

Land Trust Alliance *Fact Sheet*



Booking Conservation Easement Values

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listserv.*

[W]hat is the proper revenue recognition method for a land conservancy? And what is the proper basis for reporting conservation property and conservation easement assets in the balance sheet? Cost? Fair market value? Lower of cost or market? Estimated future selling price? Appraised value? It can get pretty confusing.

It is very important to draw a distinction between land that is acquired by an LC [land conservancy, or land trust] via a purchase from an unrelated third party vs. land acquired by an LC via donation from a conservation minded person. Different accounting principles apply to a purchase than those that apply to a donation. Furthermore, for land that is purchased or donated, one needs to consider whether the LC acquired it to hold for conservation purposes (a “collection”) or whether the LC acquired it for resale. There are major differences between accounting for land acquired by purchase vs. accounting for land acquired by donation.

Many of the answers to questions regarding donated land can be found in FASB Statement of Financial Accounting Standards No. 116 entitled Accounting for Contributions Received and Con-

tributions Made <<http://www.fasb.org/st/#fas116>>. This statement would address conservation property or easements donated to an LC.

FASB 116 uses the term “Collections” which is defined as “works of art, historical treasures, and similar assets acquired by contribution or by other means.” FASB 116 goes on to say that an entity need not recognize contributions of works of art, historical treasures, and similar assets if the donated items are added to collections that meet all of the following conditions:

- Are held for public exhibition, education, or research in furtherance of public service rather than financial gain
- Are protected, kept unencumbered, cared for, and preserved
- Are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections

I believe that donated conservation property and conservation easements meet the definition of a collection and therefore it is proper not to recognize their contribution as revenue in the LC’s financial statements. An Ohio land trust effectively follows this path by its reporting of conservation property at \$1 in its balance sheet.

But, the LC may adopt the accounting policy of capitalizing its collections. If it is the policy of the LC to capitalize its collections, the donation of the land/CE should be reported in the LC’s financial statements at its fair market value at the date of gift. The LC must have a consistent policy of either

capitalizing all or none of its collections. Capitalization of selected collections or items is prohibited.

If the LC capitalizes its collections, what value should the donation be recorded at?

FASB 116 says to measure at Fair Value at date of gift. Quoted market prices are the best evidence, but are not likely to exist for virtually all conservation property. If quoted market values are not available, fair value may be estimated by appraisal or valuation techniques such as discounted cash flows. FASB 116 states that a major uncertainty about the existence of value may indicate that an item received should not be recognized. Contributed assets worth accepting generally possess the common characteristic of all assets - future economic benefit or service potential.

The future benefit or service potential of an asset (conservation property) usually can be obtained by exchanging it for cash or by using it to produce goods or services. However, if an item (conservation property) is accepted solely to be saved for its potential future use in scientific or educational research and has no alternative use, it may have uncertain value, or perhaps no value, and should not be recognized.

Note that the fair market value at date of gift may need to be reduced if the LC places a CE on the property after it receives the donation. The fair value at date of gift becomes the LC's "cost." The accounting standard that applies once cost has been established is "lower of cost or market". The establishment of a conservation easement on the donated property by the LC probably would result in a write-down from the fair market value at date of gift amount.

With regard to land purchased by an LC from an unrelated third party, GAAP would say that the land would be reported on the LC's balance sheet at the lower of cost or market. Cost is easily established and determinable. However, market value issues would be the same as noted above. If the LC purchased the land with the CE in place, carrying the land at cost seems to me to be appropriate. But if the LC purchased the land and then places a conservation easement on the property, in all likelihood the conservation easement will have significantly reduced the value of the land below the LC's cost. In this case, the LC would be required to write down the cost of the property to reflect its decreased market value resulting from the easement.

As far as land acquired for resale, the same lower of cost or market value would be the rule. The previously mentioned Ohio land trust tweaks it a bit by carrying the land at market value in the balance sheet, with any related unrealized gain or loss being included in equity. Market values are generally determined based on tentative or binding agreements with buyers (usually a park district or similar governmental agency), which are a bit more firm than appraised values.



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