

THE LAND TRUST FOR TENNESSEE, INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

MARCH 31, 2017 AND 2016

THE LAND TRUST FOR TENNESSEE, INC.

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INDEPENDENT AUDITOR'S REPORT

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The Land Trust for Tennessee, Inc.

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of The Land Trust for Tennessee, Inc. which comprise the statements of financial position as of March 31, 2017 and 2016, and related statements of activities, functional expenses and cash flows for the years 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 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 Land Trust for Tennessee, Inc. as of March 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Kryth CPAs PLLC*

Nashville, Tennessee  
January 18, 2018

THE LAND TRUST FOR TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

MARCH 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Cash and cash equivalents:		
Operating funds without restriction or designation	\$ 247,003	\$ 44,510
Operating funds with donor restrictions	4,196,548	2,568,354
Operating funds with board designations	2,076,767	1,323,338
Contributions receivable:		
Operating	335,438	198,126
Land acquisitions	6,809	10,634
Stewardship	74,090	92,765
Accounts receivable	50,936	83,186
Prepaid expenses and other	42,445	55,890
Financially facilitated land projects	-	790,703
Investments:		
Investments with donor restrictions	1,100,562	1,026,356
Investments with board designations	2,214,798	2,067,122
Furniture and equipment, net	19,570	13,356
Real estate:		
Glen Leven estate property	4,485,816	4,540,100
Protected land	2,252,471	4,629,988
Property bequest receivable	210,000	210,000
Funds held on behalf of others	<u>2,025</u>	<u>2,774</u>
TOTAL ASSETS	<u>\$ 17,315,278</u>	<u>\$ 17,657,202</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 34,641	\$ 55,586
Accrued expenses	36,613	17,318
Funds held on behalf of others	<u>2,025</u>	<u>2,774</u>
TOTAL LIABILITIES	<u>73,279</u>	<u>75,678</u>
<u>NET ASSETS</u>		
Unrestricted:		
Designated for protected land	2,252,471	4,629,988
Board-designated endowment - Ashby Fund	2,568,065	2,420,241
Board designations - other	1,723,500	970,219
Undesignated	<u>1,217,643</u>	<u>1,731,490</u>
Total unrestricted	7,761,679	9,751,938
Temporarily restricted	<u>9,480,320</u>	<u>7,829,586</u>
TOTAL NET ASSETS	<u>17,241,999</u>	<u>17,581,524</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,315,278</u>	<u>\$ 17,657,202</u>

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

THE LAND TRUST FOR TENNESSEE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED MARCH 31, 2017 AND 2016

	2017		
	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT			
Contributions, public support and other:			
Individuals, foundations and other	\$ 1,306,331	\$ 769,060	\$ 2,075,391
Easement and land acquisition assistance	-	1,107,526	1,107,526
Stewardship contributions	-	265,771	265,771
Donated goods and services	69,198	-	69,198
Special events	316,222	-	316,222
Less: direct benefits to donors	(74,996)	-	(74,996)
Loss on sale of impaired real estate	(1,498,758)	-	(1,498,758)
Interest and dividend income	54,132	-	54,132
Net realized and unrealized gain (loss) on investments	191,500	-	191,500
Rental income	1,452	-	1,452
Net assets released from restrictions	491,623	(491,623)	-
TOTAL REVENUES AND SUPPORT	856,704	1,650,734	2,507,438
EXPENSES			
Program services	2,482,672	-	2,482,672
Supporting services:			
Administration	201,198	-	201,198
Fundraising	163,093	-	163,093
TOTAL EXPENSES	2,846,963	-	2,846,963
CHANGE IN NET ASSETS	(1,990,259)	1,650,734	(339,525)
NET ASSETS - BEGINNING OF YEAR	9,751,938	7,829,586	17,581,524
NET ASSETS - END OF YEAR	\$ 7,761,679	\$ 9,480,320	\$ 17,241,999

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

2016		
Unrestricted	Temporarily Restricted	Total
\$ 886,667	\$ 968,912	\$ 1,855,579
-	1,072,145	1,072,145
-	374,136	374,136
55,814	-	55,814
321,251	-	321,251
(48,376)	-	(48,376)
-	-	-
55,475	-	55,475
(54,981)	-	(54,981)
8,424	-	8,424
<u>1,942,776</u>	<u>(1,942,776)</u>	<u>-</u>
<u>3,167,050</u>	<u>472,417</u>	<u>3,639,467</u>
2,568,552	-	2,568,552
89,710	-	89,710
<u>337,727</u>	<u>-</u>	<u>337,727</u>
<u>2,995,989</u>	<u>-</u>	<u>2,995,989</u>
171,061	472,417	643,478
<u>9,580,877</u>	<u>7,357,169</u>	<u>16,938,046</u>
<u>\$ 9,751,938</u>	<u>\$ 7,829,586</u>	<u>\$ 17,581,524</u>

THE LAND TRUST FOR TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (339,525)	\$ 643,478
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	55,516	52,542
Net realized and unrealized (gains) losses on investments	(191,500)	54,981
Loss on sale of impaired real estate	1,498,758	-
Gain on sale of furniture and equipment	934	-
(Increase) decrease in:		
Contributions receivable	(114,812)	43,372
Accounts receivable	32,250	(28,557)
Prepaid expenses and other	13,445	(25,417)
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,650)	34,235
TOTAL ADJUSTMENTS	<u>1,292,941</u>	<u>131,156</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>953,416</u>	<u>774,634</u>
INVESTING ACTIVITIES		
Purchase of furniture and equipment	(8,380)	(5,634)
Purchase of protected land	(238,000)	-
Payment for Glen Leven renovations	-	(11,607)
Payments for financially facilitated land projects	-	(790,703)
Proceeds from transfer of financially facilitated land project	671,003	-
Proceeds from sale of protected land	1,236,459	-
Purchases of investments	(30,382)	(32,309)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>1,630,700</u>	<u>(840,253)</u>
FINANCING ACTIVITIES		
Collections of contributions for long-term purposes	-	6,500
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,584,116	(59,119)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,936,202</u>	<u>3,995,321</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,520,318</u>	<u>\$ 3,936,202</u>

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



THE LAND TRUST FOR TENNESSEE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED MARCH 31, 2017 AND 2016

	2017				
	Program Services	Supporting Services			Total
		Administration	Fundraising	Total	
Salaries and related benefits	\$ 852,169	\$ 135,623	\$ 52,935	\$ 188,558	\$ 1,040,727
Computer expense	21,453	3,612	2,679	6,291	27,744
Depreciation	53,308	1,268	940	2,208	55,516
Development/fundraising	17,973	2,129	1,580	3,709	21,682
Dues and subscriptions	3,759	1,098	814	1,912	5,671
Easement and land acquisition assistance	925,422	-	-	-	925,422
Easement preparation	27,021	196	145	341	27,362
Education and outreach	7,317	424	314	738	8,055
Events:					
Related costs	35,143	-	123,920	123,920	159,063
Donated goods and services	-	-	12,068	12,068	12,068
Office expenses	20,595	4,691	3,479	8,170	28,765
Insurance	56,405	5,886	4,365	10,251	66,656
Interest	-	-	-	-	-
Marketing and public relations	9,318	1,890	1,401	3,291	12,609
Occupancy	92,929	20,136	15,155	35,291	128,220
Printing and publication	6	2	2	4	10
Professional services:					
Donated	48,984	-	-	-	48,984
Other	13,676	15,130	11,221	26,351	40,027
Property maintenance	8,335	2,073	1,560	3,633	11,968
Stewardship	4,213	32	24	56	4,269
Taxes, licenses and fees	6,497	738	547	1,285	7,782
Telephone and utilities	21,833	3,292	2,449	5,741	27,574
Transaction assistance	200,861	1,244	923	2,167	203,028
Travel and entertainment	55,455	1,734	1,568	3,302	58,757
Write offs	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>2,482,672</b>	<b>201,198</b>	<b>238,089</b>	<b>439,287</b>	<b>2,921,959</b>
Less expenses included with revenues on the statement of activities - direct benefits to donors	-	-	(74,996)	(74,996)	(74,996)
<b>TOTAL EXPENSES INCLUDED IN EXPENSES SECTION OF STATEMENT OF ACTIVITIES</b>	<b>\$ 2,482,672</b>	<b>\$ 201,198</b>	<b>\$ 163,093</b>	<b>\$ 364,291</b>	<b>\$ 2,846,963</b>

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

2016

Program Services	Supporting Services			Total
	Administration	Fundraising	Total	
\$ 745,735	\$ 41,305	\$ 188,397	\$ 229,702	\$ 975,437
20,909	2,089	3,811	5,900	26,809
51,551	351	640	991	52,542
22,183	2,098	5,553	7,651	29,834
6,587	802	2,196	2,998	9,585
1,079,788	-	-	-	1,079,788
70,894	2	4	6	70,900
26,892	744	1,444	2,188	29,080
1,496	242	100,009	100,251	101,747
-	-	5,178	5,178	5,178
36,479	4,314	8,577	12,891	49,370
48,354	3,497	6,379	9,876	58,230
33	5	10	15	48
10,730	666	1,515	2,181	12,911
106,367	11,433	21,061	32,494	138,861
4,364	260	474	734	5,098
48,984	-	-	-	48,984
77,299	15,552	28,366	43,918	121,217
15,211	2,037	3,753	5,790	21,001
4,646	-	-	-	4,646
6,487	555	1,012	1,567	8,054
23,112	2,031	4,309	6,340	29,452
105,349	65	119	184	105,533
48,218	628	1,411	2,039	50,257
6,884	1,034	1,885	2,919	9,803
2,568,552	89,710	386,103	475,813	3,044,365
-	-	(48,376)	(48,376)	(48,376)
<u>\$ 2,568,552</u>	<u>\$ 89,710</u>	<u>\$ 337,727</u>	<u>\$ 427,437</u>	<u>\$ 2,995,989</u>

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017 AND 2016

NOTE 1 - GENERAL

The Land Trust for Tennessee, Inc. (the “Organization”) is a Tennessee not-for-profit organization, incorporated on January 15, 1999, whose mission is to preserve the unique character of Tennessee’s natural and historic landscapes and sites for future generations.

The Organization works with partners at the federal, state and local level to assist landowners, citizen groups and other interested parties to preserve forever the scenic and natural values of land throughout the state. Lands protected include private land, public parks and open spaces. The main tool for ensuring this preservation is a conservation easement. As of March 31, 2017, the Organization has completed conservation transactions protecting 119,387 acres throughout Tennessee.

A conservation easement is a voluntary contract between a landowner and the Organization in which the owner places permanent restrictions on the future uses of some or all of the property to protect scenic, wildlife or agricultural resources. The restrictions usually limit the number of future home sites and can limit other uses as well. The landowner retains ownership of the land, has the right to use it, sell it or leave it to heirs, and is responsible for its ongoing maintenance. The restrictions of the easement remain with the land forever. The Organization holds the conservation easement and accepts responsibility for monitoring compliance with the terms of the easement and for defending the easement should the terms be threatened or violated. The Organization refers to its ongoing responsibility as stewardship and enforcement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present the financial position and changes in net assets of the Organization on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

Resources are classified as unrestricted, temporarily restricted or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors’ stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Organization had no permanently restricted net assets as of March 31, 2017 and 2016.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits with financial institutions, bank certificates of deposit and money market funds that can be liquidated without significant penalty or restriction (including accrued interest).

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

Grant revenue related to transaction assistance is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grant revenue related to stewardship is considered a contribution and is recognized when the funds are received.

Contributions Receivable

Unconditional promises and bequests to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed at a risk-free interest rate applicable to the year in which the promise is received. In 2017 and 2016, management considered this amount to be immaterial, and it was not recorded. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible amounts has not been provided on contributions receivable since, in management's opinion, the receivable amounts are fully collectible, based on past history.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bequests

When a will is declared valid, the Organization recognizes the bequest receivable and revenue at the estimated realizable value of its interest in the estate.

Investments

Investments consist of money market accounts, mutual funds, exchange traded funds, equities, options and hedge funds. Money market accounts are carried at cash value plus accrued interest. Bond funds, exchange traded funds, equities, options and hedge funds are carried at their quoted market value on the last business day of the reporting period. Interest and dividends, as well as changes in unrealized gains and losses, are recognized currently in the Statement of Activities.

Furniture and Equipment

Furniture and equipment are reported at cost at the date of purchase or at estimated fair value at the date of the gift to the Organization. The Organization's policy is to capitalize purchases with a cost of \$750 or more and an estimated useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets ranging from three to seven years for furniture, fixtures and equipment and computers and software.

Real Estate

Real estate is reported at cost at the date of purchase or at estimated fair value at the date of the gift to the Organization and any additional improvements made by the Organization.

Real Estate Impairment

Real estate is reviewed for impairment when events or circumstances indicate that the carrying values may not be recoverable. If any such indicators are present and where the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is written down to its recoverable amount through the Statement of Activities.

Board Designated Net Assets

The Board of Directors has established several Board designated funds: the Ashby Fund as an endowment to generate revenue and capital growth, an Operating Reserve for use in emergencies to sustain financial operations, a Working Capital Fund to meet the ebbs and flows during the year, and a Revolving Fund to assist with the acquisition of land over short periods of approximately 24-36 months. In addition, the proceeds from the sales of donated land are split among the Board designated funds per policy that includes a portion for special projects. Within this structure, funds are invested, used, managed and transferred as set out in policies created by the Board of Directors and in accordance with internal procedures.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Board Designated Net Assets (continued)

Board designated funds consisted of the following at March 31:

	<u>2017</u>	<u>2016</u>
Board-designated endowment - Ashby Fund	<u>\$ 2,568,065</u>	<u>\$ 2,420,241</u>
Operating Reserve Fund	\$ 375,000	\$ 375,000
Working Capital Fund	300,000	300,000
Revolving Fund	626,507	216,307
JCN Legacy Fund	372,594	29,513
Proceeds from sale of donated land reserved for special projects	<u>49,399</u>	<u>49,399</u>
Total board designations - other	<u>\$ 1,723,500</u>	<u>\$ 970,219</u>

In-kind Contributions

Donated materials are recorded as gifts in the period received at estimated fair value, if there is an objective and measurable basis for determining such value.

Donated services are recognized if they create or enhance non-financial assets or the donated service requires specialized skills, were performed by a donor who possesses such skills, and would have been purchased by the Organization if not donated. Such services are recognized at estimated fair value as support and expense in the period the services are performed.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program Services - consist of programs to promote and aid in the preservation of Tennessee's natural landscapes and to protect land with agricultural, recreational, scenic, ecological and historical significance for future generations.

The Organization identifies land of strategic importance to the overall mission of the Organization. These projects offer unique land protection opportunities and are made up of some of Tennessee's most remarkable intact large landscapes, farmland, timber tracts, wildlife and floral habitats, historic landscapes, scenic viewsheds, pristine waterways and recreational opportunities. To support the Organization's strategic mission, restricted donations are received that allow the Organization to hold conservation easements, tracts in fee, obtain options and perform due diligence.

Administration - includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program or with fundraising. Includes costs associated with providing coordination and articulation of the Organization's program strategy, business management, general record keeping, budgeting and related purposes.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in accordance with 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 and allocation of functional expenses during the reporting period. Actual results could differ from those amounts.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization qualifies as a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

Conservation Easements

Conservation easements held by the Organization are not recognized as assets in the accompanying financial statements. Assets are defined as probable future economic benefits obtained or controlled by an entity; the Organization does not believe that the easements meet the definition criteria. The cost of obtaining conservation easements is expensed when the easement is acquired. When the Organization obtains an easement on property that is acquired or donated, the change in market value of the property is recorded as a program expense.

Reclassifications

Certain reclassifications have been made in the 2016 financial statements to conform to the 2017 presentation. These reclassifications had no effect on the change in net assets previously reported.

Recent Authoritative Accounting Guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 *Revenue from Contracts with Customers*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.



THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Organization is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact the adoption of this guidance will have on its financial statements.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between March 31, 2017 and January 18, 2018, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of March 31:

	<u>2017</u>	<u>2016</u>
Due in less than one year	\$ 384,757	\$ 243,835
Due in one to five years	<u>31,580</u>	<u>57,690</u>
	<u>\$ 416,337</u>	<u>\$ 301,525</u>

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 4 - BEQUESTS

During 2008, pursuant to a testamentary bequest from an estate, the Organization was to receive 12 acres of unimproved land in Wilson County, Tennessee. The property title has not transferred to the Organization as of March 31, 2017 due to the continuance of the title clearing process. The Organization intends to obtain restrictions to ensure the appropriate conservation of this property. The property bequest receivable was recorded at \$210,000, the estimated fair value with the contemplated restrictions. Upon property transfer, management and the Board are prepared to evaluate the future use of this land and anticipate the property will be sold.

NOTE 5 - INVESTMENTS

Investments consisted of the following at March 31:

	<u>2017</u>	<u>2016</u>
Money market accounts	\$ 238,063	\$ 224,030
Mutual funds	1,086,172	1,003,394
Exchange traded funds	1,056,107	1,015,050
Equities	692,182	619,628
Put and call options	(25,756)	(22,878)
Hedge fund	<u>268,592</u>	<u>254,254</u>
	<u>\$ 3,315,360</u>	<u>\$ 3,093,478</u>

NOTE 6 - FAIR VALUE MEASUREMENTS

The Organization classifies its investments based on a hierarchy consisting of: Level 1 (valued using quoted prices in active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available) and Level 3 (valued based on significant unobservable inputs).

An asset'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 maximize the use of observable inputs and minimize the use of unobservable inputs.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Equities and put call options are valued at closing price reported on the active market on which the individual funds are traded.

Mutual funds and exchange traded funds are valued using the net asset value per unit as quoted in active markets at the valuation date.

The hedge fund is valued utilizing the net asset valuations provided by the underlying private investment companies and/or their administrators. Fund management may also consider alternative valuation techniques, if it is probable that an investment will be sold at an amount other than net asset value. Certain investments in the funds, where values are not readily available, are determined in good faith by the investment advisors of those respective funds. Other factors may also be considered, in addition to the net asset valuation, such as features of the investment, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in the determination of fair value.

There have been no changes in the methodologies used at March 31, 2017 and 2016.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization's 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 estimate of fair value at the reporting date.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth the Organization's major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy as of March 31:

	2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments				
Money market accounts	\$ 238,063	\$ -	\$ -	\$ 238,063
Mutual funds - short-term bond funds	1,086,172	-	-	1,086,172
Equities:				
Basic materials	75,620	-	-	75,620
Consumer goods	145,390	-	-	145,390
Financial	126,105	-	-	126,105
Healthcare	67,703	-	-	67,703
Industrial goods	50,996	-	-	50,996
Services	63,262	-	-	63,262
Technology	120,902	-	-	120,902
Utilities	30,814	-	-	30,814
Other equities	11,390	-	-	11,390
Put and call options	-	(25,756)	-	(25,756)
Exchange traded funds:				
Diversified emerging markets	114,393	-	-	114,393
Europe stock	103,140	-	-	103,140
Foreign large blend	147,375	-	-	147,375
Large blend	656,412	-	-	656,412
Energy Limited Partnership	14,731	-	-	14,731
Trading - miscellaneous	20,056	-	-	20,056
Total investments in the fair value hierarchy	<u>\$ 3,072,524</u>	<u>\$ (25,756)</u>	<u>\$ -</u>	3,046,768
Total investments measured at net asset value (a)				<u>268,592</u>
Total investments				<u>\$ 3,315,360</u>

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments				
Money market accounts	\$ 224,030	\$ -	\$ -	\$ 224,030
Mutual funds - short-term bond funds	1,003,394	-	-	1,003,394
Equities:				
Basic materials	89,756	-	-	89,756
Consumer goods	140,038	-	-	140,038
Financial	64,364	-	-	64,364
Healthcare	42,789	-	-	42,789
Industrial goods	57,834	-	-	57,834
Services	68,017	-	-	68,017
Technology	120,050	-	-	120,050
Utilities	26,848	-	-	26,848
Other equities	9,932	-	-	9,932
Put and call options	-	(22,878)	-	(22,878)
Exchange traded funds:				
Diversified emerging markets	134,550	-	-	134,550
Europe stock	97,040	-	-	97,040
Foreign large blend	99,590	-	-	99,590
Large blend	675,133	-	-	675,133
Energy Limited Partnership	8,736	-	-	8,736
Total investments in the fair value hierarchy	<u>\$ 2,862,102</u>	<u>\$ (22,878)</u>	<u>\$ -</u>	2,839,224
Total investments measured at net asset value (a)				<u>254,254</u>
Total investments				<u>\$ 3,093,478</u>

(a) In accordance with Accounting standards Codification Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or the equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes investments for which fair value is measured using the net asset per share practical expedient:

Investment	Fair Value at March 31, 2017	Fair Value at March 31, 2016	Unfunded Commitment at March 31, 2017	Redemption Frequency	Redemption Notice Period
FEG Absolute Access TEI Fund LLC	\$268,592	\$254,254	\$0	Semiannually	95 days

The FEG Absolute Access TEI Fund LLC's (the "Fund") objective is to achieve capital appreciation in both rising and falling markets, although there can be no assurance that the Fund will achieve this objective.

NOTE 7 - FURNITURE AND EQUIPMENT

Furniture and equipment consisted of the following as of March 31:

	<u>2017</u>	<u>2016</u>
Furniture, fixtures and equipment	\$ 39,255	\$ 46,623
Computers and software	<u>57,529</u>	<u>74,082</u>
	96,784	120,705
Less: accumulated depreciation	<u>(77,214)</u>	<u>(107,349)</u>
Furniture and equipment, net	<u>\$ 19,570</u>	<u>\$ 13,356</u>

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 8 - PROPERTY BEQUEATHED FROM GLEN LEVEN ESTATE

During 2007, the Organization received a testamentary bequest consisting of approximately 60 acres of land and a historic house with 5 acres known as the Glen Leven estate. The appraised fair values were \$1,500,000 and \$2,200,000, respectively, at the date of the bequest. The decedents will place significant restrictions on the use of this property or the proceeds in the event of its sale.

Direct costs, including donated services, incurred by the Organization related to this property, which are reported in program services, are as follows for the years ended March 31:

	<u>2017</u>	<u>2016</u>
Insurance	\$ 11,505	\$ 11,154
Taxes	1,080	1,060
Repairs and maintenance	21,601	26,096
Utilities and other	6,993	6,916
Professional fees	130	2,888
Outreach	2,329	3,926
Supplies	6,952	4,115
Computer and technology	<u>2,618</u>	<u>2,977</u>
	<u>\$ 53,208</u>	<u>\$ 59,132</u>

Glen Leven Farm hosted a myriad of events and activities during 2016 and 2017 that support the mission of the Organization. The facility is now a center for both internal and external programs including board, staff and committee meetings; volunteer workshops for the stewardship program; educational programs about agriculture, land conservation and wildlife; and other events that are open to the public.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 9 - PROTECTED LAND

Protected land consists of tracts of land purchased by the Organization that are being held subject to significant deed restrictions consistent with the Organization's mission. The Moran Road tract was purchased by the Organization in a prior year for \$2,014,471, with funds that were donated for that purpose.

In 2012, the Organization received a contribution from a donor-advised fund that was restricted for the Organization's Easement and Acquisition Fund for Marshall and Giles counties. These funds were used to purchase a tract of land in Marshall County for \$2,615,517. As discussed in Note 10, the land purchased in Marshall County had an easement placed on it in 2017 and was then sold at \$1,350,000.

NOTE 10 - REAL ESTATE IMPAIRMENT

The Organization has written down the value of two pieces of property, for the year ended March 31, 2017, due to a conservation easement being placed on those properties during the fiscal year. As a result of the conservation easement, the land is considered burdened and will be written down to reflect its fair value. The Marshall County property and the Durm property were written down in value in 2017 by \$1,379,058 and \$119,700, respectively, and were subsequently sold.

NOTE 11 - PROGRAM ACCOMPLISHMENTS

The Organization utilizes its revolving fund and donations from individuals, foundations and government sources to facilitate land purchases for and by third parties and to provide transaction assistance for donated conservation easements. Listed below is a summary of the impact of those various program services.

Financially Facilitated Land Projects

During 2016, the Organization acquired one property of 150 acres at a total land cost of \$790,703. This project was approved by the Tennessee State Building Commission as a suitable land project that the State would be willing to acquire from the Organization at the appraised value. This property was acquired in September 2015 and was sold to the State of Tennessee as of the year ended March 31, 2017. The Organization records all costs related to the purchase of these land projects, including surveys, closing or other settlement costs as transaction assistance expenses. These costs are reimbursed to the Organization by the State of Tennessee at closing and are reported as easement and land acquisition assistance.



THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 11 - PROGRAM ACCOMPLISHMENTS (CONTINUED)

Transactions Assistance

In cases where important land is at risk and resources are not available to complete the conservation transaction, the Organization may provide assistance from its transaction assistance funds, which are supported by restricted grant donations. The Organization may also participate as a partner in raising funds for land purchases. In 2017, the Organization expended approximately \$203,000 (\$105,500 in 2016) from this fund to assist with transaction costs incurred for conservation transactions (easements or other methods).

Easements and Land Acquisition Expenses

In 2017, the Organization expended approximately \$925,000 (\$1,080,000 in 2016) to assist landowners in obtaining easements and other land acquisition costs.

The organization partnered with the Department of Defense at Fort Campbell through their Army Compatible Use Buffer Program (ACUB) to protect five farms in Montgomery County through conservation easements. The conservation of these 984 acres of farmland, open space, and forestland, will protect in perpetuity significant prime agricultural soils, water resources, habitat for rare and endangered species and open space in one of the most rapidly developing areas in Tennessee. According to the Department of Defense, the ACUB program maximizes military readiness while efficiently conserving valuable ecosystems around military bases.

The Organization helped protect 970 acres of open space, including the addition of 932 acres of land to the Nashville and Knoxville park systems. The Organization helped protect land in other counties throughout Tennessee, totaling 5,574 acres of farmland and 16,579 acres of forestland. This year, the Organization also helped protect 1,268 acres of farmland in Kentucky.

Stewardship and Enforcement of Easements

In accepting conservation easements, the Organization has agreed to undertake future monitoring and enforcement activities to ensure compliance with the terms and conditions of the 322 easements it currently holds, representing a total of 87,928 acres.

The Board of Directors has established a spending policy that allows up to 3% of the value of the temporarily restricted stewardship and enforcement fund (as of the end of the prior fiscal year) to be spent annually to meet ongoing stewardship needs and obligations. With the approval of the Board of Directors, additional funds may be transferred to unrestricted net assets and used to meet extraordinary expenses associated with upholding or defending an easement or other interest in land held by the Organization.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 11 - PROGRAM ACCOMPLISHMENTS (CONTINUED)

Stewardship and Enforcement of Easements (continued)

During 2013, the Organization became a member of Terrafirma RRG, LLC that was formed by the Land Trust Alliance providing a liability insurance program to defend threatened conservation values of easements and conserved lands from legal challenges.

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of March 31:

	<u>2017</u>	<u>2016</u>
Contributions receivable for future years' operations	\$ 61,971	\$ 100,191
Frist Foundation grant for office relocation	100,000	-
Land protection activities:		
South Cumberland Plateau and Sequatchie Valley regions	350,738	645,749
North Davidson County, Robertson County, Sumner County and Northeast Tennessee	98,540	200,948
Williamson County	64,873	-
West Tennessee	2,823	-
Humphreys County	172,696	170,773
Kentucky	-	1,757
Shelby Farms	34,153	34,212
Lynchburg	4,613	28,895
Duck River	43,266	86,208
Tennessee Department of Agriculture	-	55,443
Ft. Campbell ACUB program	72,292	8,503
Bonnaroo	1,956	-
Stewardship and protection:		
Stewardship funds for monitoring and enforcement of protected properties	2,483,518	2,118,100
Transaction assistance funds for landowners	59,833	70,624
Easement and land acquisition funds	1,861,607	415,591
Real estate:		
Glen Leven estate property	3,700,000	3,700,000
Glen Leven estate stabilization, operations, maintenance and capital campaign	157,441	153,365
Wilson County unimproved land	<u>210,000</u>	<u>210,000</u>
	<u>\$ 9,480,320</u>	<u>\$ 8,000,359</u>

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 13 - BOARD-DESIGNATED ENDOWMENT FUND

The board-designated endowment fund ("Ashby Fund") consists of funds that were transferred to the endowment by the Board of Directors. The Board of Directors anticipates these funds will remain in the endowment in perpetuity, but may withdraw them for other uses. For investment purposes, the Ashby Fund is considered perpetual in nature. The Finance Committee of the Board of Directors will have the responsibility for developing and recommending policies and guidelines for the investment of the Ashby Fund.

*Investment return objective, risk parameters and strategies* - The Organization has adopted investment policies, approved by the Board of Directors, to establish asset allocation targets, investment objectives and guidelines and the degree of investment risk the Board of Directors deems acceptable. The purpose of the endowment fund is to generate revenue and capital growth.

*Spending policy* - The Organization may annually withdraw funds from the Ashby Fund provided that such withdrawals do not exceed the endowment fund's market value earnings over the prior twelve quarters calculated as of March 31<sup>st</sup> each year less prior earning withdrawals. One-fourth of the annual spending rule amount may be withdrawn each quarter; the exact dates for which shall be determined by the Finance Committee of the Board of Directors.

A schedule of changes in the Ashby Fund follows for the years ended March 31:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 2,420,241	\$ 2,511,447
Investment income	34,065	24,198
Investment fees	(13,864)	(16,193)
Net appreciation (depreciation) (realized and unrealized)	<u>127,623</u>	<u>(99,211)</u>
Balance, end of year	<u>\$ 2,568,065</u>	<u>\$ 2,420,241</u>

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 14 - LEASES

In August 2014, the Organization signed a lease for its office facilities under an operating lease through August 2019 with monthly payments ranging from \$4,238 to \$7,428. The new lease is noncancelable through August 2017 and can be cancelled with a 180-day notice thereafter. Rent expense on this lease is recognized on a straight-line basis. The excess rent expense recognized over the amount paid is included in accrued expenses.

Rent expense totaled \$128,220 in 2017 (\$138,861 in 2016).

Future minimum lease payments required under all operating leases that have terms in excess of one year (assuming the cancellation provision is not exercised), are as follows:

<u>Year ending March 31,</u>	
2018	\$ 85,494
2019	88,059
2020	<u>37,142</u>
	<u>\$ 210,695</u>

NOTE 15 - PENSION PLAN

The Organization sponsors a defined contribution employee benefit plan for eligible employees. At the discretion of the Board, the Organization contributes to the plan on behalf of all eligible employees based on their compensation. All employees are eligible to participate in the plan upon employment and to receive the employer discretionary match after two years of service. Total pension plan expense of the Organization amounted to \$14,272 in 2017 (\$15,758 in 2016).

NOTE 16 - DONATED GOODS AND SERVICES

The accompanying Statements of Activities include contributed services for legal, occupancy and various other services. Donated goods include food and beverages used at fundraising events and certain equipment.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 16 - DONATED GOODS AND SERVICES (CONTINUED)

Total estimated fair value of goods and services donated to the Organization for the years ended March 31, is as follows:

	<u>2017</u>	<u>2016</u>
Events:		
Goods	\$ 3,318	\$ 2,608
Printing and publicity	8,750	2,570
Professional services:		
Public relations	5,546	8,743
Legal	48,984	32,643
Glen Leven - grounds maintenance and other	2,600	1,750
Occupancy	<u>-</u>	<u>7,500</u>
	<u>\$ 69,198</u>	<u>\$ 55,814</u>

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization; however, no values for such in-kind contributions have been included in the financial statements since there is no objective basis by which to measure the values.

NOTE 17 - DONOR-DESIGNATED ENDOWMENT FUNDS IN TRUST

Two donor-designated endowment funds have been established with the Community Foundation of Middle Tennessee for the benefit of the Organization. The Community Foundation of Middle Tennessee has the ultimate authority and control over the fund and, therefore, these assets are not included in the financial statements of the Organization. Income distributed to the Organization is recognized by the Organization in the year received. There were no such distributions in 2017 or 2016. Total assets held in these funds approximated \$135,000 at March 31, 2017 (\$121,000 at March 31, 2016).

NOTE 18 - CONCENTRATION OF CREDIT RISK

The Organization maintains cash accounts at reputable financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Organization's cash balances may, at times, exceed statutory limits. The Organization has not experienced any losses in such accounts and management considers this to be a normal business risk.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2017 AND 2016

NOTE 18 - CONCENTRATION OF CREDIT RISK (CONTINUED)

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer that is the custodian of the Organization's securities is covered by the Securities Investor Protection Corporation ("SIPC"), which provides protection to investors in certain circumstances such as fraud or failure of the institution. Coverage is limited to \$500,000, including up to \$250,000 in cash. The SIPC does not insure against market risk.

At March 31, 2017, contributions receivable from three sources comprised 46% of total contributions receivable. Contribution receivables from one source comprised 25% of total receivables at March 31, 2016.

Contributions from two sources amount to 28% of total revenues for the year ended March 31, 2017 (contributions from two sources totaled 38% in 2016).

NOTE 19 - RELATED PARTY DISCLOSURES

During 2017, there were no related party transactions. During 2016, the Organization paid \$5,550 to a Board member for satellite office space and recorded donated space for this satellite office in the amount of \$6,105 in 2016. The donated office space amount for 2016 represents the value of the discounted rent.

Pledges totaling \$56,166 are due from eight members of the Organization's Board of Directors as of March 31, 2017 (\$86,563 was due from twelve members as of March 31, 2016).