,909
	<u>\$ 1,787</u>	<u>\$ 18,393</u>	<u>\$ 20,180</u>	<u>\$ 20,501</u>	<u>\$ (321)</u>

**16. Retirement Plan**

Effective January 1, 2003, the Board of Trustees approved a 403(b) Tax Sheltered Annuity Plan which is available to all employees who have completed one year of service and have attained age 21. Employer contributions are to be 5% of each employee's gross annual salary. For the years ended June 30, 2019 and 2018, the Trust made retirement contributions in the amount of \$63,217 and \$63,306, respectively.

**17. Community Foundation Agency Endowment Funds**

The BSLT Stewardship Fund was established at Community Foundation for Monterey County (CFMC) for the benefit of the Trust. For the years ended June 30, 2019 and 2018, respectively, the balances of this fund were \$38,149 and \$39,926.

The Jane P. McKay Endowment for the Fellowship Program Fund was established at CFMC for BSLT's work with interns. For the years ended June 30, 2019 and 2018, respectively, the balances of this fund were \$161,976 and \$164,780.

These funds are owned and administered by the CFMC and the assets of the funds are not included in the financial statements of the Trust. Net income from the funds are distributed to the Trust under the terms of the endowment agreements.

**18. Commitments and Contingent Liabilities**

***Litigation***

The Trust is, by the nature of its programs, subject to an obligation to enforce a variety of claims on a continuing basis. Costs for all known claims not covered by insurance were recognized in the financial statements. In the management's opinion, the amount of any additional liability will not have a material impact on the financial statements.

***Restricted Grant***

During 2000, the Trust acquired a 68% undivided interest in a parcel of land known as Martin Dunes. The California Coastal Conservancy (Conservancy) funded \$500,000 of the purchase price through a restricted grant. The terms of the grant require the Trust to make continuing best efforts to obtain the remaining 32% interest in the property and if and when 100% interest is acquired, to transfer or dedicate the property for public access and open space preservation in accordance with the Conservancy's plans. Should the Trust choose to dispose of or use its interest in the property in any other manner, they would be required to obtain the approval of the Conservancy. The Conservancy has secured its contingent interest through a \$500,000 lien on the Trust's interest in the property. The Trust intends to ultimately dispose of, transfer, or dedicate the property in a manner consistent with this grant requirement. If the Trust is unable to comply with the grant provisions, it would likely work with the Conservancy to determine an alternative means to protect the property. No liability has been recorded related to the Conservancy's lien.

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**19. Prior Period Adjustment**

***Restatement of Financial Statements Due to Correction of an Error***

During the fiscal year ended June 30, 2019, it was discovered that a beneficial interest in split-interest trust received in fiscal year ended June 30, 2017 in the amount of \$1,136,545 was not recorded in the Trust's financial statements. Beginning net assets as of June 30, 2018 has been adjusted by \$1,136,545. In addition, during the fiscal year ended June 30, 2018, change in value of beneficial interest in split-interest trust was not recorded and payment was recorded as contribution in the Trust's financial statements. The correction had no effect on the results of the current year activities.

As a result of management's review, the following financial statement line items for the year ended June 30, 2018 were affected by the changes:

Statement of Activities - Year Ended June 30, 2018

	As Previously Reported	As Restated	Effect of Change
Contributions	\$ 1,389,577	\$ 1,305,948	\$ (83,629)
Change in value of split-interest trusts	\$ 72,157	\$ 117,619	\$ 45,462
Change in net assets	\$ 2,168,621	\$ 2,130,454	\$ (38,167)
Net assets, beginning of year	\$ 38,676,534	\$ 39,813,079	\$ 1,136,545
Net assets, end of year	\$ 40,845,155	\$ 41,943,533	\$ 1,098,378

Statement of Financial Position - June 30, 2018

	As Previously Reported	As Restated	Effect of Change
Beneficial interest in split-interest trusts - current portion	\$ -	\$ 83,629	\$ 83,629
Beneficial interest in split-interest trusts, net less current portion	\$ 1,014,707	\$ 2,029,456	\$ 1,014,749
Total net assets	\$ 40,845,155	\$ 41,943,533	\$ 1,098,378

**20. Subsequent Events**

The Trust's management has performed an analysis of the activities and transactions subsequent to June 30, 2019 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2019. Management has performed their analysis through November 18, 2019, the date the financial statements were available to be issued. Management determined that the Trust did not have any subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2019.