

HUDSON HIGHLANDS LAND TRUST, INC.

FINANCIAL STATEMENTS  
(and Report of Independent Auditors)

September 30, 2017  
(with memorandum totals as of and for the year ended September 30, 2016)

HUDSON HIGHLANDS LAND TRUST, INC.  
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### INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Hudson Highlands Land Trust, Inc.:

We have audited the accompanying financial statements of Hudson Highlands Land Trust, Inc., (a not-for profit corporation) (the "Land Trust") which comprise the statement of financial position as of September 30, 2017 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

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*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hudson Highlands Land Trust, Inc. as of September 30, 2017, 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.

*Report on Summarized Comparative Information*

We have previously audited Hudson Highlands Land Trust, Inc.'s September 30, 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated January 30, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Pattison, Koskey, Hawes Bucci, CPAs, P.C.*

Valatie, New York  
January 27, 2018

HUDSON HIGHLANDS LAND TRUST, INC.  
STATEMENT OF FINANCIAL POSITION  
September 30, 2017  
(with memorandum totals for September 30, 2016)

	2017	2016 (memorandum only)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 39,789	\$ 38,111
Money market funds	368,094	178,717
Pledges receivable	82,632	525
Total current assets	490,515	217,353
Other long-term assets:		
Money market funds	690,940	802,443
Investments (note 5)	6,498,826	5,892,753
Land (note 3)	1,155,548	33,382
Deposits (note 4)	1,613	1,613
Total other long-term assets	8,346,927	6,730,191
Property and equipment:		
Equipment	29,702	29,702
Accumulated depreciation	(28,014)	(26,825)
Property and equipment	1,688	2,877
Total assets	\$ 8,839,130	\$ 6,950,421
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 13,079	\$ -
Accrued expenses	15,402	23,041
Total current liabilities	28,481	23,041
Long-term liabilities:		
Notes payable (note 6)	575,000	-
Total long-term liabilities	575,000	-
Total liabilities	603,481	23,041
Net assets:		
Unrestricted	251,048	174,595
Board restricted (note 7)	7,815,273	6,698,578
Temporarily restricted (note 7)	169,328	54,207
Total net assets	8,235,649	6,927,380
Total liabilities and net assets	\$ 8,839,130	\$ 6,950,421

See accompanying notes and independent auditors' report.

HUDSON HIGHLANDS LAND TRUST, INC.  
STATEMENT OF ACTIVITIES  
For the year ended September 30, 2017  
(with memorandum totals for the year ended September 30, 2016)

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total (memorandum only)
<b>Support and revenue:</b>					
Contributions received for support	\$ 667,721	\$ 555,433	\$ -	\$ 1,223,154	\$ 657,016
Special event, net of \$7,158 and \$4,379 in related expenses for 2017 and 2016, respectively	73,914	-	-	73,914	59,273
Other events	6,813	-	-	6,813	24,146
Other Income	9,962	-	-	9,962	-
Interest and dividend income	100,027	-	-	100,027	107,351
Realized and unrealized gains	1,178,596	-	-	1,178,596	770,024
Realized loss on sale of land	(180,945)	-	-	(180,945)	-
Assets released from restrictions	440,312	(440,312)	-	-	-
Total support and revenue	<u>2,296,400</u>	<u>115,121</u>	<u>-</u>	<u>2,411,521</u>	<u>1,617,810</u>
<b>Expenses:</b>					
Program services	932,882	-	-	932,882	1,226,033
Management and general	71,291	-	-	71,291	93,032
Fundraising	99,080	-	-	99,080	116,549
Total expenses	<u>1,103,252</u>	<u>-</u>	<u>-</u>	<u>1,103,252</u>	<u>1,435,614</u>
Change in net assets	1,193,148	115,121	-	1,308,269	182,196
Net assets, beginning of year	<u>6,873,173</u>	<u>54,207</u>	<u>-</u>	<u>6,927,380</u>	<u>6,745,184</u>
Net assets, end of year	<u>\$ 8,066,321</u>	<u>\$ 169,328</u>	<u>\$ -</u>	<u>\$ 8,235,649</u>	<u>\$ 6,927,380</u>

See accompanying notes and independent auditors' report.

HUDSON HIGHLANDS LAND TRUST, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
For the year ended September 30, 2017  
(with memorandum totals for the year ended September 30, 2016)

	Program	Management and General	Fundraising	Totals 2017	2016 (memorandum only)
Functional Expenses:					
Salaries	\$ 371,992	\$ 43,921	\$ 69,400	\$ 485,312	\$ 604,684
Payroll taxes	29,314	3,461	5,469	38,244	43,104
Employee benefits	27,824	3,285	5,191	36,300	41,985
Occupancy	16,943	2,001	3,161	22,105	21,462
Communications and publicity	8,879	-	-	8,879	10,377
Land conservation and acquisition expenses	105,367	-	-	105,367	143,972
Public policy expenses	513	-	-	513	252
Outreach expenses	330,492	-	-	330,492	475,351
Accounting	-	14,317	-	14,317	12,312
Telephone	2,293	270	428	2,991	2,852
Insurance	13,841	1,635	2,582	18,058	9,502
Office expenses	13,571	1,602	2,532	17,705	22,829
Training and education	5,089	-	-	5,089	8,623
Fundraising	-	-	9,055	9,055	4,053
Depreciation	911	108	170	1,189	1,815
Other	5,853	691	1,092	7,636	32,441
 Total Expenses	 \$ 932,882	 \$ 71,291	 \$ 99,080	 \$ 1,103,252	 \$ 1,435,614

See accompanying notes and independent auditors' report.

HUDSON HIGHLANDS LAND TRUST, INC.  
STATEMENT OF CASH FLOWS  
Year ended September 30, 2017  
(with memorandum totals for the year ended September 30, 2016)

	<u>2017</u>	<u>2016</u> (memorandum only)
Cash flows from operating activities:		
Change in net assets	\$ 1,308,269	\$ 182,196
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,189	1,815
Unrealized and realized gain on investments	(1,178,596)	(770,024)
Realized loss on sale of land	180,945	-
(Increase) decrease in pledges receivable	(82,107)	5,050
Decrease in grants receivable	-	525,000
Increase (decrease) in accounts payable	13,079	(1,595)
(Decrease) increase in accrued expenses	(7,639)	6,483
Total adjustments	<u>(1,073,129)</u>	<u>(233,271)</u>
Net cash provided by (used for) operating activities	<u>235,140</u>	<u>(51,075)</u>
Cash flows from investing activities:		
Purchase of land parcel	(847,166)	(33,382)
Proceeds from land sale	119,055	-
Purchase of fixed assets	-	(2,814)
Sales of investments	661,873	738,594
Purchases of investments	(89,350)	(460,000)
Purchases of money market funds, net	(77,874)	(176,484)
Net cash (used for) provided by investing activities	<u>(233,462)</u>	<u>65,914</u>
Net increase in cash and cash equivalents	1,678	14,839
Cash and cash equivalents at beginning of year	<u>38,111</u>	<u>23,272</u>
Cash and cash equivalents at end of year	<u>\$ 39,789</u>	<u>\$ 38,111</u>
Non cash activity:		
Donated investments	<u>\$ 13,386</u>	<u>\$ 33,142</u>
Property acquisition cost paid directly by loans	<u>\$ 575,000</u>	<u>\$ -</u>

See accompanying notes and independent auditors' report.



HUDSON HIGHLANDS LAND TRUST, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2017  
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**1. Nature of Activities:**

Hudson Highlands Land Trust, Inc. (the "Land Trust") is a not-for-profit corporation exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). The Land Trust works to preserve open space in the Hudson Highlands as well as the rural character of the area. At September 30, 2017, the Land Trust held eighty nine conservation easements protecting 2,470 acres of property and an additional 358 acres are held in fee by the Land Trust in Philipstown, Highlands, Putnam Valley and Cornwall, New York.

**2. Summary of Significant Accounting Policies:**

Basis of Accounting:

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

Financial Statement Presentation:

The Land Trust follows standards of accounting and financial reporting for certain not-for-profit organizations. The Land Trust applies Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205. Under FASB ASC 958-205, the Land Trust is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this statement, the Land Trust has classified its financial statements to present the three classes of net assets required. A description of the three net asset categories follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted Net Assets - Net assets whose use is subject to donor-imposed stipulations that may be fulfilled by actions of the Land Trust to meet the stipulations or that expire with the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be retained and invested permanently by the Land Trust.

In addition, the Land Trust is required to present a statement of cash flows.

Prior Year Amounts:

Amounts shown for September 30, 2016, in the accompanying statements, are included to provide a basis for comparison with September 30, 2017 and present summarized totals only. Accordingly, the September 30, 2016 amounts are not intended to present all information necessary for a fair presentation in accordance with accounting principles generally accepted in the United States of America.

See independent auditors' report.

HUDSON HIGHLANDS LAND TRUST, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2017  
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**2. Summary of Significant Accounting Policies (Continued):**

Pledges Receivable

Pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the net present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Support and expenses:

Contributions received and unconditional promises to give are initially measured at their estimated fair values and are reported as an increase in net assets. The Land Trust reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Land Trust reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. In the absence of explicit donor stipulations about how long those long-lived assets must be maintained, the Land Trust reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. No such donations were recorded in the financial statements for the year ended September 30, 2017.

Use of Estimates:

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

Equipment:

Equipment is recorded at cost. Depreciation is computed using the straight-line method over five years (the estimated useful lives of the assets). Depreciation expense was \$1,189 during the year ended September 30, 2017.

Fair Value Measurements:

FASB ASC 820-10 "Fair Value Measurement" defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. FASB ASC 820-10 does not require any new fair value measurements but applies to other GAAP accounting pronouncements that use fair value as a relevant measurement attribute.

See independent auditors' report.

HUDSON HIGHLANDS LAND TRUST, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2017  
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**2. Summary of Significant Accounting Policies (Continued):**

Income Taxes:

The Land Trust is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, the Land Trust has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for 2017.

The Land Trust has evaluated any uncertain tax positions and related income tax contingencies and determined uncertain positions, if any, are not material to the financial statements, according to FASB ASC 740-10. Penalties and interest assessed by income taxing authorities are included in operating expenses, if incurred. The Land Trust is no longer subject to examination by federal and state taxing authorities for years prior to the fiscal year ended September 30, 2014.

Conservation Easements

The Land Trust does not record donated easements at fair value. Donated easements are carried at zero book value primarily because a typical conservation easement provides the Land Trust with no affirmative rights except to monitor and enforce the easement. Generally, donated land conservation easements restrict the use of the underlying property, are meant to be held in perpetuity, and are not separately marketable. Costs incurred by the Land Trust for conservation easement stewardship and conservation easement enforcement and to purchase development rights are expensed in the period incurred in the statement of activities.

Donated Services, Goods and Facilities:

A substantial number of volunteers have donated time to the Land Trust's program services and fund-raising campaigns during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Donated professional services, legal services and specialized skills, if any, which enhanced or created a financial asset are reflected in the statement of activities at their fair value. Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

Concentrations of Credit Risk:

Financial instruments that potentially expose the Land Trust to concentrations of credit risk consist primarily of cash equivalents, money market funds, grant receivables, and pledge receivables. Cash and cash equivalents are maintained at Federal Deposit Insurance Corporation (FDIC) insured financial institutions and credit exposure is not limited to any one institution. The Land Trust has not experienced any losses with respect to its cash balances. Based upon assessment of the financial condition of these institutions, management believes that the risk of loss of any uninsured balances is minimal.

Vanguard money market funds (the "Fund") are not covered by FDIC. Credit risk is considered very low for the Fund because it invests primarily in securities that are considered to be high quality. Although the Fund seeks to preserve the value of the investment of \$1 per share, it is possible to lose money by investing in the Fund.

See independent auditors' report.

HUDSON HIGHLANDS LAND TRUST, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2017  
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**2. Summary of Significant Accounting Policies (Continued):**

Concentrations of Credit Risk (Continued):

The Land Trust reviews all outstanding pledges and grants receivable as of the end of the fiscal year for collectability. Reserves are established when management has determined that collection is not probable taking into account payment history and conversations with the donors.

Investments

In accordance with FASB ASC 958-320, "Accounting for Certain Investments Held by Not-for-Profit Organizations" investments in debt and equity securities are reported at fair value on the statement of financial position with corresponding unrealized gains and losses reported in the statement of activities as increases or decreases in unrestricted net assets, unless explicitly restricted by donor stipulation or by law.

The Organization accounts for its investments at market value on a trade date basis. The value of publicly traded common stocks is based upon quoted market prices. Investment fees are recorded as a reduction of interest and dividend income for the year ended September 30, 2017. The average cost method is primarily used to determine the basis for computing realized gains or losses.

Pension

In fiscal 2007, the Land Trust adopted a Section 403(b)(7) pension plan under which employees may elect to contribute a portion of their salaries into a retirement account. The Land Trust matches each employee's contributions up to a stated cap which, for all employees, aggregated \$36,300 for the year ended September 30, 2017. The Land Trust had not amended its plan to conform to IRS regulatory changes. The Land Trust addressed the deficiencies through the IRS Voluntary Correction Program and is awaiting final resolution.

Cash, Cash Equivalents and Money Market Funds

For purposes of reporting cash flows, the Land Trust considers cash in operating bank accounts, demand deposits, cash on hand, and highly liquid debt instruments purchased with a maturity of three months or less as cash and cash equivalents. Money market funds are not considered cash equivalents given the composition of such investments.

Subsequent Events:

Subsequent events have been evaluated through January 27, 2018, which is the date the financial statements were available to be issued. The Land Trust has not identified any material events or transactions occurring during this period that would require recognition or disclosure in these financial statements.

**3. Land:**

During the year ending September 30, 2017, the Land Trust completed the acquisition of the Schlanger and Granite Mountain land parcels at a total cost of \$1,455,548. The properties were purchased with prior year cash outlay of \$33,382, current year cash outlay of \$847,166 and loans of \$575,000 in two separate transactions. The Land Trust placed an easement on the Schlanger property and sold it for net proceeds of \$119,045. The Land Trust is holding the Granite Mountain property in fulfillment of its exempt purpose. Any future sale of the land is subject to board approval, and any proceeds must first be used to repay the related loans (see note 6).

See independent auditors' report.

HUDSON HIGHLANDS LAND TRUST, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2017  
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**4. Deposits:**

Deposits at September 30, 2017 include a lease deposit of \$1,613.

**5. Investments:**

Investments, stated at fair value, at September 30, 2017, are as follows:

	Cost	Unrealized Gain	Fair Market Value	FASB ASC 820-10 Measurements
Common Stocks	\$ 3,075,670	\$ 3,423,156	\$ 6,498,826	Level 1

Investments are measured at fair value on a recurring basis. In accordance with FASB ASC 820-10, fair value measurements are identified as Level 1, Level 2, or Level 3. Level 1 fair value is based on quoted prices in active markets for identical assets/liabilities. Level 2 fair value is based on significant other observable inputs. Level 3 fair value is based on significant unobservable inputs. See above for classification of the Land Trust's investments. The Land Trust does not have any Level 2 or Level 3 investments.

Investment income included the following at September 30, 2017:

Realized gains on investments	\$ 309,530
Unrealized appreciation of investments	<u>869,066</u>
Total	<u>\$ 1,178,596</u>

**6. Commitments:**

*Lease of real property*

Effective May 1, 2015, the Land Trust entered into a lease with 20 Nazareth Way, LLC for office space in Garrison, New York. The lease is for three years through April 2018. Rent expense for Fiscal 2017 was \$22,105. Rent expense under the lease agreement is as follows:

Fiscal 2018	<u>\$ 13,085</u>
	<u>\$ 13,085</u>

*Long-term debt*

In conjunction with a land purchase (see note 3), the Land Trust received proceeds from two loans for \$80,000 and \$495,000 during the year ended September 30, 2017. The loans are interest free for the first five years and then incur .50% on the unpaid principal balance beginning with the sixth year. A single principal payment is due December 15, 2026 for both loans.

See independent auditors' report.

HUDSON HIGHLANDS LAND TRUST, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2017  
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**7. Net Assets:**

*Temporarily Restricted Assets*

The Land Trust has several funds designated as temporarily restricted net assets. Temporarily restricted net assets at September 30, 2017 consisted of:

Map project	\$	9,055
Poetry Garden		5,235
403(b) match		13,200
Equipment grant		1,700
Fjord Trail		115,138
Land acquisition		<u>25,000</u>
	\$	<u>169,328</u>

Releases from Temporarily Restricted Net Assets for the year ended September 30, 2017, are as follows:

Poetry Garden	\$	400
403(b) match		36,300
Fjord Trail		284,862
Granite Mountain purchase		<u>118,750</u>
	\$	<u>440,312</u>

*Board Restricted Net Assets*

In fiscal 2008, the Land Trust commenced a capital fund raising campaign to provide for its long-term capital needs. In January 2011 and again in June 2014, the Land Trust's Board of Directors refined an earlier May 2008 resolution updating the designation of the assets. Board designated net assets are as follows at September 30, 2017:

Land subject to board oversight, net of note payable	\$	580,548
Initial Conservation Easement Monitoring Enforcement Fund		400,000
Stewardship Fund		2,580,275
Additional amounts for land acquisitions and land conservation projects		<u>4,254,450</u>
	\$	<u>7,815,273</u>

See independent auditors' report.

HUDSON HIGHLANDS LAND TRUST, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2017  
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**7. Net Assets (Continued):**

The following is a reconciliation of board restricted net assets to the related investment account:

Board restricted financial assets	\$ 7,189,766
Add: Land subject to board action	1,155,548
Less: Mortgage on land	(575,000)
Add: Pledge receivable payable to Stewardship Fund	69,959
Less: Temporarily restricted net assets held in investments	<u>(25,000)</u>
Board restricted net assets	<u>\$ 7,815,273</u>

Board restricted financial assets consist of \$6,498,826 in public securities and \$690,940 in money market funds.

The purposes of the board restricted funds are to fund the likely future costs of monitoring and enforcing the Land Trust's conservation easements; to support the salary of the Highland Steward of the Land Trust, who is also the Executive Director, to support the other annual operating costs of the stewardship and land conservation activities of the Land Trust; and, to pay for land acquisition and land conservation projects, all as directed by the Land Trust Board of Directors. Annually, the Board determines if funds should be released based on the financial results of the Land Trust and ongoing land acquisition and conservation projects. The investment strategy for this fund is to invest in a manner that will balance investment return with preservation of principal, while meeting the daily cash flow needs of the Trust. The S&P 500 is the comparative benchmark for evaluation of the fund's performance. In addition, the Land Trust will increase the Highlands Steward Fund annually to reflect changes in CPI.

During the year ended September 30, 2017, the board restricted financial asset's investment return increased by \$1,276,184 (\$1,178,596 of gains and \$97,588 of interest and dividends) and was reinvested. The funds also received \$117,207 in contributions. In terms of outflows from the fund, \$607,273 was used towards the purchase of the Granite Mountain Preserve. Another \$291,548 was also drawn down from the fund, more than two thirds of which funded the purchase of conservation easements, and the remainder was put toward operating expenses.

**8. Significant Contributors:**

During the year ended September 30, 2017, four contributors donated a total of \$804,635 to the Land Trust. One of the contributors is a foundation related to a Land Trust board member, and one contributor is a Land Trust board member.

See independent auditors' report.