
JEFFERSON LAND TRUST AND SUBSIDIARY

Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

TABLE OF CONTENTS

Independent Auditor's Report	1
Consolidated Financial Statements:	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities and Changes in Net Assets-2019	5
Consolidated Statement of Activities and Changes in Net Assets-2018	6
Consolidated Statement of Functional Expenses-2019	7
Consolidated Statement of Functional Expenses-2018	8
Consolidated Statement of Cash Flows	9
Notes to the Consolidated Financial Statements.....	11

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, 2019 and 2018, 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, 2019 and 2018, 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.

Aiken & Sanders, Inc., PS

Aiken & Sanders

Certified Public Accountants
& Consultants

August 15, 2020

Montesano, WA

Jefferson Land Trust and Subsidiary

A Washington Not For Profit Organization

Consolidated Statement of Financial Position As of December 31, 2019 and December 31, 2018

Assets		
	2019	2018
Current Assets:		
Cash and cash equivalents	\$ 652,279	\$ 347,504
Accounts receivable	43,746	10,497
Current pledges receivable	128,500	31,358
Note receivable-current portion	5,148	4,827
Prepaid expenses	5,425	5,619
Total Current Assets	<u>835,098</u>	<u>399,805</u>
Land and Conservation Easements:		
Habitat land	5,380,364	5,194,681
Working land	97,728	97,728
Open space land	332,761	332,761
Conservation easements	63	60
Total Land and Conservation Easements	<u>5,810,916</u>	<u>5,625,230</u>
Fixed Assets:		
Furniture, equipment, and improvements	87,009	87,009
Less: Accumulated depreciation	(60,668)	(52,562)
Fixed assets, net	<u>26,341</u>	<u>34,447</u>
Other Assets:		
Long term pledges receivable	15,422	25,352
Long term note receivable	44,159	49,308
Land hold fee-net	33,332	41,655
Investments	962,669	737,164
Total Other Assets	<u>1,055,582</u>	<u>853,479</u>
Total Assets	<u>\$ 7,727,937</u>	<u>\$ 6,912,961</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, 2019 and December 31, 2018

Liabilities & Net Assets		
	2019	2018
Current Liabilities:		
Accounts payable	\$ 9,849	\$ 2,785
Accrued liabilities and deferred revenue	47,916	51,362
Total Current Liabilities	57,765	54,147
Long-Term Liabilities:		
Note payable	175,000	175,000
Total Liabilities	232,765	229,147
Net Assets:		
Without donor restrictions		
Undesignated	271,776	256,123
Board designated	5,902,649	5,449,446
	6,174,425	5,705,569
With donor restrictions	1,320,747	978,245
Total Net Assets	7,495,172	6,683,814
Total Liabilities & Net Assets	\$ 7,727,937	\$ 6,912,961

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, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2019</u>
Support and Revenues:			
Gifts and contributions	\$ 950,094	\$ 432,938	\$ 1,383,032
Fair value of easement acquisitions	490,000	-	490,000
Grants and contracts	3,740,199	-	3,740,199
Special events income, net of expenses of \$27,297	29,724	-	29,724
Net investment return	130,665	1,132	131,797
Net assets released from restriction	91,568	(91,568)	-
Total Support and Revenue	<u>5,432,250</u>	<u>342,502</u>	<u>5,774,752</u>
Expenses:			
Program services	4,551,652	-	4,551,652
Management and general	190,391	-	190,391
Fundraising	221,351	-	221,351
Total Expenses	<u>4,963,394</u>	<u>-</u>	<u>4,963,394</u>
Change in Net Assets	468,856	342,502	811,358
Net Assets, Beginning of Year	<u>5,705,569</u>	<u>978,245</u>	<u>6,683,814</u>
Net Assets, End of Year	<u>\$ 6,174,425</u>	<u>\$ 1,320,747</u>	<u>\$ 7,495,172</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, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2018</u>
Support and Revenues:			
Gifts and contributions	\$ 900,676	\$ 185,556	\$ 1,086,232
Fair value of easement acquisitions	339,000	-	339,000
Grants and contracts	2,129,618	-	2,129,618
Special events income, net of expenses of \$22,021	101,525	-	101,525
Net investment return	804	1,161	1,965
Net assets released from restriction	<u>153,325</u>	<u>(153,325)</u>	<u>-</u>
Total Support and Revenue	<u>3,624,948</u>	<u>33,392</u>	<u>3,658,340</u>
Expenses:			
Program services	1,103,736	-	1,103,736
Management and general	186,857	-	186,857
Fundraising	<u>164,588</u>	<u>-</u>	<u>164,588</u>
Total Expenses	<u>1,455,181</u>	<u>-</u>	<u>1,455,181</u>
Change in Net Assets	2,169,767	33,392	2,203,159
Net Assets, Beginning of Year	<u>3,535,802</u>	<u>944,853</u>	<u>4,480,655</u>
Net Assets, End of Year	<u>\$ 5,705,569</u>	<u>\$ 978,245</u>	<u>\$ 6,683,814</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, 2019

	Program	Management and General	Fund- Raising	Total 2019
Salaries	\$ 241,915	\$ 107,553	\$ 139,408	\$ 488,876
Payroll taxes	20,782	9,144	11,638	41,564
Employee benefits	35,232	15,502	19,730	70,464
Value of conservation easements written down	3,894,997	-	-	3,894,997
Professional fees	189,103	18,477	956	208,536
Land and stewardship expenses	76,361	-	-	76,361
Rent	23,636	4,025	13,596	41,257
Public awareness	1,385	1,091	12,340	14,816
Dues and subscriptions	4,430	6,359	487	11,276
Insurance	19,498	3,174	-	22,672
Postage and printing	5,602	101	10,304	16,007
Other	11,082	8,423	7,535	27,040
Travel and seminars	10,461	3,383	2,785	16,629
Office supplies	4,485	2,944	2,276	9,705
Telephone	253	19	45	317
Depreciation and amortization	1,800	6,306	-	8,106
Utilities	5,657	921	-	6,578
Web design and maintenance	1,075	75	75	1,225
Bank fees	3,898	2,894	176	6,968
Total Expenses	\$ 4,551,652	\$ 190,391	\$ 221,351	\$ 4,963,394

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, 2018

	Program	Management and General	Fund- Raising	Total 2018
Salaries	\$ 225,196	\$ 92,040	\$ 100,590	\$ 417,826
Payroll taxes	23,055	9,423	10,298	42,776
Employee benefits	74,696	30,529	33,365	138,590
Value of conservation easements written down	468,998	-	-	468,998
Professional fees	116,113	16,000	1,791	133,904
Land and stewardship expenses	128,243	-	-	128,243
Rent	24,102	3,012	310	27,424
Public awareness	5,018	1,830	4,596	11,444
Dues and subscriptions	2,109	3,094	175	5,378
Insurance	14,476	1,974	-	16,450
Postage and printing	3,857	946	6,759	11,562
Other	2,075	(4,254)	1,628	(551)
Travel and seminars	4,773	11,685	564	17,022
Office supplies	1,527	11,603	3,070	16,200
Telephone	4,706	770	335	5,811
Depreciation and amortization	1,800	6,580	-	8,380
Utilities	1,834	131	-	1,965
Web design and maintenance	1,049	-	1,049	2,098
Bank fees	109	1,494	58	1,661
Total Expenses	\$ 1,103,736	\$ 186,857	\$ 164,588	\$ 1,455,181

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, 2019 and December 31, 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from grantors, donors and customers	\$ 4,881,091	\$ 3,105,763
Cash paid to suppliers and employees	(4,475,617)	(1,107,752)
Cash received from interest	<u>4,975</u>	<u>6,253</u>
Net cash provided (used) by operating activities	<u>410,449</u>	<u>2,004,264</u>
Cash flows from investing activities:		
Cash paid for investments	(125,643)	(58,245)
Cash received from investments	15,826	117,619
Proceeds from notes receivable	4,828	4,362
Cash paid for land	<u>(685)</u>	<u>(2,195,136)</u>
Net cash provided (used) by investing activities	<u>(105,674)</u>	<u>(2,131,400)</u>
Cash flows from financing activities:		
Cash received from loans	<u>-</u>	<u>175,000</u>
Net cash provided (used) by financing activities	<u>-</u>	<u>175,000</u>
Net increase (decrease) in cash & cash equivalents	304,775	47,864
Cash & cash equivalents at beginning of year	<u>347,504</u>	<u>299,640</u>
Cash & cash equivalents at end of year	<u>\$ 652,279</u>	<u>\$ 347,504</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, 2019 and December 31, 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of increase (decrease) in net assets to net cash provided (used) by operating activities:		
Increase (decrease) in net assets:	\$ 811,358	\$ 2,203,159
Adjustments:		
Depreciation and amortization	8,380	8,380
Land hold fee amortization (adjustment)	8,331	8,331
Realized and unrealized losses (gains) on investments	(115,971)	5,485
Donated land	(185,000)	(292,000)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(33,249)	5,228
(Increase) decrease in pledges receivable	(87,212)	63,619
(Increase) decrease in prepaid expense	194	3,560
Increase (decrease) in accounts payable	7,064	(9,890)
Increase (decrease) in accrued expenses and deferred revenue	(3,446)	8,392
Net cash provided (used) by operating activities	<u>\$ 410,449</u>	<u>\$ 2,004,264</u>

The accompanying notes are an integral part of these financial statements

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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—

JLT follows accounting prescribed by the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958 Not-for Profit Entities. Under ASC 958, JLT is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions, and without donor restrictions.

With Donor Restrictions: Net assets that result from contributions whose use by JLT is restricted by donor imposed stipulations that may expire with the passage of time or can be fulfilled or otherwise removed by actions of JLT.

Without Donor Restrictions: Net assets that are not restricted by donor stipulation.

Gifts of goods and equipment are reported as without donor restrictions unless explicit donor stipulations specify how the donated assets must be used.

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:

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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. Portions of two easements with a value of \$490,000 were donated to JLT during 2019. One easement with a value of \$280,000 and a portion of an easement with a value of \$59,000 were donated to JLT during 2018. Accordingly, \$490,000 and \$339,000 of contribution revenue and \$490,000 and \$338,999 of related write down expense have been reported on the consolidated statements of activities for the years ended December 31, 2019 and 2018, 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. Program expenses represent expenses incurred to fulfill JLT's exempt purposes. Management and general expenses support that exempt purpose while fundraising expenses are incurred to raise resources to carry out program activities. Expenses are recorded, when appropriate, to the function receiving direct benefit. When expenses benefit more than one function, an allocation is made based on relative benefits provided to each function.

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, 2019, two donor's pledges represented approximately 83% of pledges receivable.

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

At December 31, 2018, three donor's pledge represented approximately 67% 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 assets.

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.

Contributions--

Contributions are recognized when received or when a donor makes an unconditional promise to give to JLT. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the year in which the contributions are recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Unconditional promises to give (pledges receivable) are recognized as revenues in the period the pledge is received. Long term pledges (collection expected in greater than one year) are discounted to the net present value of future cash flows. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promise becomes unconditional.

Subsequent Events--

JLT has evaluated subsequent events through August 15, 2020, the date on which the consolidated financial statements were available to be issued.

B. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS:

JLT, although it expects to receive current support to fund operations for 2020 and later years, has \$135,556 and \$62,242 of financial assets available within one year of the statement of financial position dates on December 31, 2019 and 2018, respectively, to meet cash needs for general operating expenditures. JLT also has \$351,461 and \$116,216, of board designated assets as of December 31, 2019 and 2018, respectively, that can be reallocated for general expenditures if needed. Financial assets available within one year consist of the following:

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

	2019	2018
Financial assets at year end	\$ 1,851,923	\$ 1,206,010
Donor restricted to purpose	(1,305,325)	(952,892)
Long term	(59,581)	(74,660)
Board designations	(351,461)	(116,216)
Financial assets available to meet cash needs within one year	\$ 135,556	\$ 62,242

C. NET ASSETS COMPOSITION:

JLT's net assets with donor restrictions consisted of the following at December 31, 2019 and 2018:

	2019	2018
Purpose Restriction:		
For stewardship of Bullis Forest Preserve	\$ 64,805	\$ 76,126
Fite	47,929	54,999
Campaign Readiness Fund	118,578	-
Stewardship funding	699,311	635,711
Cross Foundation	100,000	-
Gateway/Shorts Forest Campaign	29,189	60,463
Education Outreach Fund	-	5,290
Other program restrictions	36,221	22,601
	1,096,033	855,190
Time Restriction:		
Outstanding pledges	157,237	56,710
Permanent Restriction		
Endowment Fund	67,477	66,345
Total Net Assets With Donor Restrictions	\$ 1,320,747	\$ 978,245

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Net assets without donor restrictions consisted of the following at December 31, 2019 and 2018:

	2019	2018
Designated:		
Quimper Wildlife Corridor	\$ 473,103	\$ 432,420
Chimacum Creek	388,347	388,347
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	260,000	260,000
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	71,202	38,930
Fite & Fissler	182,226	182,226
Valley View	1,710,000	1,710,000
Discovery Bay	176,358	176,358
Longmire	145,000	-
Stewardship Fund	124,307	59,245
CP Operations Reserve	5,522	9,622
Karen Mckee Board Fund	124,283	-
Operations Reserve	97,348	47,348
Conservation easements	63	60
Total Designated	5,902,649	5,449,446
Undesignated	271,776	256,123
Total Net Assets Without Donor Restrictions:	\$ 6,174,425	\$ 5,705,569

Net assets of \$66,705 and \$75,268, respectively, were released from donor restrictions by incurring expenses satisfying the purpose restriction specified by the donor, and net assets of \$24,863 and \$78,057, respectively, were released due to the expiration of time restrictions for the years ended December 31, 2019 and 2018.

D. PROMISSORY NOTE:

JLT is subject to a promissory note dated December 27, 2018, in connection with the acquisition of the Mraz Discovery Bay parcel. The note is secured by the acquired land. The original note balance of \$175,000 bears interest at a rate of 2% per year. The note requires a balloon payment of principal plus accrued interest on June 28, 2021.

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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 contrary. As a result of this determination, JLT classifies as nets assets with donor restrictions (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 net assets with permanent donor restrictions is classified as net assets with donor restrictions 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 \$67,477 and \$66,345, respectively, at December 31, 2019 and 2018.

Changes in endowment net assets for the year ended December 31, 2019 are as follows:

	Temporary	Permanent	
	Donor Restrictions	Donor Restrictions	Total
Endowment Net Assets 1/1/2019	\$ -	\$ 66,345	\$ 66,345
Contributions	-	-	-
Investment Income	-	1,132	1,132
Net Appreciation (Depreciation)	-	-	-
Endowment Net Assets 12/31/19	\$ -	\$ 67,477	\$ 67,477

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

	Temporary	Permanent	
	Donor Restrictions	Donor Restrictions	Total
Endowment Net Assets 1/1/2018	\$ -	\$ 65,184	65,184
Contributions	-	-	-
Investment Income	-	1,161	1,161
Net Appreciation (Depreciation)	-	-	-
Endowment Net Assets 12/31/18	\$ -	\$ 66,345	\$ 66,345

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 net assets with donor restrictions. There were no such deficiencies as of December 31, 2019 or 2018.

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.

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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 2019 and 2018, there were bad debts of \$0 and \$0, respectively. As of December 31, 2019, management estimated that all accounts receivable were collectible.

JLT had no material amounts past due at December 31, 2019.

G. PLEDGES RECEIVABLE:

JLT received promises to give from a number of donors in 2019 and in years prior to 2019. 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, 2019 are to be received as follows:

Less than one year	\$	128,500
Two to five years		21,951
Thereafter		-
		<hr/> 150,451
Less discount to present value		(329)
Less allowance for uncollectible		(6,200)
	\$	<hr/> <hr/> 143,922

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, 2019 are as follows:

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

2020	5,148
2021	5,411
2022	5,688
2023	5,980
2024	6,285
Thereafter	<u>20,795</u>
\$	<u><u>49,307</u></u>

I. FURNITURE, EQUIPMENT, AND IMPROVEMENTS:

Furniture, Equipment, and Improvements consist of the following at December 31, 2019 and 2018:

	2019	2018
Furniture & Equipment, and Software	\$ <u>57,157</u>	\$ <u>57,157</u>
Accumulated Depreciation and Amortization	<u>(45,742)</u>	<u>(40,621)</u>
	<u>11,415</u>	<u>16,536</u>
Leasehold Improvements	29,852	29,852
Accumulated Depreciation	<u>(14,926)</u>	<u>(11,941)</u>
	<u>14,926</u>	<u>17,911</u>
Fixed Assets-Net	\$ <u><u>26,341</u></u>	\$ <u><u>34,447</u></u>

Accumulated Depreciation and Amortization was \$60,668 and \$52,562 at December 31, 2019 and 2018, respectively.

J. ECONOMIC DEPENDENCY:

For 2019 and 2018, grant funding was primarily provided by the State of Washington Recreation and Conservation Office, State of Washington Department of Commerce, and Jefferson County. A reduction in this level of support, if it were to occur, could have a significant impact on JLT's operations.

K. 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 \$12,372 and \$13,166, respectively, for 2019 or 2018.

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

L. LAND AND CONSERVATION EASEMENTS:

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

	2019	2018
Quimper Wildlife Corridor	\$ 476,101	\$ 435,418
Chimacum Creek	385,348	385,348
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	325,000	325,000
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
Valley View	2,002,000	2,002,000
Discovery Bay	283,583	283,583
Fissler	75,000	75,000
Longmire	145,000	-
Conservation easements	63	60
Total Unrestricted Net Assets	\$ 5,810,916	\$ 5,625,230

M. 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 \$26,221 and \$25,099, for the years ended December 31, 2019 and 2018, respectively.

N. 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 2016. Currently, there is no examination or pending examination with the Internal Revenue Service (IRS) or any other state or federal taxing authorities.

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

JLT adopted the provisions of FASB ASC 740-10, Accounting for Uncertainty in Income Taxes, on January 1, 2009. As of December 31, 2019, there are no tax positions for which the deductibility is certain but for which there is uncertainty regarding the timing of such deductibility.

O. 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, 2019.

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.

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

The following table sets forth by level, within the fair value hierarchy, JLT's assets at fair value as of December 31, 2019:

Assets at Fair Value as of December 31, 2019				
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ <u>671,978</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>671,978</u>
Total Assets at Fair Value:	\$ <u>671,978</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>671,978</u>
Certificates of deposit, held at cost plus accrued interest				<u>290,691</u>
Total Investments				\$ <u>962,669</u>

The following table sets forth by level, within the fair value hierarchy, JLT's assets at fair value as of December 31, 2018:

Assets at Fair Value as of December 31, 2018				
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ <u>546,529</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>546,529</u>
Total Assets at Fair Value:	\$ <u>546,529</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>546,529</u>
Certificates of deposit, held at cost plus accrued interest				<u>190,635</u>
Total Investments				\$ <u>737,164</u>

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

	<u>2019</u>	<u>2018</u>
Interest & dividend income	\$ 15,826	\$ 6,253
Realized/unrealized (loss) gain	<u>115,971</u>	<u>(4,288)</u>
Total	\$ <u>131,797</u>	\$ <u>1,965</u>

Jefferson Land Trust and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

P. 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 2019 and 2018.