
JEFFERSON LAND TRUST AND SUBSIDIARY

Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

Aiken & Sanders, Inc PS

CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

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Independent Auditor's Report

To the Board of Directors
Jefferson Land Trust & Subsidiary
Port Townsend, WA

Report on the Financial Statements

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, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 the JLT as of December 31, 2017 and 2016, and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Aiken & Sanders".

Aiken & Sanders, Inc., PS
Certified Public Accountants
& Management Consultants

June 19, 2018

Jefferson Land Trust and Subsidiary

A Washington Not For Profit Organization

Consolidated Statement of Financial Position
As of December 31, 2017 and December 31, 2016

Assets	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash and cash equivalents	\$ 299,640	\$ 461,603
Accounts receivable	15,725	33,323
Current pledges receivable	83,077	82,322
Note receivable-current portion	4,604	4,380
Prepaid expenses	<u>9,179</u>	<u>12,610</u>
Total Current Assets	<u>412,225</u>	<u>594,238</u>
Land and Conservation Easements:		
Habitat land	2,707,547	2,533,608
Working land	97,728	97,728
Open space land	332,761	332,761
Conservation easements	<u>58</u>	<u>57</u>
Total Land and Conservation Easements	3,138,094	2,964,154
Fixed Assets:		
Furniture, equipment, and improvements	87,009	82,469
Less: Accumulated depreciation	<u>(44,182)</u>	<u>(35,801)</u>
Fixed assets, net	<u>42,827</u>	<u>46,668</u>
Other Assets:		
Long term pledges receivable	37,252	123,122
Long term note receivable	53,893	58,497
Land hold fee-net	49,998	58,331
Investments	<u>802,011</u>	<u>754,875</u>
Total Other Assets	<u>943,154</u>	<u>994,825</u>
Total Assets	<u>\$ 4,536,300</u>	<u>\$ 4,599,885</u>

The accompanying notes are an integral part of these financial statements

Jefferson Land Trust and Subsidiary

A Washington Not For Profit Organization

Consolidated Statement of Financial Position
As of December 31, 2017 and December 31, 2016

	Liabilities & Net Assets	
	<u>2017</u>	<u>2016</u>
Current Liabilities:		
Accounts payable	\$ 12,675	\$ 6,046
Accrued liabilities and deferred revenue	42,970	48,490
Total Current Liabilities	<u>55,645</u>	<u>54,536</u>
Long-Term Liabilities:		
Total Long-Term Liabilities	<u>-</u>	<u>-</u>
Net Assets:		
Unrestricted		
Undesignated	227,973	398,270
Board designated	3,307,829	3,012,737
	<u>3,535,802</u>	<u>3,411,007</u>
Temporarily restricted	879,669	1,072,441
Permanently restricted	65,184	61,901
Total Net Assets	<u>4,480,655</u>	<u>4,545,349</u>
Total Liabilities & Net Assets	<u>\$ 4,536,300</u>	<u>\$ 4,599,885</u>

The accompanying notes are an integral part of these financial statements

Jefferson Land Trust and Subsidiary

A Washington Not For Profit Organization

Consolidated Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>
Support and Revenues:				
Gifts and contributions	\$ 317,620	\$ 129,962	\$ 2,762	\$ 450,344
Fair value of easement acquisitions	91,898	-	-	91,898
Grants and contracts	325,419	-	-	325,419
Special events income, net of expenses of \$21,049	144,350	-	-	144,350
Net investment return	54,762	-	521	55,283
Net assets released from restriction	<u>322,734</u>	<u>(322,734)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>1,256,783</u>	<u>(192,772)</u>	<u>3,283</u>	<u>1,067,294</u>
Expenses:				
Program services	832,630	-	-	832,630
Management and general	148,454	-	-	148,454
Fundraising	<u>150,904</u>	<u>-</u>	<u>-</u>	<u>150,904</u>
Total Expenses	<u>1,131,988</u>	<u>-</u>	<u>-</u>	<u>1,131,988</u>
Change in Net Assets	124,795	(192,772)	3,283	(64,694)
Net Assets, Beginning of Year	<u>3,411,007</u>	<u>1,072,441</u>	<u>61,901</u>	<u>4,545,349</u>
Net Assets, End of Year	<u>\$ 3,535,802</u>	<u>\$ 879,669</u>	<u>\$ 65,184</u>	<u>\$ 4,480,655</u>

The accompanying notes are an integral part of these financial statements

Jefferson Land Trust and Subsidiary

A Washington Not For Profit Organization

Consolidated Statement of Activities and Changes in Net Assets

For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2016</u>
Support and Revenues:				
Gifts and contributions	\$ 125,621	\$ 253,620	\$ 7,920	\$ 387,161
Fair value of easement acquisitions	1,010,000	-	-	1,010,000
Grants and contracts	488,371	-	-	488,371
Special events income, net of expenses of \$38,620	103,197	-	-	103,197
Net investment return	51,277	-	1,382	52,659
Net assets released from restriction	303,121	(303,121)	-	-
Total Support and Revenue	<u>2,081,587</u>	<u>(49,501)</u>	<u>9,302</u>	<u>2,041,388</u>
Expenses:				
Program services	1,593,001	-	-	1,593,001
Management and general	174,984	-	-	174,984
Fundraising	<u>168,305</u>	<u>-</u>	<u>-</u>	<u>168,305</u>
Total Expenses	<u>1,936,290</u>	<u>-</u>	<u>-</u>	<u>1,936,290</u>
Change in Net Assets	145,297	(49,501)	9,302	105,098
Net Assets, Beginning of Year	<u>3,265,710</u>	<u>1,121,942</u>	<u>52,599</u>	<u>4,440,251</u>
Net Assets, End of Year	<u>\$ 3,411,007</u>	<u>\$ 1,072,441</u>	<u>\$ 61,901</u>	<u>\$ 4,545,349</u>

The accompanying notes are an integral part of these financial statements

Jefferson Land Trust and Subsidiary

A Washington Not For Profit Organization

Consolidated Statement of Functional Expenses

For the Year Ended December 31, 2017

	<u>Program</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total 2017</u>
Salaries	\$ 318,227	\$ 54,159	\$ 107,875	\$ 480,261
Payroll taxes	33,845	4,343	1,497	39,685
Employee benefits	59,378	7,619	2,627	69,624
Value of conservation easements written down	147,062	-	-	147,062
Professional fees	132,206	64,331	15,657	212,194
Land and stewardship expenses	62,612	-	-	62,612
Rent	16,269	4,130	6,775	27,174
Public awareness	6,137	30	-	6,167
Dues and subscriptions	4,485	1,245	1,779	7,509
Insurance	11,548	1,654	2,364	15,566
Postage and printing	12,813	55	1,299	14,167
Other	3,356	139	5,481	8,976
Travel and seminars	12,466	1,611	1,315	15,392
Office supplies	5,249	949	1,570	7,768
Telephone	3,302	917	1,310	5,529
Depreciation and amortization	1,800	6,580	-	8,380
Utilities	862	239	342	1,443
Web design and maintenance	1,013	-	1,013	2,026
Bank fees	-	453	-	453
Total Expenses	<u>\$ 832,630</u>	<u>\$ 148,454</u>	<u>\$ 150,904</u>	<u>\$ 1,131,988</u>

The accompanying notes are an integral part of these financial statements

Jefferson Land Trust and Subsidiary
A Washington Not For Profit Organization

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2016

	<u>Program</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total 2016</u>
Salaries	\$ 242,515	\$ 67,288	\$ 96,208	\$ 406,011
Payroll taxes	19,511	5,414	7,740	32,665
Employee benefits	28,894	8,017	11,463	48,374
Value of conservation easements written down	1,009,997	-	-	1,009,997
Professional fees	153,944	47,311	24,395	225,650
Land and stewardship expenses	73,158	-	-	73,158
Rent	14,001	3,436	5,150	22,587
Public awareness	4,056	523	1,549	6,128
Dues and subscriptions	2,817	1,207	1,627	5,651
Insurance	9,344	1,325	1,894	12,563
Postage and printing	5,781	216	8,060	14,057
Other	2,257	34,095	9	36,361
Travel and seminars	10,579	2,714	2,269	15,562
Office supplies	5,314	765	1,767	7,846
Telephone	3,040	844	1,205	5,089
Depreciation and amortization	4,385	1,092	2,010	7,487
Utilities	743	206	294	1,243
Web design and maintenance	2,665	-	2,665	5,330
Bank fees	-	531	-	531
Total Expenses	<u>\$ 1,593,001</u>	<u>\$ 174,984</u>	<u>\$ 168,305</u>	<u>\$ 1,936,290</u>

The accompanying notes are an integral part of these financial statements.

Jefferson Land Trust and Subsidiary
A Washington Not For Profit Organization

Consolidated Statement of Cash Flows
For the Years Ended December 31, 2017 and December 31, 2016

	2017	2016
Cash flows from operating activities:		
Cash received from grantors, donors and customers	\$ 1,032,323	\$ 2,086,139
Cash paid to suppliers and employees	(1,071,358)	(1,925,450)
Cash received from interest	12,011	19,171
Net cash provided (used) by operating activities	(27,024)	179,860
Cash flows from investing activities:		
Cash paid for equipment and improvements	-	(13,938)
Cash paid for investments	(174,680)	(283,657)
Cash received from investments	155,000	137,838
Proceeds from notes receivable	4,380	4,167
Cash paid for land	(119,639)	(65,002)
Cash received from refund of land hold fee	-	25,000
Net cash provided (used) by investing activities	(134,939)	(195,592)
Cash flows from financing activities:		
Net cash provided (used) by financing activities	-	-
Net increase (decrease) in cash & cash equivalents	(161,963)	(15,732)
Cash & cash equivalents at beginning of year	461,603	477,335
Cash & cash equivalents at end of year	\$ 299,640	\$ 461,603

The accompanying notes are an integral part of these financial statements

Jefferson Land Trust and Subsidiary
A Washington Not For Profit Organization

Consolidated Statement of Cash Flows
For the Years Ended December 31, 2017 and December 31, 2016

	2017	2016
Reconciliation of increase (decrease) in net assets to net cash provided (used) by operating activities:		
Increase (decrease) in net assets:	\$ (64,694)	\$ 105,098
Adjustments:		
Depreciation and amortization	8,380	7,160
Land hold fee amortization (adjustment)	8,331	(8,331)
Realized and unrealized losses (gains) on investments	(31,994)	(33,488)
Donated land	(54,300)	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	17,598	16,322
(Increase) decrease in pledges receivable	85,115	105,654
(Increase) decrease in prepaid expense	3,431	(7,304)
Increase (decrease) in accounts payable	6,629	(11,543)
Increase (decrease) in accrued expenses and deferred revenue	(5,520)	6,292
Net cash provided (used) by operating activities	\$ (27,024)	\$ 179,860

The accompanying notes are an integral part of these financial statements

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization--

Jefferson Land Trust (The Land Trust) is a Washington not-for-profit 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 State. 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 for 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 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 restrictions that specify how the assets are to be used and gifts of cash and 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.

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Property and Fixed Assets--

Improvements, 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 expense 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.

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. 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. A portion of an easement with a value of \$44,416 was donated to JLT during 2017 and one easement valued at \$68,000 in total was donated to JLT during 2016. Accordingly, \$44,416 and \$68,000 of contribution revenue and \$44,416 and \$67,999 of related write down expense have been reported on the consolidated statements of activities for the years ended December 31, 2017 and 2016, respectively.

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. Accordingly, actual results could differ from those estimates.

Expense Allocation--

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of functional expense. Accordingly, certain costs have been allocated among the programs and supporting services in line with benefits received.

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Cash and Cash Equivalents--

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

Concentrations--

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

At December 31, 2017, two donor's pledges represented approximately 53% of pledges receivable, and the total of all pledges from board members represented approximately 30% of pledges receivable.

At December 31, 2016, two donor's pledge represented approximately 55% of pledges receivable, and the total of all pledges from board members represented approximately 56% 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. 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 assts.

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.

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 IRC Section 170(b)(1)(A)(vi).

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

Subsequent Events--

JLT has evaluated subsequent events through June 19, 2018, the date on which the consolidated financial statements were available to be issued.

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

B. UNRESTRICTED NET ASSETS:

Unrestricted net assets consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Designated:		
Quimper Wildlife Corridor	\$ 415,869	\$ 415,869
Chimacum Creek	388,347	264,409
Duckabush Riparian Forest	492,800	492,800
Donovan Creek	270,000	270,000
Duckabush Wetlands & Oxbow	530,000	530,000
Bulis Forest Preserve	125,240	125,240
Upper Snow Creek Forest	340,000	340,000
Snow Creek Uncas Preserve	150,000	100,000
Chimacum Commons	90,850	90,850
Snow Creek Estuary	86,000	86,000
Silver Reach	125,000	125,000
Gateway	85,000	85,000
Kilham Corner	38,930	38,930
Stewardship Fund	66,235	48,582
CP Operations Reserve	17,785	-
Operations Reserve	85,714	-
Conservation easements	58	57
Total Designated	<u>3,307,828</u>	<u>3,012,737</u>
Undesignated	<u>227,974</u>	<u>398,270</u>
Total Unrestricted Net Assets	<u>\$ 3,535,802</u>	<u>\$ 3,411,007</u>

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

C. TEMPORARILY RESTRICTED NET ASSETS:

JLT's temporarily restricted net assets consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Purpose Restriction:		
For stewardship of Bullis Forest Preserve	\$ 79,772	\$ 81,487
Satterberg Foundation Grant	-	99,881
Anonymous Agricultural Foundation Grant	9,850	26,736
Stewardship funding	591,660	576,546
Cross Foundation	53,503	40,000
Midori Farm Fund	-	32,086
Education Outreach Fund	5,290	5,290
Other program restrictions	11,266	4,972
	<u>751,341</u>	<u>866,998</u>
Time Restriction:		
Outstanding pledges	<u>128,328</u>	<u>205,443</u>
Total Temporarily Restricted Net Assets	<u>\$ 879,669</u>	<u>\$ 1,072,441</u>

Net assets of \$77,289 and \$194,602, respectively, were released from donor restrictions by incurring expenses satisfying the purpose restriction specified by the donor, and net assets of \$245,445 and \$108,519, respectively, were released due to the expiration of time restrictions for the years ended December 31, 2017 and 2016.

D. PERMANENTLY RESTRICTED NET ASSETS:

At December 31, 2017 and 2016, respectively, JLT had \$65,184 and \$61,901 of permanently restricted net assets in a general endowment fund, the income of which is available to support general operations.

E. ENDOWMENTS:

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

Nature of Endowments and Interpretation of Relevant Laws- 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

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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.

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, (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of JLT, and (7) JLT's investment policies.

Endowment net assets, all permanently restricted, totaled \$65,184 and \$61,901, respectively, at December 31, 2017 and 2016.

Changes in endowment net assets for the year ended December 31, 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets 1/1/2017	\$ -	\$ 61,901	61,901
Contributions	-	2,762	2,762
Investment Income	-	521	521
Net Appreciation (Depreciation)	-	-	-
Endowment Net Assets 12/31/17	<u>\$ -</u>	<u>\$ 65,184</u>	<u>\$ 65,184</u>

Changes in endowment net assets for the year ended December 31, 2016 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets 1/1/2016	\$ -	\$ 52,599	\$ 52,599
Contributions	-	7,920	7,920
Investment Income	-	1,133	1,133
Net Appreciation (Depreciation)	-	249	249
Endowment Net Assets 12/31/16	<u>\$ -</u>	<u>\$ 61,901</u>	<u>\$ 61,901</u>

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

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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, 2017 or 2016.

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.

Strategies Employed for Achieving Objectives- To satisfy its long-term rate-of-return objective, 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 shall 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 of 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.

F. 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.

Historically, bad debts have been immaterial. During 2017 and 2016, there were bad debts of \$8,020 and \$0, respectively. As of December 31, 2017, management estimated that all accounts receivable were collectible.

JLT had no material amounts past due at December 31, 2017.

Jefferson Land Trust and Subsidiary

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G. PLEDGES RECEIVABLE:

JLT received promises to give from a number of donors in years prior to 2017. JLT has provided an allowance for uncollectible amounts based on its assessment of the current status of individual pledges and has discounted pledges to current value using a rate of .15%. Pledges receivable at December 31, 2017 are to be received as follows:

Less than one year	\$	83,077
Two to five years		45,719
Thereafter		<u>2,000</u>
		130,796
Less discount to present value		(329)
Less allowance for uncollectible		<u>(10,138)</u>
	\$	<u><u>120,329</u></u>

JLT has implemented a new development strategy that will result in a significant reduction of pledge receivables over the next 5 years. This planned reduction is in response to several changes in JLT's constituency – an increase in foundation grants, an increase in an operating reserve that will provide emergency working cash equivalent to 6 months of operational expenses, and a desire by our donors to not request commitments that are relatively inflexible.

H. 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. A promissory note was received 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%.

Future expected amounts to be received at December 31, 2017 are as follows:

2019	4,604
2020	4,840
2021	5,087
2022	5,348
Thereafter	<u>38,618</u>
	\$ <u><u>58,497</u></u>

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I. FURNITURE, EQUIPMENT, AND IMPROVEMENTS:

Furniture, Equipment, and Improvements consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Furniture & Equipment, and Software	\$ 57,157	\$ 52,617
Accumulated Depreciation and Amortization	<u>(35,226)</u>	<u>(29,831)</u>
	<u>21,931</u>	<u>22,786</u>
Leasehold Improvements	29,852	29,852
Accumulated Depreciation	<u>(8,956)</u>	<u>(5,970)</u>
	<u>20,896</u>	<u>23,882</u>
Fixed Assets-Net	\$ <u>42,827</u>	\$ <u>46,668</u>

Accumulated Depreciation and Amortization was \$44,182 and \$35,801 at December 31, 2017 and 2016, respectively.

J. LAND AND CONSERVATION EASEMENTS:

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

	<u>2017</u>	<u>2016</u>
Quimper Wildlife Corridor	\$ 418,867	\$ 418,867
Chimacum Creek	385,348	261,410
Duckabush Riparian Forest	492,800	492,800
Donovan Creek	205,000	205,000
Duckabush Wetlands & Oxbow	530,000	530,000
Bulis Forest Preserve	125,240	125,240
Upper Snow Creek Forest	340,000	340,000
Snow Creek Uncas Preserve	215,000	165,000
Chimacum Commons	90,850	90,850
Snow Creek Estuary	86,000	86,000
Silver Reach	125,000	125,000
Gateway	85,000	85,000
Kilham Corner	38,930	38,930
Conservation easements	<u>58</u>	<u>57</u>
Total Unrestricted Net Assets	\$ <u>3,138,094</u>	\$ <u>2,964,154</u>

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K. ECONOMIC DEPENDENCY:

For 2017 and 2016, grant funding was primarily provided by the State of Washington Recreation and Conservation Office and Jefferson County. A reduction in this level of support, if it were to occur, could have a significant impact on JLT's operations.

L. CONTINGENCIES:

Amounts received or receivable from federal and state government agencies are subject to audit and potential adjustment by the contracting agencies. Any disallowed claims, including amounts already collected, would become a liability of JLT if so determined in the future. It is management's belief that no material amounts received or receivable will be required to be returned in the future.

M. 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 employer contributions of \$12,217 and \$8,514, respectively, for 2017 or 2016.

N. 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 in June of 2014 and is now on a month to month basis. The agreement calls for monthly payments of \$1,563 plus utilities. JLT also rents a storage unit on a month to month basis. Rent expense totaled \$24,919 and \$22,587 for the years ended December 31, 2017 and 2016, respectively.

O. SUBSEQUENT EVENTS:

No events have occurred through June 19, 2018, which is the date the financial statements were available to be issued based on JLT facts and circumstances, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2017.

P. INCOME TAX & UNCERTAIN TAX POSITIONS:

Jefferson Land Trust and JLT Resources, LLC (a disregarded entity) are tax exempt non-profit organizations under the Internal Revenue Code Section 501(c)(3) and are not classified as a private foundation. Accordingly, the financial statements do not include any provision for income taxes.

JLT files income tax returns in the U.S. federal jurisdiction. The Trust is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2014. Currently, there is no examination or pending examination with the Internal Revenue Service (IRS) or any other state or federal taxing authorities.

JLT adopted the provisions of FASB ASC 740-10, Accounting for Uncertainty in Income Taxes, on January 1, 2009. As of December 31, 2017, there are no tax positions for which the deductibility is certain but for which there is uncertainty regarding the timing of such deductibility.

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Q. INVESTMENTS AND FAIR VALUE MEASUREMENTS:

JLT follows U.S. GAAP which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 Measurements) and the lowest priority to unobservable inputs (Level 3 Measurements). The three levels of the fair value hierarchy under ASC 958 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Trust has the ability to access.

Level 2: Inputs to valuation methodology include: Quoted prices for similar assets or liabilities in active markets. Quoted prices for identical or similar assets or liabilities in inactive markets. Inputs other than quoted prices that are observable for the asset or liability. Inputs that are principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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, 2017.

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 the JLT at year end.

Certificates of Deposit: Valued at original investment plus received and accrued interest.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Trust believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, JLT's assets at fair value as of December 31, 2017:

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Assets at Fair Value as of December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 552,237	\$ -	\$ -	\$ 552,237
Total Assets at Fair Value:	<u>\$ 552,237</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 552,237</u>
Certificates of deposit, held at cost plus accrued interest				<u>249,774</u>
Total Investments				<u>\$ 802,011</u>

The following table sets forth by level, within the fair value hierarchy, JLT's assets at fair value as of December 31, 2016:

Assets at Fair Value as of December 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 608,094	\$ -	\$ -	\$ 608,094
Total Assets at Fair Value:	<u>\$ 608,094</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 608,094</u>
Certificates of deposit, held at cost plus accrued interest				<u>146,781</u>
Total Investments				<u>\$ 754,875</u>

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

	<u>2017</u>	<u>2016</u>
Interest income	\$ 12,011	\$ 19,171
Realized/unrealized (loss) gain	<u>43,272</u>	<u>33,488</u>
Total	<u>\$ 55,283</u>	<u>\$ 52,659</u>

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R. LAND PURCHASE AND HOLD FEE:

JLT signed a purchase and sale agreement with a third party during 2015 for the purchase of approximately 850 acres of forest land in Jefferson County. The terms of the agreement, dated March 17, 2015, required JLT to purchase the property for an amount not to exceed the appraised fair market value of the property.

The terms of the agreement required the payment of a \$100,000 non-refundable hold fee to the third party to allow time for the purchase process to be completed and for JLT to raise the necessary funding to complete the purchase. The hold fee agreement was to expire on March 17, 2019. During 2016, JLT signed an amended agreement that resulted in the refund of \$25,000 of the \$100,000 hold fee and extended the agreement to nine year from the original five years, now expiring in 2023.

JLT adjusted amortization of the hold fee to the new life of the agreement which resulted in an increase to the hold fee asset of \$8,331 in 2016. Amortization expense of \$8,331 was recognized during 2017.