

Conservation Easements and Coastal Protection – A Case of Environmental Accountability

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North Carolina Coastal Federation was formed in 1982 by eight grassroots groups to provide vision for long-term management of the coastal environment, and to facilitate citizen action in defense of coastal resources. The Federation's mission was to "empower coastal residents and visitors from all walks of life to protect and restore the water quality and critically important natural habitats of the N.C. coast." Since those humble beginnings in the living room of Todd Miller, the founder and executive director, the Federation had grown to about 30 employees in three regional offices, with an annual budget of about \$2 million. Areas of past and current policy focus included wetland preservation and restoration, environmental education for all ages, prevention of stormwater runoff, regulation of hardened shorelines, and land-use planning throughout the coastal zone.

Management and accounting in a large 501(c)(3) (non-profit) environmental organization presented challenges unlike those in ordinary for-profit businesses. One area of special concern was that of Conservation Easements. The Easements were voluntary, perpetual, legal restrictions on land use that prevented development on the affected property. These Easements were donated to a non-profit organization; the donating landowner would have received a tax deduction for the charitable contribution, and the organization acquired an asset the value of which was exceedingly difficult to determine, and which may have changed in uncertain ways over time.

Another special challenge was that of in-kind gifts. The Federation had received gifts of motor vehicles, boats, and a large house (that had to be moved from the land where it sat). Many of these assets were retained only long enough to be sold or re-gifted to other groups or government agencies. Correct accounting for these items (especially the house) presented difficult issues in terms of both categorization and valuation of those that were not sold.

This case will help students understand the unique challenges of financial reporting for charitable organizations, with specific attention given to Conservation Easements and donations in kind. The case is appropriate for accounting courses studying non-profit organizations, broader courses in non-profit management, tax accounting for individuals, courses in environmental economics and for strategy courses that include a non-profit assignment.

MISSION

“The North Carolina Coastal Federation empowers coastal residents and visitors from all walks of life to protect and restore the water quality and critically important natural habitats of the N.C. coast.” (North Carolina Coastal Federation, n.d.)

BIO OF TODD MILLER

Todd Miller was the founder and executive director of the North Carolina Coastal Federation, a nonprofit with over 12,000 members and 3,000 active volunteers working for a healthier North Carolina coast.

A coastal North Carolina native from Carteret County, it was here in 1982 that Miller found his passion—working to keep the coast a great place to live, work and play. Forming partnerships and rallying volunteers, Miller grew the organization from a one-man (and a dog) venture in a back room of his house to three-offices covering the North Carolina coast. With 30+ staffers and a multi-million dollar budget targeted for educating the public, advocating for a clean coast and restoring water quality and shorelines, the federation took on projects, and partners with others in hundreds of endeavors that influence these priorities.

A graduate of University of North Carolina at Chapel Hill, from which he held undergraduate and master’s degrees, Miller was selected as a distinguished alumnus by the university in 2013 and was also honored with a 2015 “Hero of the Seas” award by the Peter Benchley Ocean Awards. Along with numerous other awards and recognitions, Miller was a founding board member of Restore America Estuaries, and served on the Board of Visitors for the UNC Institute for the Environment and as a board member on the Policy Committee for the Albemarle-Pamlico Estuary Partnership.

Since the launch of the federation, Miller worked tirelessly to raise awareness of the threats to the coast and advocated for access to clean coastal waters. In bringing together like-minded folks from all walks of life, from fishers to paddlers to boaters and beachcombers, the federation under Miller’s leadership succeeded in protecting and restoring tens of thousands of acres of North Carolina coast. (<http://www.nccoast.org/about-us/staff/>)

HISTORY

In the 33 years since the North Carolina Coastal Federation was chartered in the living room of Todd Miller, who became the first employee and continued in 2016 as Executive Director, the challenges of safeguarding the waters and beaches of coastal North Carolina had grown immensely. The Federation grew to keep pace with those challenges. That organizational growth, and the accompanying increase in organizational complexity, created management challenges far beyond what could have been imagined in 1982.

In 1982 the issue of the day was the mining of peat (to be used as an energy source) in North Carolina’s coastal wetlands. Up to 120,000 acres would have been strip-mined, with potentially-devastating consequences for nearby shellfish waters. The Federation

rallied support among many groups of stakeholders. The project was ultimately defeated in 1984, and many of the formerly-targeted lands were made National Wildlife Refuges.

In the decade following the peat mining controversy, the Federation became actively engaged in many different aspects of coastal management. Land-use planning, wetland water quality standards, regulation of pollution from phosphate mines, stricter standards for the siting of marinas, and greater scrutiny and control of confined animal feeding operations (for example, hog farms and their open “lagoons” of animal waste) became important areas of focus for the staff, which by the early 1990s had grown to five people.

In the mid-1990s several new areas were added to the Federation’s mission. One of these was a more intensely-focused effort to educate the public regarding coastal issues. Although as a 501(c)(3) non-profit organization the group was banned from any active participation in electoral politics, the need for a better-informed citizenry was addressed in any number of ways. One of the best of these was taking people out into the ecosystems that the Federation sought to protect: longleaf pine forests, wetlands, the sounds, the rivers, and saltmarshes all became venues for educational excursions, especially with schoolchildren. On foot and on boats, people were given opportunities to experience the ecosystem and its functions firsthand, and came to understand the natural and man-made forces that shaped the coastal environment.

Another new area of effort was the conservation of as-yet undeveloped coastal lands, and the restoration of previously-degraded lands. Restoration was made possible largely by grants from individuals and private foundations, from federal agencies (including the US Fish and Wildlife Foundation and the National Oceanic and Atmospheric Agency), and grant funding from the State of North Carolina. The state funding arrived in the form of large grants (as large as \$2.5 million) from the newly-created Clean Water Management Trust Fund. These funds allowed the Federation to purchase properties that were threatened and/or restorable. Some of this property was retained by the Federation for educational and scientific purposes. Other property was turned over to state agencies, including the North Carolina Wildlife Resources Commission, which created Game Lands for hunting and fishing, or to the North Carolina Division of Parks, which incorporated the newly-acquired lands into existing state parks.

The largest of the restoration projects remained under the direct control of the Federation. The North River Farms project in eastern Carteret County, North Carolina, totaled approximately 6,000 acres. These former wetlands were previously ditched, drained, and farmed -- row crops and cattle -- and the ditches carried herbicides, pesticides, and animal wastes into nearby shellfish waters, rendering the products of those waters unfit for human consumption. Underway for 15 years, the project entailed blocking the ditches and re-planting the native wetland plants that once flourished on the site, thereby restoring the natural wetland functions of stormwater storage and filtration. Improvements in water quality were significant and well-documented, allowing the re-opening of commercial shellfish waters that had been legally off-limits for generations. This project was the largest wetlands restoration project ever attempted in North

Carolina, and was one of the largest private restoration projects in the nation. (North Carolina Coastal Federation, n.d.)

Although much of the land at North River Farms was purchased by the Federation through the generous support of State and Federal agencies, not all the land that was subject to restoration and protection was acquired outright. Parts of the land received protection through the legal device known as a conservation easement. Such an easement was a legal restriction that was entered into voluntarily by the landowner. It was an agreement that no further development would take place on the subject land. This restrictive easement became part of the deed to the land, and was effective in perpetuity. The benefits to the ecosystem were that no further degradation of ecological function would occur. The benefit to the landowner was a tax benefit: the permanently enforceable restriction reduced the fair market value of the land; this reduction in value was a deductible charitable contribution for state and federal income taxes, thereby reducing the donor's income tax liability. Once in place, a conservation easement was transferred to a third party for the monitoring and enforcement of the restriction in perpetuity; this third party was usually a non-profit organization or a government agency. For accounting purposes, the value of the easement was usually recorded as the reduction in the market value of the land. (Englebrecht & Dowis, 2013)

North Carolina had over 3,000 miles of outer and inner shorelines; as the Federation's protective mission broadened, the organization came to need a physical presence in more places than just the office on the central North Carolina coast that had served as headquarters since the early 1990s. In 1997 a field office was opened in Wilmington to focus on issues and events in the southern portion of the coast. In 2008, a field office was opened in Manteo to serve the needs of the northern North Carolina coast. The organization whose staff was just one person working out of his home near Ocean, North Carolina, grew to comprise 30 permanent employees, and a seemingly-endless supply of interns from nearby colleges and universities. The most recent annual report noted that in 2014 there were nearly a thousand volunteers donating nearly 14,000 hours of service, over 2,000 students participating in education programs, over 300,000 people touched by various educational outreach programs, and over 10,000 members. The organization was now large and complex, with an annual budget nearing \$2 million, and a balance sheet showing over \$30 million in assets, much of which was protected land and conservation easements. The challenges of managing such a large non-profit enterprise, from finance to personnel to marketing to accounting, likewise grew in size and complexity.

CONSERVATION EASEMENTS

A conservation easement was a legal restriction on the development or other use of a parcel of land. (The Nature Conservancy, 2015) It was a voluntary restriction undertaken by the owner of that land in order to achieve a purpose related to conservation, preservation, or restoration of the ecosystem functions of the land. These purposes, also known as conservation objectives, included but were not limited to maintaining water quality, maintenance of habitat for endangered and other wildlife and plants, and ensuring that land retained conditions suitable for agriculture. (The Trust for Public Lands, 2015)

As was the case for many other types of easements, a conservation easement was said to “run with the land.” This legalism means that the restriction was binding upon the present owner of the land as well as all future owners of the land; in effect, the restriction became part of the deed to the property. (The Trust for Public Land, 2015)

Conservation easements fell under the general authority of state governments to regulate land use and real estate transactions within state borders. State laws regarding conservation easements were enacted in most states; these laws typically closely followed the model created by the Uniform Conservation Easement Act adopted by the National Conference of Commissioners on Uniform State Laws in 1981. (The Nature Conservancy, 2015) (See Appendix B for additional information about easements.)

In addition to the achievement of the landowner’s conservation objectives, the landowner received benefits in the form of reductions of liability for federal income taxes. By preventing future development of the land and otherwise limiting the use of the land, a conservation easement typically reduced the market value of the land.

The difference between the fair market value of the land before and after the easement was undertaken was a charitable deduction to the landowner and reduced the federal liability for income taxes in the year that the easement was granted. The deductible amount could not exceed 50% of Adjusted Gross Income in any year, but could be carried forward to future tax years – thus the taxpayer may have had many years of tax benefits for a valuable easement. For a property with large development potential, the decline of value (and thus the tax benefit) could be very large. In addition, some states made provision for tax benefits to donors of conservation easements. (The Nature Conservancy, 2015)

Since the first significant use of conservation easements in the 1980s they have been widely used in many states to pursue diverse conservation objectives. Despite their wide use, the precise extent was unknown. Although the easements themselves were public records recorded with land deeds, no comprehensive, aggregative record existed. One attempt to create such a record was the admittedly-incomplete National Conservation Easement Database. According to this source, as of October 2015, there were no less than 113,000 conservation easements covering no less than 23 million acres. (National Conservation Easement Database, 2015)

In order to be eligible to receive tax benefits, the landowner must have arranged for perpetual monitoring and enforcement of the restrictions. This was accomplished by transferring the conservation easement to a private organization or to a unit of government. The recipient of the easement was known as the easement holder. In order to receive beneficial tax treatment, the easement must have been deemed “qualifying” according to Section 170(h) of the Internal Revenue Service Code (26 USC 170(h)). The most significant aspects of this qualification were that a perpetual restriction be placed upon the property, for a conservation purpose. The conservation purposes described by the Code could be summarized as follows:

- “preservation of land areas for outdoor recreation ... [or] ... education”
- “protection of a relatively natural habitat of fish, wildlife, or plants, or similar ecosystem”
- “preservation of open space (including farmland and forest land)”
- “preservation of an historically important land area or a certified historic structure”

The easement holder must have been deemed “qualified” by the same section; in the case of a private organization, the most significant aspects of this qualification were that the organization had “a purpose of environmental protection, land conservation, open space preservation, or historic preservation, and had the resources to manage and enforce the restriction and a commitment to do so.” The transfer of the right was achieved via donation of the easement, or by sale of the easement, or some combination of the two. A private organization that was legally qualified to receive and enforce a conservation easement was typically a “land trust,” which was an organization largely devoted to the stewardship of environmentally- or ecologically-significant land.

The details of conservation easements were as diverse as the lands that they encumbered. For instance, there may have been specific activities that were prohibited (such as draining wetlands) while other uses (such as agriculture) may have been specifically authorized. Importantly, a conservation easement did not make the land public. In general, conservation easements did not authorize use of the land to the public. (Martin p 91) Nor did the easement convey rights of use or access to the easement holder beyond that which was necessary for monitoring and enforcement.

For an organization such as the North Carolina Coastal Federation, conservation easements were an important tool. In the simplest cases, a landowner donated the easements to the Federation for perpetual monitoring and enforcements of the restrictions. The Federation then performed physical inspections of the property to ascertain that the restrictions were being observed. These inspections took place annually, or more frequently if deemed necessary. The most complicated case arose when the Federation acquired land and placed conservation easements on it. There was no intent to transfer the easements, as there would be no tax benefit to the tax-exempt Federation for doing so. However, these easements eventually were sold to the US Department of Agriculture, and thus became a substantial revenue source to the Federation.

Whether large or small, received or created, retained or transferred, conservation easements presented accounting challenges.

SPECIALIZED ACCOUNTING AND TAX CONCERNS

Status as a 501(c)(3) organization presented unique opportunities and challenges for both the organization (North Carolina Coastal Federation) and for those who wished to support the organization through donations. The organization was exempted from federal, state and local income taxes, although each year they were required to file a Form 990 with the

Internal Revenue Service. Contributions came from membership dues, individual donors, special projects and grants. In recent years, the Federation also received many private, state and federal grants. Donors contributing to 501(c)(3) organizations were entitled to tax benefits for their contributions. The treatment of individual donors differed from that of corporate donors, but both were encouraged to contribute by a reduction in their taxable income, often by the fair market value of the items contributed. Individuals could deduct an amount not to exceed 50% of their adjusted gross income and corporations generally could deduct up to 10% of their adjusted taxable income. Deductibility also varied based upon the type of property contributed – cash, ordinary income property, or capital gain property.

When cash or property was donated, an individual received an itemizable deduction on his individual tax return while corporations received a deduction for taxable income. Both types of taxpayers therefore received a reduction in their income taxes equal to their effective tax rate multiplied by the amount of the donation. Initial valuation of a contribution was the amount of cash contribution or the fair market value of the property contributed. “The fair market value is generally the price at which the property would change hands between a willing buyer and a willing seller, with both having a reasonable knowledge of relevant facts.” (CCH paragraph 8315) Valuation of property was a complex problem, usually requiring an appraisal. When a donor contributed property that was inventory or ordinary income property, the deduction for the donor was usually limited to the basis of the property. If the property donated was capital gain property (appreciated property that if sold would result in a long-term capital gain) the charitable contribution was the fair market value at the time of the contribution. If property was donated that would have produced a short-term capital gain to the donor, the contribution was usually limited to the donor’s cost.

Donors may have given less than the full property and sometimes the assets were received with donor stipulations that limited the use of the donated assets, further complicating the valuation process. One such case in which the owner of property donated less than the full property was in the case of conservation easements. In such situations, a landowner retained ownership of the property while transferring to a charitable organization or a governmental entity a preservation easement encumbering certain elements of this property. “The Tax Court noted that under Secs. 170(h)(1)-(5), a qualified conservation contribution must be of a qualified real property interest to a qualified organization, made exclusively for conservation purposes, and that a contribution is not treated as exclusively for conservation purposes unless such purposes are protected in perpetuity.” (Karl L. Fava, 2013) This requirement that the property was protected in perpetuity effectively meant that the donor was committing all future owners to the conservation easement. This could seriously limit the power of future buyers or heirs in their ability to use the property.

Valuation of a conservation easement was a difficult problem. Guidance was provided by Revenue Ruling 73-339 (1973-2 CB 68) and Revenue Ruling 76-336 (1976-2 CB 53) which explained the before-and-after approach. (Englebrecht & Dowis , 2013) This method of valuation considered the fair market value of the property before the easement

restricted the property's use and the fair market value after the easement was granted. This method obviously required a knowledgeable appraiser who was able to take into account the monetary consequences that resulted from the imposition on the current owner and all future owners of limiting the property's use.

IN-KIND GIFTS

Another special challenge was that of in-kind gifts. The Federation had received gifts of motor vehicles, boats, and a large house (that had to be moved from the land where it sat). Many of these assets were retained only long enough to be sold or re-gifted to other groups or government agencies. Correct accounting for these items (especially the house) presented difficult issues in terms of both categorization and valuation of those that were not sold.

The donation of the house presented special concerns for the Federation since the donation included only the house, not the land on which it was located. The house was located in Wrightsville Beach, which is in southeastern North Carolina, close to the then-existing office in Wilmington. The Federation was in need of a new office in the southern coastal area and decided that the house, once relocated, would be suitable. The value of the house at the time of donation in 2013 was \$203,000. The Federation began a Capital Campaign with a goal of \$600,000, which would be used to relocate the house. As of 12/31/13, the Federation had expended \$496,868 related to the relocation and renovation of the house. The Town of Wrightsville Beach had suitable land at its Municipal Complex to which the house was moved. Further, the Town was interested in the preservation of historic structures, which this house was deemed to be. An agreement was reached between the Town and the Federation for the Federation to donate the house to the Town in return for a long-term lease at a rental rate of \$1 per year. The building then served the dual function of an office for the southeastern staff (now including six full-time staff members), as well as the *Fred and Alice Stanback Education Center*.

A STRATEGY FOR THE FUTURE

Conservation easements, and the lands upon which they were placed, presented several strategic challenges to Todd Miller and the Board of Directors of the North Carolina Coastal Federation. The challenges were described as external or internal, depending upon the origin and nature of the easement.

The external challenge arose when a party outside the organization wished to place a conservation easement on land that the external party owned. In order to have gained the benefits of the easement, the external parties were required to have conveyed the easement to an agency (governmental or non-governmental) for perpetual monitoring and legal enforcement. Acceptance of the easement would have meant a permanent commitment to that duty. Some easements – for example a nearby golf course – could have been monitored cheaply and easily, as no great expense or effort was required to visit and observe the land. In contrast, other pieces of land could have been situated deep within inaccessible forests, marshes, and/or swamps, and substantial effort and expense would have been expended in executing the commitment to monitor. Some of the

external parties were prepared to pay the federation to cover the expenses involved in monitoring, but not all were. The Board needed to create a strategic policy for determining which easements to have accepted, and which to have declined.

The internal challenge arose when the federation had an opportunity to acquire land that had important conservation value worthy of preservation. One alternative was to have acquired the land and then to have retained it for various purposes that were consistent with other aspects of the group's mission (primarily research, restoration of degraded land, and education of the public). This was done with the property at North River Farms, which was a 6,000-acre wetland restoration project in eastern Carteret County. Another retained property was the Hoop Pole Creek Preserve, a 31-acre tract which was used primarily for research and education.

If a tract of land would not have been significantly useful to the federation's mission, another choice had to have been made. The federation could have acquired a property upon which a conservation easement would have then been placed, prior to the subsequent sale of the property. As would have been the case with any private landowner, the federation would then have been required to convey the easement to another party willing to commit to perpetual monitoring and enforcement. The land then would have been sold at a price substantially-less than the price paid for it. Unlike a private party, as a 501(c)(3) nonprofit organization that paid no income taxes, the federation would have received no tax benefits from the reduction in value.

Alternatively, the federation could have acquired the property, which subsequently would have been given or sold to a willing state agency for conservation purposes. This was an especially attractive path when the acquisition had been financed by grants from various state agencies. The most notable example of this strategy was the purchase of Huggins Island at the mouth of the White Oak River. This 110-acre island was purchased with a grant from the North Carolina Clean Water Management Trust Fund, and then given to the state to become part of the nearby Hammocks Beach State Park. Another, un-named tract further upstream on the White Oak River was similarly purchased with state funding, and then given to the North Carolina Wildlife Resources Commission for use as a State Game Land, where hunting and fishing opportunities were made available to the public.

The Board needed to create a strategic policy for determining which of the above alternatives should have been chosen when ecologically important land had become available for acquisition.

You have been asked to assist the Board of Directors in development of strategic policies and/or guidelines for determining which external Conservation Easements to accept, and when such easements should be deployed on lands that the federation had acquired.

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APPENDIX A

COASTAL FEDERATION NOTABLE ACHIEVEMENTS

The Federation in the 21st century has continued apace the work of the previous decades.

Notable achievements include:

- A major initiative of the 1990s that is still in progress is the Federation's first foray into restoration beyond state borders. NCCF joined with seven other environmental organizations from many parts of the country -- including Chesapeake Bay, the Gulf Coast, and northern California -- to form Restore America's Estuaries. Among other achievements, the work of this group led to a federal bill to restore one million acres of estuarine habitat.
- The 2005 purchase of Jones Island in the lower White Oak River; threatened by development, it has been converted to an environmental education center. The island was for sale, and development would have increased bacterial contamination in the river.
- A federal economic stimulus grant of \$5 million to restore critical estuarine habitat, primarily oyster reefs.
- The 2011 creation of a diverse coalition of individuals and organizations to combat the siting and operation of a cement plant in an extremely sensitive estuary on the Northeast Cape Fear River in Wilmington.
- The launch in 2012 of Coastal Review Online, a free daily news service highlighting coastal environmental issues, and the only non-profit news service ever to be admitted as a full member of the NC Press Association.
- Completion in 2013 and 2014 of substantial hydrologic restoration in Hyde County. This work re-creates functioning wetlands on nearly 44,000 acres of land, and will help to re-open many acres of historic shellfish grounds to subsistence and commercial harvest.

For additional information on Coastal Federation projects and achievements, please see <http://www.nccoast.org/>

APPENDIX B

EASEMENTS

An *Easement* is a legal right to make use of land that one does not own. Easements are created in many ways for many purposes. The most common easements grant the right to travel across someone else's land, or establish rights-of-way for roads, pipelines, electric wires, and railways. The person to whom the easement (and its specific rights) is granted does not acquire any ownership interest in the land.

Easements are categorized in many ways, depending upon their nature, specific purposes, and the means by which they are established. One distinction is drawn on the basis of the beneficiaries. Easements commonly are established for the benefit of adjoining properties and their owners; these are known as *easements appurtenant*. Other easements are for the benefit of specific individuals who do not own adjacent lands; these are known as *easements gross*.

A second distinction is drawn based upon the nature of the right that is conveyed. If the easement owner acquires the right to do something specific on the land, the easement is known as *affirmative*. If the easement owner acquires the right to prevent some activity from occurring, the easement is known as *negative*.

A third distinction is drawn between those easements that "*run with the land*," and those that do not. An easement that runs with the land becomes a permanent part of the deed to the land, and binds future owners of the land as well as the current owner. An easement that does not run with the land is not permanent, and is binding only upon the current owner of the land.

A *Conservation Easement* is an example of an easement *gross* that is *negative* in nature, and that *runs with the land*. It is binding upon current and all future owners of the land, in perpetuity. The person who holds the easement, and to whom rights are conveyed, need not own adjacent land. The right conveyed is a negative one: the holder of the easement has the right to prevent development activity, or other forms of environmental damage or destruction. The intent of a conservation easement is to preserve the ecological function and services of the land, to provide a legal means of enforcing the right that is conveyed. The holder of the easement may sue in state courts (and win!) when such action is necessary to prevent the degradation of the land.

<http://legal-dictionary.thefreedictionary.com/easement>

APPENDIX C – FINANCIAL STATEMENTS 2013

**North Carolina Coastal Federation, Inc.
STATEMENT OF FINANCIAL POSITION
December 31, 2013**

ASSETS

Current Assets	
Cash and cash equivalents	\$ 2,876,862
Investments	581,091
Accounts receivable	118,065
Prepaid expenses	3,089
Inventory	<u>6,272</u>
Total current assets	3,585,379
Endowment Investments	<u>910,144</u>
Property and Equipment	
Property and equipment	2,280,400
Accumulated depreciation	<u>(452,894)</u>
Total property and equipment	<u>1,827,506</u>
Land/conservation easements	<u>29,422,768</u>
TOTAL ASSETS	<u>\$ 35,745,797</u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 33,132
Accrued liabilities	<u>57,046</u>
Total current liabilities	<u>90,178</u>
Net Assets	
Unrestricted:	
Operating	2,066,854
Fixed assets	1,827,506
Temporarily restricted	217,143
Permanently restricted	<u>31,544,116</u>
Total net assets	<u>35,655,619</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 35,745,797</u>

**North Carolina Coastal Federation, Inc.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Grants and Revenues				
Donations	\$189,144	\$ 24,903	\$ -	\$ 214,047
Campaign donations	-	554,536	-	554,536
Grants	1,000,000	1,152,960	-	2,152,960
Events	33,767	-	-	33,767
Cost of events	(13,591)	-	-	(13,591)
Realized and unrealized investment income	53,509	26,767	96,426	176,702
Memberships	174,247	-	-	174,247
Gift shop sales	8,301	-	-	8,301
Cost of goods sold	(5,879)	-	-	(5,879)
Rental income	151,590	-	-	151,590
Sale of easement	-	960,000	2,940,478	3,900,478
Net assets released from restrictions due to satisfaction of purpose	2,700,994	(2,700,994)	-	-
Gain/(loss) on disposal of fixed assets	(3,758)	-	-	(3,758)
Total grants and revenues	<u>4,288,324</u>	<u>18,172</u>	<u>3,036,904</u>	<u>7,343,400</u>
Expenses				
Headquarters	852,334	-	-	852,334
Development	150,714	-	-	150,714
Administration	95,599	-	-	95,599
Central	160,584	-	-	160,584
Southeast	265,274	-	-	265,274
Northeast	168,458	-	-	168,458
Special projects	<u>1,957,394</u>	-	-	<u>1,957,394</u>
Total expenses	<u>3,650,357</u>	-	-	<u>3,650,357</u>
Change in net assets	637,967	18,172	3,036,904	3,693,043
Net Assets, beginning of year	<u>3,256,393</u>	<u>198,971</u>	<u>28,507,212</u>	<u>31,962,576</u>
Net Assets, end of year	<u>\$3,894,360</u>	<u>\$ 217,143</u>	<u>\$ 31,544,116</u>	<u>\$35,655,619</u>

North Carolina Coastal Federation, Inc.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 3,693,043
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	58,496
House donation	(203,000)
Loss on the disposal of assets	3,758
(Increase) decrease in operating assets	
Accounts receivable	(72,812)
Prepaid expenses	700
Investments	(43,846)
Inventory	599
Endowment investments	(96,426)
Increase (decrease) in operating liabilities	
Accounts payable	4,077
Accrued liabilities	<u>4,003</u>
Net cash provided by operating activities	<u>3,348,592</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from the disposal of assets	8,005
Purchase of land	(1,949,274)
Acquisition of capital assets	<u>(535,723)</u>
Net cash used by investing activities	<u>(2,476,992)</u>
Net increase in cash and cash equivalents	871,600
Beginning cash and cash equivalents	<u>2,005,262</u>
Ending cash and cash equivalents	<u>\$2,876,862</u>

APPENDIX D: FINANCIAL STATEMENTS 2014

**North Carolina Coastal Federation, Inc.
STATEMENT OF FINANCIAL POSITION
December 31, 2014**

ASSETS

Current Assets

Cash and cash equivalents	\$3,184,711
Investments	736,105
Accounts receivable	24,980
Inventory	<u>7,048</u>
Total current assets	<u>3,952,844</u>

Endowment Investments	<u>980,125</u>
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Property and Equipment:

Property and equipment	1,711,379
Accumulated depreciation	<u>(485,879)</u>
Total property and equipment	<u>1,225,500</u>

Land/conservation easements	<u>29,422,768</u>
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TOTAL ASSETS	<u>\$35,581,237</u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$5,550
Accrued liabilities	<u>57,189</u>
Total current liabilities	<u>62,739</u>

Net Assets

Unrestricted:

Operating	2,445,539
Fixed assets	1,225,500

Temporarily restricted	233,362
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Permanently restricted	<u>31,614,097</u>
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Total net assets	<u>35,518,498</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$35,581,237</u>
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**North Carolina Coastal Federation, Inc.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Grants and Revenues				
Donations	\$ 520,006	\$ 22,480	\$ 13,000	\$ 555,486
Campaign donations	-	60,999	-	60,999
Grants	1,303,000	1,309,192	-	2,612,192
Events	141,138	-	-	141,138
Cost of events	(91,379)	-	-	(91,379)
Realized and unrealized				
investment income	50,527	361	56,981	107,869
Memberships	202,550	-	-	202,550
Gift shop sales	3,838	-	-	3,838
Cost of goods sold	(3,016)	-	-	(3,016)
Rental income	153,314	-	-	153,314
Net assets released from restrictions				
due to satisfaction of purpose	1,376,813	(1,376,813)	-	-
Gain/(loss) on				
disposal of fixed assets	(699)	-	-	(699)
 Total grants and revenues	 <u>3,656,092</u>	 <u>16,219</u>	 <u>69,981</u>	 <u>3,742,292</u>
 Expenses				
Headquarters	877,081	-	-	877,081
Development	157,900	-	-	157,900
Administration	174,640	-	-	174,640
Central	156,209	-	-	156,209
Southeast	269,193	-	-	269,193
Northeast	201,627	-	-	201,627
Special projects	2,042,763	-	-	2,042,763
 Total expenses	 <u>3,879,413</u>	 <u>-</u>	 <u>-</u>	 <u>3,879,413</u>
 Change in net assets	 (223,321)	 16,219	 69,981	 (137,121)
 Net Assets, beginning of year	 <u>3,894,360</u>	 <u>217,143</u>	 <u>31,544,116</u>	 <u>35,655,619</u>
 Net Assets, end of year	 <u>\$3,671,039</u>	 <u>\$ 233,362</u>	 <u>\$ 31,614,097</u>	 <u>\$35,518,498</u>

**North Carolina Coastal Federation, Inc.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (137,121)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	59,443
Loss on the disposal of assets	699
(Increase) decrease in operating assets	
Accounts receivable	93,085
Prepaid expenses	3,089
Investments	(154,872)
Inventory	(776)
Endowment investments	(69,981)
Increase (decrease) in operating liabilities	
Accounts payable	(27,583)
Accrued liabilities	<u>142</u>
Net cash used by operating activities	<u>(233,875)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Transfers to investment accounts	13,000
Donation of house to Wrightsville Beach	852,170
Acquisition of capital assets	<u>(323,446)</u>
Net cash provided by investing activities	<u>541,724</u>
Net increase in cash and cash equivalents	307,849
Beginning cash and cash equivalents	2,876,862
Ending cash and cash equivalents	<u>\$ 3,184,711</u>