

**JEFFERSON LAND TRUST  
AND SUBSIDIARY**

Consolidated Financial Statements

For the Year Ended December 31, 2014

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## **Independent Auditor's Report**

### **Board of Directors Jefferson Land Trust and Subsidiary Port Townsend, Washington**

We have audited the accompanying consolidated financial statements of Jefferson Land Trust and Subsidiary (collectively, JLT, a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities 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.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of JLT as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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## **Correction of Error**

As discussed in Note 12 to the financial statements, certain errors resulting in overstatement of amounts previously reported for unrestricted net assets and understatement of amounts previously reported for temporarily restricted net assets as of December 31, 2013, were discovered by management of JLT during the current year. Accordingly, amounts reported for unrestricted and temporarily restricted net assets have been restated in the 2013 financial statements now presented to correct the error. Our opinion is not modified with respect to that matter.

## **Report on Summarized Comparative Information**

We have previously audited JLT's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 17, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects other than the correction of error noted in the previous section, with the audited financial statements from which it has been derived.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidated schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Clark Nuber P S*

Certified Public Accountants  
June 11, 2015

JEFFERSON LAND TRUST AND SUBSIDIARY

Consolidated Statement of Financial Position  
 December 31, 2014  
 (With Comparative Totals for 2013)

	2014	2013, As Restated
<b>Assets</b>		
Cash and equivalents	\$ 624,624	\$ 496,776
Investments (Note 2)	378,051	413,675
Accounts receivable	35,174	58,160
Pledges receivable (Note 3)	451,123	431,579
Note receivable (Note 4)	71,008	74,846
Prepaid expenses	4,555	2,689
Land, conservation easements, and purchase options-		
Habitat land	1,451,717	1,328,192
Working land	25,048	25,048
Open space land	268,512	256,332
Conservation easements	54	53
Total land and conservation easements (Note 5)	1,745,331	1,609,625
Furniture and equipment, net of accumulated depreciation of \$21,154 (2013 - \$18,394)	7,132	8,523
<b>Total Assets</b>	<b>\$ 3,316,998</b>	<b>\$ 3,095,873</b>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 18,251	\$ 1,876
Accrued expenses and deferred revenue	35,074	27,281
<b>Total Liabilities</b>	<b>53,325</b>	<b>29,157</b>
<b>Net Assets:</b>		
Unrestricted (Note 8)-		
Undesignated, as restated (Note 12)	303,965	396,394
Board designated	1,745,331	1,609,625
Total unrestricted net assets, as restated (Note 12)	2,049,296	2,006,019
Temporarily restricted, as restated (Notes 9 and 12)	1,169,898	1,024,787
Permanently restricted (Note 10)	44,479	35,910
<b>Total Net Assets</b>	<b>3,263,673</b>	<b>3,066,716</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 3,316,998</b>	<b>\$ 3,095,873</b>

See accompanying notes.

JEFFERSON LAND TRUST AND SUBSIDIARY

Consolidated Statement of Activities  
For the Year Ended December 31, 2014  
(With Comparative Totals for 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
<b>Revenue and Gains:</b>					
Gifts and contributions	\$ 156,416	\$ 413,944	\$ 7,887	\$ 578,247	\$ 341,113
Fair value of easement acquisitions	1,297,250			1,297,250	875,001
Grants and contracts	240,149			240,149	607,382
Special events income, net of net of expenses of \$20,661 (2013 - \$22,403)	93,391			93,391	105,387
Timber sales		74,416		74,416	
Net investment return (Note 2)	8,625		682	9,307	10,163
Release from restriction (Note 9)	343,249	(343,249)			
<b>Total Revenue and Gains</b>	<b>2,139,080</b>	<b>145,111</b>	<b>8,569</b>	<b>2,292,760</b>	<b>1,939,046</b>
<b>Expenses:</b>					
Program	1,862,944			1,862,944	1,313,387
General and administrative	118,437			118,437	98,383
Fundraising	114,422			114,422	89,713
<b>Total Expenses</b>	<b>2,095,803</b>			<b>2,095,803</b>	<b>1,501,483</b>
<b>Change in Net Assets</b>	<b>43,277</b>	<b>145,111</b>	<b>8,569</b>	<b>196,957</b>	<b>437,563</b>
Net assets, beginning of year, (as restated, Note 12)	2,006,019	1,024,787	35,910	3,066,716	2,629,153
<b>Net Assets, End of Year</b>	<b>\$ 2,049,296</b>	<b>\$ 1,169,898</b>	<b>\$ 44,479</b>	<b>\$ 3,263,673</b>	<b>\$ 3,066,716</b>

See accompanying notes.

JEFFERSON LAND TRUST AND SUBSIDIARY

**Consolidated Statement of Cash Flows**  
**For the Year Ended December 31, 2014**  
**(With Comparative Totals for 2013)**

	<u>2014</u>	<u>2013</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 196,957	\$ 437,563
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	2,760	2,596
Realized and unrealized losses (gains) on investments	1,282	(246)
Donated land and easements	(8,000)	
Changes in assets and liabilities:		
Accounts receivable	22,986	8,045
Pledges receivable	(19,544)	83,441
Prepaid expenses	(1,866)	(1,210)
Accounts payable	16,375	(6,934)
Accrued expenses and deferred revenue	7,793	(26,152)
<b>Net Cash Provided by Operating Activities</b>	<b>218,743</b>	<b>497,103</b>
<b>Cash Flows From Investing Activities:</b>		
Purchases of investments	(4,909)	(5,558)
Proceeds from sale of investments	39,251	59,931
Proceeds from note receivable	3,838	3,545
Purchases of land	(129,983)	(389,759)
Proceeds from sale of land	2,277	
Purchases of furniture and equipment	(1,369)	(2,250)
<b>Net Cash Used by Investing Activities</b>	<b>(90,895)</b>	<b>(334,091)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>127,848</b>	<b>163,012</b>
Cash balance, beginning of year	496,776	333,764
<b>Cash Balance, End of Year</b>	<b>\$ 624,624</b>	<b>\$ 496,776</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Donated land received	\$ 8,000	\$ -

See accompanying notes.

## JEFFERSON LAND TRUST AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2014

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#### Note 1 - Organization and Summary of Significant Accounting Policies

**Organization** - Jefferson Land Trust (the Land Trust) is a Washington nonprofit corporation, formed on April 7, 1989. The Land Trust's purpose is to acquire, preserve and manage open space lands and easements for land conservation purposes benefitting the public. The Land Trust also provides information and materials to the public on land conservation issues. The Land Trust serves Jefferson County on the Olympic Peninsula in Washington. The Land Trust has been accredited by the national Land Trust Alliance since August 5, 2009.

On September 5, 2007, JLT Resources, LLC was formed with the Land Trust as its only member. JLT Resources, LLC was formed for the purpose of purchasing and holding land for conservation purposes.

**Principles of Consolidation** - These financial statements consolidate the statements of Jefferson Land Trust and JLT Resources, LLC (collectively, "JLT"). Inter-organization balances and transactions have been eliminated in consolidation.

**Basis of Accounting** - The consolidated financial statements of JLT have been prepared on the accrual basis of accounting.

**Basis of Presentation** - Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of JLT and changes therein are classified and reported as follows:

Unrestricted Net Assets - Include all net assets on which there are no donor-imposed restrictions for use, or on which donor-imposed restrictions were temporary and have expired or been fulfilled.

Temporarily Restricted Net Assets - Include all net assets subject to donor-imposed restrictions that will be met by actions of JLT and/or the passage of time.

Permanently Restricted Net Assets - Include all net assets received by donations wherein the donors impose a permanent restriction on the use of the gift. The donors require the gift to be invested and only the income from such investments may be used to support the intended cause.

All donor-restricted support is reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends and/or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restriction. Gifts of equipment are reported 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. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Equivalents** - For reporting purposes, JLT considers all unrestricted highly liquid investments with a purchased maturity of three months or less to be cash equivalents.



## JEFFERSON LAND TRUST AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2014

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#### Note 1 - Continued

**Concentrations** - JLT maintains its cash in bank deposit accounts with two financial institutions. JLT's cash balances may, at times, exceed federally insured limits.

At December 31, 2014, one donor's pledge represented approximately 26% of pledges receivable, and the total of all pledges from board members represented approximately 52% of pledges receivable.

At December 31, 2013, one donor's pledge represented approximately 33% of pledges receivable, and the total of all pledges from board members represented approximately 48% of pledges receivable.

**Investments** - Investments in marketable securities with readily determinable fair values are valued at their fair values in the consolidated statement of financial position. The carrying amount of the investment held in trust is determined by the trustee holding the securities. Certificates of deposit are carried at cost plus accrued interest in the consolidated statement of financial position. Unrealized gains and losses are included in the change in net assets.

**Accounts Receivable** - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable.

**Grants and Contracts** - JLT receives grants and contracts from federal, state, and local agencies, as well as from private organizations, to be used for specific programs or land purchases. The excess of grants receivable over reimbursable expenditures to-date is recorded as deferred revenue.

**Furniture and Equipment** - Furniture and equipment are capitalized at cost if purchased, or, if donated, at the approximate fair value at the date of donation. When retired or otherwise disposed of, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference, less any amount realized from disposition, is reflected in earnings. Maintenance and repairs are charged to expenses as incurred. Costs of significant improvements are capitalized. JLT provides for depreciation using the straight-line method over the estimated useful lives of the assets of five to ten years.

**Land and Easements** - JLT records acquisitions of land at cost if purchased. Land acquired through donation is recorded at fair value, with fair values generally based on independent professional appraisals. These assets fall into two primary categories:

Conservation Lands - Real property with significant ecological value for habitat, open space, or working lands. Stewardship programs of JLT manage these properties to protect the natural biological diversity of the property. JLT manages its working timberland as a Forest Stewardship Council - Certified, managed forest.

Conservation Easements - Voluntary legal agreements between a landowner and a land trust or government agency to permanently protect the identified natural features and conservation values of the property. These easements may be sold or transferred to others so long as the assignee agrees to carry out, in perpetuity, the conservation purposes intended by the original grantor. Conservation easements owned by JLT protect habitat, open space and working lands, such as family farms, through its stewardship programs.

## JEFFERSON LAND TRUST AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2014

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#### Note 1 - Continued

Easements acquired represent numerous restrictions over the use and development of land not owned by JLT. Since the benefits of such easements accrue to the public upon acquisition, the fair market value of easements acquired is shown in the year of acquisition as an addition to net assets to record the donation of the easement, and unless conveyed to a public agency for consideration, shown as a reduction in net assets to record the value of the public's benefit and to recognize that these easements have no marketable value once severed from the land and held by JLT. Easements held by JLT are carried on the consolidated statement of financial position at \$1 each for tracking and accounting purposes. Two easements valued at \$1,297,250 in total were donated to JLT during the year ended December 31, 2014. Accordingly, \$1,297,250 of contribution revenue and \$1,297,249 of related write down expense have been reported on the consolidated statement of activities for the year ended December 31, 2014. Four easements valued at \$875,001 in total were donated to JLT during the year ended December 31, 2013. Accordingly, \$875,001 of contribution revenue and \$874,997 of related write down expense were reported on the consolidated statement of activities for the year ended December 31, 2013.

**Federal Income Taxes** - The Internal Revenue Service has determined Jefferson Land Trust and JLT Resources, LLC (a disregarded entity) to be exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Contributions to JLT are deductible as allowed under Section 170(b)(1)(A)(vi) of the Code.

During the year ended December 31, 2012, the Land Trust elected the provisions of Section 501(h), relating to expenditures to influence legislation.

**Functional Allocation of Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Comparative Amounts for 2013** - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with JLT's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

**Subsequent Events** - JLT has evaluated subsequent events through June 11, 2015, the date on which the consolidated financial statements were available to be issued.

#### Note 2 - Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U.S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

**Valuation Techniques** - Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

JEFFERSON LAND TRUST AND SUBSIDIARY

Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2014

**Note 2 - Continued**

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2014 and December 31, 2013.

Stocks - Valued at quoted market prices in active markets for identical assets.

Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by JLT at year-end.

There are no significant redemption restrictions or unfunded commitments on these investments.

**Fair Values Measured on a Recurring Basis** - Fair values of investments measured on a recurring basis at December 31 were as follows:

	Fair Value Measurements as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Stocks	\$ 98,642	\$ -	\$ -	\$ 98,642
Mutual funds-				
Fixed income mutual fund	44,197			44,197
<b>Total Investments Held at Fair Value</b>	<b>\$ 142,839</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 142,839</b>
Certificates of deposit, held at cost plus accrued interest				235,212
<b>Total Investments</b>				<b>\$ 378,051</b>

	Fair Value Measurements as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Mutual funds-				
Fixed income mutual fund	\$ 38,502	\$ -	\$ -	\$ 38,502
<b>Total Investments Held at Fair Value</b>	<b>\$ 38,502</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 38,502</b>
Certificates of deposit, held at cost plus accrued interest				375,173
<b>Total Investments</b>				<b>\$ 413,675</b>

JEFFERSON LAND TRUST AND SUBSIDIARY

Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2014

**Note 2 - Continued**

A reconciliation of the beginning and ending fair value balances for funds held at a community foundation using significant unobservable inputs (Level 3) were as follows:

	<u>2014</u>	<u>2013</u>
Beginning balance at January 1	\$ -	\$ 59,339
Interest income		10
Realized/unrealized gain		682
Investment fees paid		(260)
Withdrawals		(59,771)
	<u>                    </u>	<u>                    </u>
<b>Ending Balance at December 31</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

Investment return for the years ended December 31 consisted of the following:

	<u>2014</u>	<u>2013</u>
Interest income	\$ 10,589	\$ 9,657
Realized/unrealized (loss) gain	(1,282)	246
Investment fees		260
	<u>                    </u>	<u>                    </u>
	<b><u>\$ 9,307</u></b>	<b><u>\$ 10,163</u></b>

**Note 3 - Pledges Receivable**

Pledges receivable at December 31 are to be received as follows:

	<u>2014</u>	<u>2013</u>
Less than one year	\$ 132,953	\$ 135,650
Two to five years	301,389	256,885
Thereafter	25,510	48,168
	<u>                    </u>	<u>                    </u>
	459,852	440,703
Less discount to present value (0.6%)	(4,846)	(4,840)
Less allowance for uncollectible pledges	(3,883)	(4,284)
	<u>                    </u>	<u>                    </u>
	<b><u>\$ 451,123</u></b>	<b><u>\$ 431,579</u></b>

JEFFERSON LAND TRUST AND SUBSIDIARY

Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2014

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**Note 4 - Note Receivable**

On February 15, 2008, JLT granted a loan to an individual in relation to one of the pieces of conservation land owned by JLT. JLT received a promissory note in exchange. The promissory note is for the amount of \$93,750 and is to be paid in monthly installments of approximately \$600. The note matures on January 15, 2028, with an annual interest rate of 5%.

The note receivable at December 31 is to be received as follows:

	<u>2014</u>	<u>2013</u>
Less than one year	\$ 3,955	\$ 3,762
Two to five years	17,949	17,076
Thereafter	<u>49,104</u>	<u>54,008</u>
	<u><b>\$ 71,008</b></u>	<u><b>\$ 74,846</b></u>

**Note 5 - Land and Conservation Easements**

Land and conservation easements at December 31 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Conservation lands-		
Quimper Wildlife Corridor	\$ 329,847	\$ 286,965
Chimacum Creek	284,410	282,437
Duckabush Wetlands	220,000	220,000
Donovan Creek	205,000	205,000
Duckabush Oxbow	180,000	180,000
Bulis Forest Preserve	125,240	125,240
Snow Creek Uncas Preserve	100,000	100,000
Chimacum Commons	90,850	
Snow Creek Estuary	86,000	86,000
Gateway	85,000	85,000
Kilham Corner	38,930	38,930
Conservation easements	<u>54</u>	<u>53</u>
	<u><b>\$ 1,745,331</b></u>	<u><b>\$ 1,609,625</b></u>

**Note 6 - Retirement Plan**

JLT maintains a Simplified Employee Pension - Individual Retirement Accounts Contribution Benefit Plan ("the Plan"). Eligible employees may join the Plan after one year of service. There were no employer contributions for 2014 or 2013.

**JEFFERSON LAND TRUST AND SUBSIDIARY**

**Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2014**

**Note 7 - Lease Agreements**

On June 21, 2012, JLT entered into an operating lease as lessee for its administrative office in Port Townsend, Washington. The lease expired June 2014 and is now on a month to month basis. The agreement calls for monthly payments of \$1,412 plus utilities. Rent expense totaled \$19,200 and \$18,331 for the years ended December 31, 2014 and 2013, respectively.

**Note 8 - Unrestricted Net Assets**

Unrestricted net assets consisted of the following at December 31:

	<u>2014</u>	<u>2013 (As Restated)</u>
Designated-		
Quimper Wildlife Corridor	\$ 317,138	\$ 276,535
Chimacum Creek	297,119	292,867
Duckabush Wetlands	220,000	220,000
Donovan Creek	205,000	205,000
Duckabush Oxbow	180,000	180,000
Bulis Forest Preserve	125,240	125,240
Snow Creek Uncas Preserve	100,000	100,000
Chimacum Commons	90,850	
Snow Creek Estuary	86,000	86,000
Gateway	85,000	85,000
Kilham Corner	38,930	38,930
Conservation easements	<u>54</u>	<u>53</u>
Total designated	1,745,331	1,609,625
Undesignated	<u>303,965</u>	<u>396,394</u>
	<u><u>\$ 2,049,296</u></u>	<u><u>\$ 2,006,019</u></u>

**JEFFERSON LAND TRUST AND SUBSIDIARY**

**Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2014**

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**Note 9 - Temporarily Restricted Net Assets**

Temporarily restricted net assets consisted of the following at December 31:

	2014	2013 (As Restated)
Purpose restriction-		
For stewardship of Bulis Forest Preserve	\$ 94,191	\$ 61,009
Forest Legacy program		17,752
Working Farm Fund	68	24,188
Consulting fees	6,000	20,395
Stewardship Funding	534,117	438,099
Working Land & Habitat Fund	51,390	
Education Outreach Fund	22,436	22,415
Other program restrictions	10,573	9,350
	718,775	593,208
Time restriction-		
Outstanding pledges	451,123	431,579
	<u>\$ 1,169,898</u>	<u>\$ 1,024,787</u>

Net assets of \$167,729 were released from donor restrictions by incurring expenses satisfying the purpose restriction specified by the donor, and net assets of \$175,520 were released due to the expiration of time restrictions for the year ended December 31, 2014.

**Note 10 - Permanently Restricted Net Assets**

At December 31, 2014 and 2013, JLT had \$44,479 and \$35,910, respectively, of permanently restricted net assets in a general endowment fund (Note 11), the income of which is available to support general operations.

**Note 11 - Endowments**

The JLT endowment consists of one fund established to support general operations. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - JLT's Board of Directors has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this determination, JLT classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

JEFFERSON LAND TRUST AND SUBSIDIARY

Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2014

**Note 11 - Continued**

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by JLT in a manner consistent with the standard of prudence prescribed by PMIFA. However, JLT has informed donors of its spending policy which states that no distributions will be made during the first five years of the fund's existence or until it reaches a threshold balance of \$400,000. Since these milestones have not yet been reached, JLT adds all amounts earned to the permanently restricted balance.

In accordance with PMIFA, JLT considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of JLT and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of JLT; and
- The investment policies of JLT.

As of December 31, 2014, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 44,479	\$ 44,479
<b>Endowment Net Assets, December 31, 2014</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 44,479</u></b>	<b><u>\$ 44,479</u></b>

As of December 31, 2013, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 35,910	\$ 35,910
<b>Endowment Net Assets, December 31, 2013</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 35,910</u></b>	<b><u>\$ 35,910</u></b>



JEFFERSON LAND TRUST AND SUBSIDIARY

Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2014

**Note 11 - Continued**

Changes to endowment net assets for the years ended December 31, 2014 and 2013, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2013	\$ -	\$ -	\$ 35,465	\$ 35,465
Endowment investment return-				
Interest and dividends			654	654
Realized and unrealized losses			(309)	(309)
Total endowment investment return			345	345
Contributions			100	100
<b>Endowment Net Assets, December 31, 2013</b>			<b>35,910</b>	<b>35,910</b>
Endowment investment return-				
Interest and dividends			831	831
Realized and unrealized losses			(149)	(149)
Total endowment investment return			682	682
Contributions			7,887	7,887
<b>Endowment Net Assets, December 31, 2014</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 44,479</b>	<b>\$ 44,479</b>

**Funds with Deficiencies** - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or PMIFA requires JLT to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2014 or 2013.

**Return Objectives and Risk Parameters** - JLT has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that JLT must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a custom Policy Index made up of various indices. The composition of the custom Policy Index is based upon the strategic asset allocation of the investment portfolio and assumes a moderate level of investment risk. The investment objectives of the Operations Endowment Fund include maintenance of principal, timely liquidity, and preservation of purchasing power over time.

**JEFFERSON LAND TRUST AND SUBSIDIARY**

**Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2014**

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**Note 11 - Continued**

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, JLT notes that for funds earmarked for capital appreciation, appropriate investments include intermediate term bond funds/ETF's, equity mutual funds, equity ETF's, and unconstrained bond funds.

**Spending Policy and How the Investment Objectives Relate to the Spending Policy** - JLT's spending policy intends that no distributions may be made from the Operations Endowment Fund for the first five years of its existence or until it reaches a threshold balance of \$400,000, whichever shall first occur. After a five-year period which ended in December 2014, or after achieving the \$400,000 threshold, distributions shall be made on an annual basis as determined by the Board. Regular disbursements should be limited to a maximum of 5% of the value of the portfolio at the beginning of each fiscal year, or one-half of the income generated by the fund for the most recent fiscal year, whichever is less. At no time will the distribution of the spendable amount result in the invasion of the original amounts donated.

**Note 12 - Adjustments to Beginning Net Assets**

During the year ended December 31, 2014, JLT determined that certain prior year temporarily restricted contributions had been incorrectly classified as unrestricted. An adjustment was recorded to reflect the proper net asset classification. As a result, beginning unrestricted net assets as of December 31, 2013, were reduced by \$438,099 and temporarily restricted net assets were increased by \$438,099.

The following table sets forth the effect of this adjustment on the consolidated statement of financial position at December 31, 2013:

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
<b>Consolidated Statement of Financial Position-</b>			
Unrestricted net assets	\$ 2,444,118	\$ (438,099)	\$ 2,006,019
Temporarily restricted net assets	586,688	438,099	1,024,787
Permanently restricted net assets	35,910		35,910
<b>Total Net Assets, as Restated</b>	<b><u>\$ 3,066,716</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,066,716</u></b>

**Note 13 - Subsequent Event**

Subsequent to year end, JLT signed a purchase and sale agreement with a third party for approximately 850 acres of forest land in Jefferson County. The agreement includes a 90 day due diligence period for JLT to review and determine if it will accept the agreement terms. As of the date of the audit report, JLT was within the due diligence period and had not yet made a final determination.

**SUPPLEMENTARY INFORMATION**

JEFFERSON LAND TRUST AND SUBSIDIARY

Consolidated Schedule of Functional Expenses  
For the Year Ended December 31, 2014  
(With Comparative Totals for 2013)

	Program	General and Administrative	Fundraising	2014 Total	2013 Total
Salaries	\$ 239,488	\$ 68,179	\$ 45,118	\$ 352,785	\$ 252,899
Payroll taxes	21,816	6,096	4,171	32,083	24,734
Employee benefits	30,531	8,531	5,837	44,899	39,129
Total salaries, taxes and benefits expense	291,835	82,806	55,126	429,767	316,762
Value of conservation easements written down	1,297,249			1,297,249	874,997
Professional fees	128,151	14,382	41,379	183,912	167,260
Land and stewardship expenses	77,052			77,052	31,519
Rent	14,764	3,648	2,889	21,301	19,632
Public awareness	12,730		4,778	17,508	7,229
Dues and subscriptions	9,734	2,708	1,855	14,297	3,918
Insurance	9,598	1,461	999	12,058	9,945
Postage and printing	6,085	154	4,634	10,873	10,504
Other	1,579	5,870	12	7,461	24,123
Travel and seminars	2,866	3,989	140	6,995	18,254
Office supplies	4,500	1,040	934	6,474	6,704
Telephone	3,022	845	578	4,445	4,035
Depreciation	1,877	524	359	2,760	2,596
Utilities	1,439	402	275	2,116	1,760
Web design and maintenance	463		464	927	1,386
Bank fees		608		608	859
<b>Expenses, Net of Special Events Expense</b>	<b>1,862,944</b>	<b>118,437</b>	<b>114,422</b>	<b>2,095,803</b>	<b>1,501,483</b>
Special events expense			20,661	20,661	22,403
<b>Total Expenses</b>	<b>\$ 1,862,944</b>	<b>\$ 118,437</b>	<b>\$ 135,083</b>	<b>\$ 2,116,464</b>	<b>\$ 1,523,886</b>

See independent auditor's report.