

In spring of 2023, the Commission released an updated version of the [Requirements Manual](#) and a document outlining the changes. Each month we will highlight a change, why we made it and why it is important. **This month we are looking at an UPDATED finance requirement.**



## FINANCE

### II.3 Board reviews financial reports periodically through the year that include the following:

#### a. Net assets<sup>2</sup> without donor restrictions, with board-designation, and with donor restrictions

(<sup>2</sup>Net assets are the difference between total assets and total liabilities on the balance sheet. Report must list each of the three categories of net assets that applies to the land trust.)

#### b. Statement of expenses and revenue that shows the following:

##### i. Actual year-to-date operating revenue<sup>2</sup> and total expenses as compared to budget.

(<sup>2</sup>Excludes grants and contributions restricted by donors for specific purposes, other sources of funds that are not intended for use in operations, and grants and contributions not yet released from donor restrictions. Report should include operating revenue when restrictions are released on grants and contributions. Grants for land and conservation easement acquisition should be reported in (ii).)

##### ii. Schedule of restricted gifts/grants activity showing donor-restricted money received and released during the reporting period (if any), with level of detail appropriate to the scale of the land trust's financial activities

UPDATED

### Why is it important?

- Detailed financial reports help board members meet their fiduciary obligations. Reports allow a board to track the land trust's current performance against the budget and help it understand if a portion of the revenue for the reporting period is not available to cover general operating expenses because it is restricted for land or easement acquisitions or for other purposes. A board can then determine if the land trust is raising enough money to cover operating expenses.

### What Changed?

- The requirement related to the balance sheet (or statement of financial position) in part (a) was clarified with a definition of net assets. [See Fig.1]
- The requirement related to the budget-to-actual report in part (b) was clarified to be consistent with accounting standards that the financial statements should not co-mingle restricted revenue and other non-operating revenue with unrestricted (operating) revenue. [See Fig.2]
- Separating restricted funds on the financial reports does not mean that separate financial accounts are required for restricted money versus those without donor restrictions. Rather, land trusts must track receipt and use of donor restricted assets separately and report them accordingly.

Fig. 1

Sample Land Trust Balance Sheet (Statement of Financial Condition) as of September 30, 2021	
	30-Sep-21
<b>ASSETS</b>	
Bank Accounts	
Checking	\$ 20,658
Savings	49,618
Money Market	150,801
Investments	597,383
Sub-total	221,077
Accounts Receivable	33,440
Prepaid Expenses	6,309
Fixed Assets	
Furniture & Equipment	853
Land	1,756,414
Sub-total	1,757,267
<b>TOTAL ASSETS</b>	<b>\$ 2,615,476</b>
<b>LIABILITIES &amp; NET ASSETS</b>	
Liabilities	
Accounts Payable	940
Notes Payable	3,667
<b>TOTAL LIABILITIES</b>	<b>4,607</b>
Net Assets	
Without donor restrictions	1,826,551
Board designated	200,000
Total Net Assets without donor restrictions	2,026,551
Net Assets with donor restrictions (perpetual)	584,318
<b>TOTAL NET ASSETS</b>	<b>2,610,869</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 2,615,476</b>

See Finance  
Requirement [II.3.a](#)

Fig. 2 See Finance  
Requirement [II.3.b.i](#)

Sample Land Trust Budget Comparison - Revised September 30, 2021				
	This Month	Year-to-Date Total	Annual Budget	YTD Percent of Budget
<b>Operating revenue</b>				
Member contributions	\$ 6,500	\$ 55,000	\$ 60,000	92%
Grants - released from restriction	80,000	90,000	115,000	78%
Foundations	-	5,000	5,000	100%
Investment income	560	3,910	4,000	98%
Project fees	4,000	15,000	20,000	75%
Stewardship - released from restriction	3,750	11,250	15,000	75%
<b>Total support and revenue</b>	<b>94,810</b>	<b>180,160</b>	<b>219,000</b>	<b>82%</b>
<b>Expenses</b>				
Salaries and wages	85,792	127,653	150,000	85%
Payroll taxes	1,298	19,125	22,500	85%
Office supplies	514	1,300	1,200	108%
Travel	892	5,000	6,500	77%
Professional services	6,000	13,000	15,000	87%
Insurance	3,574	6,481	16,500	39%
<b>Total expenses</b>	<b>98,070</b>	<b>172,559</b>	<b>211,700</b>	<b>82%</b>
<b>Operating surplus (deficit)</b>	<b>\$ (3,260)</b>	<b>\$ 7,601</b>	<b>\$ 7,300</b>	
<b>Other income, gains, and losses</b>				
Grants - restricted	110,000	112,675		
Releases from restriction (grants)	(80,000)	(90,000)		
Stewardship contributions - restricted	10,000	15,000		
Releases from restriction (stewardship)	(3,750)	(11,250)		
<b>Change in net assets</b>	<b>\$ 32,990</b>	<b>\$ 34,026</b>		

See Finance  
Requirement [II.3.b.ii](#)

## Why the Change?

- Since the related requirements were first published in 2018, a number of land trusts have needed to take action to improve the contents of the financial reports presented to the board. The changes in the 2023 Manual are intended to make the requirements clearer so land trusts can better meet the requirements and accounting standards.
- The current application includes the documents needed to demonstrate compliance; no new documents in the application will be requested.

## What did land trusts say?

- Most respondents supported this change but noted that not all land trusts, especially smaller organizations, receive and/or release restricted grants/gifts. With the phrase "if any," the requirement signals that this information is needed when restricted grants/gifts are received and released from restriction.
- Three-fourths of the respondents noted that the requirement change would not necessitate that they change their current reports.

## Financial Reports for the Board FAQs

Here are answers to questions that the Commission has been hearing from land trusts. While it is not accounting advice, the answers give insight into what accreditation reviewers look for when considering your application.

[accordion id="a1" heading="Q: How much detail do we need to provide on the financial reports? Can we show the board 'rolled-up' information or do we have to show each account line item? For example, the total net assets without donor restrictions or board designated vs. the three funds that make up the board designated moneys?"]

**A:** Reports should allow the board to easily see what the total net assets are and what portion is actually available. You can show rolled-up information, it does not have to contain the name or purpose of each fund.

[/accordion]

[accordion id="a2" heading="Q: Does the land trust have to maintain different bank accounts for donor-restricted funds?"]

**A:** No, separate bank accounts are not required for restricted money vs. those without restrictions. Rather, land trusts must have an accounting system that tracks when donor-restricted funds have been received and when the funds have been released from restriction so that it can report on them accordingly.

[/accordion]

[accordion id="a3" heading="Q: On the budget comparison report, what happens if we have not released funds during the reporting period?"]

**A:** The reports only need show what happens during the specific reporting period. By using the phrase "if any," the requirement signals that this information is needed when restricted grants/gifts are received and released from restriction.

[/accordion]

[accordion id="a4" heading="Q: Why do we need to show the board reports with both the balance sheet and the budget comparison?"]

**A:** These reports provide different information to the board and are an important part of the board providing oversight of the land trust's finances. The balance sheet shows how your land trust is doing overall – your assets, what you owe and importantly, what portion of your net assets is reserved for other purposes (by being board designated or donor restricted). The budget comparison report shows how your organization is doing as it relates to revenue and expenses so the board can anticipate if there will be a deficit and how well the land trust is performing against the budget that was set at the beginning of the fiscal year.

[/accordion]

[accordion id="a5" heading="Q: Are both balance sheet and budget comparison sheets expected to be given to the Board at every meeting?"]

**A:** The requirement is that the reports be given periodically; so, it is not enough to only give the reports once a year as part of your annual external financial evaluation. Most land trusts provide both reports to board members before each meeting, others may provide the information on net assets (usually a balance sheet or statement of financial position) less often. Whatever way your land trust presents the information, it is important for your board to have financial information throughout the year so it can make sound financial decisions.

[/accordion]

[accordion id="a6" heading="Q: Do monthly budgeted distributions from endowments need to be listed, when they are released into operations, on the budget comparison report in the income, gains, and losses section?"]

**A:** Yes, you should show released endowment funds as income coming into your organization. Even though it's budgeted, you want your report to reflect that it is part of your operating revenue.

[/accordion]

[accordion id="a7" heading="Q: If our board has a finance committee, is it enough for them to be the ones to review the finance reports periodically or does our entire board have to review the reports?"]

**A:** Your entire board has fiduciary responsibility and should be given the reports on a periodic basis. A finance committee might review the reports in advance of the full board or more frequently than the full board, but review by only the finance committee is not sufficient to meet the requirement.

[/accordion]

[accordion id="a8" heading="Q: What happens if you're in process or about ready to submit your application and you realize that you now have a different understanding or more clarity that you didn't have when you looked at an older version of the *Requirements Manual*?"]

**A:** The accreditation process allows for an opportunity for land trusts to provide additional information or take corrective action. We often see that the initial information that comes in with the application might not fully meet the requirements – whether it's a policy or the financial reports – so land trusts are given time to take corrective action and convey the updated information back to the Commission.

[/accordion]

If you have questions about any of the changes, please contact us at [info@landtrustaccreditation.org](mailto:info@landtrustaccreditation.org)