Natural Legacies:

Your educational guide to conservation in BC

Debt & Risk Management for Land Trusts

Land trusts may incur various types of debt ranging from overdraft protection on an operating bank account, to loans, accounts receivable, and mortgages.

As with any non-profit, land trusts maybe not always have cash equivalent to expenses. Debt should be carefully considered in light of income, accounts payable for a land trust, land management costs and costs associated with operations and acquisitions.

It is imperative that the land trust Board of Directors understands debt and the risk it may pose for their organization.

Land trusts typically engage in fundraising campaigns for both operating and capital expenses. Campaigns may involve membership drives, special events and other activities where the funds may be designated to day-to-day activities. At times, an organization may experience cash flow issues and a line of credit or over-draft protection may bridge this gap until funds become available.

Land trusts also engage in fundraising campaigns for capital projects including covenants and acquisitions. Most land trusts raise the funds required before a property is purchased or a covenant is placed. From time to time donations may be made as pledges over an extended period. These receivables can be expected over a period of one to five years typically but land trusts need to be aware acquiring properties without the cash in hand can often cause severe financial shortfalls and challenges.

DEBT & RISK MANAGEMENT FOR LAND TRUSTS

Land Trust Alliance
BRITISH COLUMBIA

Natural Legacies is a project of the Land Trust Alliance of BC
with the financial support of
The Real Estate Foundation of BC
The Vancouver Foundation
The Law Foundation of BC
The Victoria Foundation
The Province of BC
Environment Canada
TIDES Canada

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Risk Management:

Boards must give careful consideration to managing risk. It is essential that a land trust secure insurance for Directors and Officers as well as liability. Insurance offers protection in many instances however Directors must be aware of monthly financial positions and budgets in order to make informed and educated decisions. This is part of good governance.

Land trusts' as charities may not be able to predict donations, bequests, the success of events or guaranteed grants. Staff and boards must continuously dialogue about the needs to manage finances and risks for their organization.

Mortgages and loans for land trusts pose a very high risk. It is very emotional and appealing to volunteers, Directors, staff and donors to acquire properties. However, once a piece of land is obtained raising funds for that property is often difficult. Therefore, raising funds in advance of the acquisition is paramount. This also allows a land trust to build into the campaign an endowment portion, which provides for the long-term management costs of a property.

Some properties such as heritage homes or farms may generate revenue to assist with management costs. Rent, admission fees and leases provide a source of revenue for these costs. This revenue may be unreliable and provisions for this must be considered.

Land trusts accepting covenants on properties must discuss management costs. Will these costs be funded by the property owner? Will a campaign to raise an endowment be undertaken? Can the land trust raise funds from other sources for long-term land management? Boards should consider these questions as they develop policies and procedures surrounding debt and risk.