

BY Dan Deneen

# Generating Financial Reports THAT WORK FOR YOU

**D**o eyes glaze over during the treasurer's report at your board meeting? Perhaps it's time to revisit how clearly your financial reports are conveying your land trust's fiscal status. The past treasurer of the ParkLands Foundation shares his experience and offers some tips...

Every land trust should be able to produce an appropriate set of financial reports from an appropriate financial accounting system. The financial reports should track all revenues (income and donations) and expenditures, as well as report all assets and liabilities.

The reports should not be so complex that board members will only scan them and nod their heads during the treasurer's presentation at board meetings. Conversely, the reports should not be so simple that board members cannot adequately review the land trust's financial transactions or compare numbers between fiscal periods.

In 2007, the financial reports of the ParkLands Foundation in Illinois tended to have the latter problem. Nothing was improperly reported, and there were no misappropriations; however, when board members reviewed the reports, they did not leave with a solid, comprehensive understanding of ParkLands' financial situation, either of the organization's receipts and expenditures (income report) or of its assets (balance sheet). The reports lumped long- and short-term investments together, as well as expenditures for conservation programs and general administrative purposes. What's a new treasurer to do?

In consultation with an accountant familiar with QuickBooks, I reconfigured the financial categories. QuickBooks is the most common accounting program for small businesses; it uses "companies" to segregate various divisions, operating units and so on for the business or entity "user."

I established four separate companies for ParkLands Foundation:

- Administrative
- Stewardship
- Investment
- Real estate

These company accounting divisions now enable board members to quickly and efficiently review stewardship and administrative receipts and disbursements for ParkLands in income reports. The real estate and investments transactions are recorded separately, and QuickBooks produces the appropriate balance sheets.



Dan Deneen on a protected property.

BY Megan Taaffe

**Administrative.** The administrative company records and reports financial transactions for most of the traditional nonprofit management functions. Membership dues, annual meeting receipts, newsletter expenses, office supplies and so forth are reported through this company.

**Stewardship.** Our primary income and expense company, and likely that of many land trusts, is stewardship. The stewardship committee must prepare a budget for review by the treasurer and the board. It has its own checkbook, from which payments are made for maintenance, management and restoration expenses. Stewardship income includes U.S. Department of Agriculture payments, all cash rents and transfers from the investment accounts.

**Investment.** The ParkLands investment company includes all of the longer-term financial assets, including two restricted endowments and other unrestricted investments such as CDs. The investment account company activities are best reviewed through the balance sheets, rather than through income and expense reports, because there are few transactions. Since the bulk of our annual expenditures are for conservation purposes, much of the investment income is distributed to the stewardship account.

We manage our endowment funds with a total return concept to divert 4% of asset values to stewardship activities in the coming year. This arrangement allows the treasurer and finance committee to invest in conservative equity investments. The total return concept, taken from trust administration, is based upon the premise that, in the long run, conservative equity investments outperform straight income-producing assets. In the trust industry, CDs are not considered a long-term investment.

**Real estate.** The fourth company is real estate. With the help of an appraiser, we are currently updating the estimated fair market value of our properties so that the balance

## CHAMPIONING BOTH Local and National Conservation

What strikes you first upon viewing Palmer Land Trust's website is how strikingly beautiful southeastern Colorado is. Surveyors M.S. Beach and Rufus Cable thought so when, in 1859, they were so impressed by an area of sandstone formations they decided to call it the Garden of the Gods. One hundred and eighteen years later, a group of individuals formed the William J. Palmer Parks Foundation with the intention of "advancing the legacy of parks and open spaces left by Colorado Springs' founder General William Jackson Palmer." What became the Palmer Land Trust first acquired properties adjacent to the Garden of the Gods but then began to broaden its reach.

To date, the land trust has helped protect nearly 70,000 acres of farms and ranches, wildlife habitat, scenic corridors and public open spaces in southeastern Colorado.

"The progression of the organization outgrew its original purpose," says Sigrid Meadows, office and public relations manager of Palmer Land Trust. "As the effort to protect land grew, and conservation easements evolved, the need for support became evident. When we learned of a national alliance that supported the same goals, we wanted to get on board (so to speak!)"

Palmer Land Trust board members have attended Rally for many years and have championed both local and national conservation through the Land Trust Alliance's Board Member Challenge (see p. 30).

One of the benefits of the Challenge is that trustees receive the Alliance's *Saving Land* magazine. Sigrid says, "*Saving Land* is a great publication and keeps trustees apprised of what is

happening with land trusts across the country—this stimulates new ideas, stresses the significance of our work and motivates trustees even more."

This year's Rally will offer a variety of learning opportunities for board members as the Alliance introduces "Land Trust Board Member Day," which includes the third annual Board Member Summit—a complimentary half-day of connecting with fellow board members—and several half-day seminars geared towards the interests and issues that all board members face. At the Welcoming Dinner, land trusts participating in the Board Member Challenge will be recognized.

Scott Campbell, executive director of Palmer Land Trust, feels that "Rally is a great opportunity for professional exchange, one that helps us to sharpen our practices and advance our mission. This year, we'll be on both sides of the exchange—staff will be presenting, and both board and staff members will be attending." 🍀

sheet does not reflect farm prices in the 1960s, measured in hundreds of dollars, when the present value of the property is measured in thousands of dollars. This task should only be performed every decade or so to avoid artificially inflating the balance sheets.


ParkLands values its conservation easements at their appraised philanthropic value (as reflected by the donor's appraisal), with a footnote indicating this accounting practice. This method is used by The Nature Conservancy in Illinois and supported by our auditor. Another acceptable accounting practice used by other land trusts is to value conservation easements at a nominal amount or at zero, again with an accounting footnote. Any reporting method should include an explanation in an audit footnote.

ParkLands' conservation easement defense fund is categorized within the real estate company because the attorneys on the board and on the real estate committee are primarily responsible for the enforcement or defense of our conservation easements. The stewardship committee members, many of whom are scientists, are responsible for the easement monitoring.

If the Land Trust Alliance's conservation easement insurance program comes to fruition, it is ParkLands' intention to utilize the investment income from the conservation easement defense fund to pay for the annual insurance premiums. As an example, for 10 easements with a total annual premium of \$600, if we set aside \$25,000 and earned a minimum return of 2.5 percent (using treasury bond funding), that would cover the premiums. *[Editor's note: Conservation defense insurance is a safety net, not a substitute for land trust reserves and good practices. No matter what happens, land trusts will still need funds for ongoing daily stewardship costs and the annual costs of insurance deductibles and exclusions. You will still need a significant amount of your own funds. You will also need a way to pay the annual insurance premiums. Some land trusts are considering keeping their segregated legal defense funds intact and*

using the income from the fund to pay the premiums and having the fund principal available to pay deductibles, exclusions and claims in excess of the policy limit.]

As with all transitions, a new accounting system will take some time and effort by the treasurer to implement and other board members to understand. Your organization should consider hiring an outside consultant who can help you produce the quality finan-

cial statements that you need. In the end, your investment will be well worth it. Your financial reports will give you an accurate, concise picture of the financial condition of your land trust, which is critical to running a successful organization. 

**DAN DENEEN** IS A MEMBER AND FORMER TREASURER OF PARKLANDS FOUNDATION IN CENTRAL ILLINOIS. DAN IS AN ATTORNEY, WITH AN UNOFFICIAL ACCOUNTING MINOR FROM THE UNIVERSITY OF ILLINOIS.



AS OF JULY 2010

## Board Member Challenge

**These land trusts have succeeded at achieving 100% board member participation or a minimum of 50% participation since the last issue of the magazine.**

To see all successful groups, learn more about the Challenge or get your board involved, contact Megan Taaffe (mtaaffe@lta.org, 202-638-4725, ext. 320) or visit [www.lta.org/get-involved/bmc](http://www.lta.org/get-involved/bmc).

# 100%



### Renewed Success at 100% Level

- Alachua Conservation Trust
- Coastal Mountains Land Trust
- Eastern Sierra Land Trust
- Hudson Highlands Land Trust
- Minnesota Land Trust
- Orient Land Trust
- Weeks Bay Foundation

### Renewed Success at 50% Level

- Boxford Trails Association/Boxford Open Land Trust
- Colchester Land Trust
- Columbia Land Conservancy
- Gates Mills Land Conservancy
- Iowa Natural Heritage Foundation
- Land Trust for Santa Barbara County
- Land Trust for Tennessee
- Mohawk Hudson Land Conservancy
- River Fields, Inc.
- Skagit Land Trust
- Tug Hill Tomorrow Land Trust