

THE LAND TRUST FOR TENNESSEE, INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

MARCH 31, 2014 AND 2013

THE LAND TRUST FOR TENNESSEE, INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

MARCH 31, 2014 AND 2013

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT.....	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Cash Flows .....	5
Statements of Functional Expenses .....	6
Notes to Financial Statements.....	7 - 26

## 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, 2014 and 2013, and the 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, 2014 and 2013, 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.

*Kraft CPAs PLLC*

Nashville, Tennessee  
October 7, 2014

THE LAND TRUST FOR TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

MARCH 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
Cash and cash equivalents:		
Operating funds without restriction or designation	\$ 137,378	\$ 305,968
Operating funds with donor restrictions	2,958,417	2,393,981
Operating funds with board designations	1,542,234	1,553,772
Contributions receivable:		
Operating	85,885	91,538
Land acquisitions	151,767	97,082
Stewardship	174,610	136,240
Capital campaign	30,666	86,950
Accounts receivable	140,865	153,371
Prepaid expenses and other	22,412	25,378
Financially facilitated land projects	287,263	4,066,428
Investments:		
Investments with donor restrictions	960,969	587,154
Investments with board designations	2,048,413	1,884,379
Furniture and equipment, net	45,258	39,734
Real estate:		
Glen Leven estate property	4,501,119	3,949,829
Protected land	4,629,988	4,629,988
Property bequest receivable	210,000	210,000
Funds held on behalf of others	<u>4,420</u>	<u>4,420</u>
TOTAL ASSETS	<u>\$ 17,931,664</u>	<u>\$ 20,216,212</u>

LIABILITIES AND NET ASSETS

<u>LIABILITIES</u>		
Accounts payable	\$ 42,702	\$ 166,760
Accrued expenses	6,870	2,683
Funds held on behalf of others	4,420	4,420
Notes payable	<u>-</u>	<u>3,868,900</u>
TOTAL LIABILITIES	<u>53,992</u>	<u>4,042,763</u>
<u>NET ASSETS</u>		
Unrestricted:		
Designated for protected land	4,629,988	4,629,988
Board designations	3,590,647	3,438,151
Undesignated	<u>1,421,105</u>	<u>894,677</u>
Total unrestricted	9,641,740	8,962,816
Temporarily restricted	<u>8,235,932</u>	<u>7,210,633</u>
TOTAL NET ASSETS	<u>17,877,672</u>	<u>16,173,449</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,931,664</u>	<u>\$ 20,216,212</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, 2014 AND 2013

	2014		
	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT			
Contributions, public support and other:			
Individuals, foundations and other	\$ 729,849	\$ 1,055,300	\$ 1,785,149
Easement and land acquisition assistance	472,478	817,658	1,290,136
Transaction assistance	-	-	-
Stewardship contributions	-	190,262	190,262
Donated goods and services	90,672	-	90,672
Donated land	154,900	-	154,900
Special events	249,034	-	249,034
Less: direct benefits to donors	(68,730)	-	(68,730)
Gain on sale of land	-	-	-
Interest income	43,312	11,364	54,676
Investment income	143,362	-	143,362
Net assets released from restrictions	<u>1,049,285</u>	<u>(1,049,285)</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u>2,864,162</u>	<u>1,025,299</u>	<u>3,889,461</u>
EXPENSES			
Program services	1,699,197	-	1,699,197
Supporting services:			
Administration	74,010	-	74,010
Fundraising	<u>412,031</u>	<u>-</u>	<u>412,031</u>
TOTAL EXPENSES	<u>2,185,238</u>	<u>-</u>	<u>2,185,238</u>
CHANGE IN NET ASSETS	678,924	1,025,299	1,704,223
NET ASSETS - BEGINNING OF YEAR	<u>8,962,816</u>	<u>7,210,633</u>	<u>16,173,449</u>
NET ASSETS - END OF YEAR	<u>\$ 9,641,740</u>	<u>\$ 8,235,932</u>	<u>\$ 17,877,672</u>

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

2013		
Unrestricted	Temporarily Restricted	Total
\$ 562,310	\$ 964,043	\$ 1,526,353
-	335,076	335,076
119,707	4,000	123,707
-	169,886	169,886
80,841	-	80,841
-	-	-
283,915	-	283,915
(94,716)	-	(94,716)
14,000	-	14,000
10,418	11,364	21,782
5,753	-	5,753
<u>1,642,105</u>	<u>(1,642,105)</u>	<u>-</u>
<u>2,624,333</u>	<u>(157,736)</u>	<u>2,466,597</u>
1,879,684	-	1,879,684
64,705	-	64,705
<u>381,191</u>	<u>-</u>	<u>381,191</u>
<u>2,325,580</u>	<u>-</u>	<u>2,325,580</u>
298,753	(157,736)	141,017
<u>8,664,063</u>	<u>7,368,369</u>	<u>16,032,432</u>
<u>\$ 8,962,816</u>	<u>\$ 7,210,633</u>	<u>\$ 16,173,449</u>

THE LAND TRUST FOR TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 1,704,223	\$ 141,017
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	18,592	21,701
Net realized and unrealized gains on investments	(191,699)	(5,762)
Gain on sale of land	-	(14,000)
Donated furniture and equipment	(10,000)	-
Donated land for financially facilitated land projects	(154,900)	-
Restricted contributions for long-term purposes	(6,000)	(432,248)
(Increase) decrease in:		
Contributions receivable	(87,402)	168,055
Accounts receivable	12,506	(93,313)
Prepaid expenses and other	2,966	(10,147)
Bequest receivable	-	7,302
Increase (decrease) in:		
Accounts payable and accrued expenses	(121,221)	53,141
TOTAL ADJUSTMENTS	(537,158)	(305,271)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,167,065	(164,254)
INVESTING ACTIVITIES		
Payment for Glen Leven renovations	(564,056)	(200,246)
Payments for financially facilitated land projects	(252,363)	(273,728)
Proceeds from transfer of financially facilitated land project	317,528	76,200
Proceeds from sale of land	-	490,000
Proceeds from sale of investments	640,734	-
Purchases of investments	(986,884)	(2,465,771)
NET CASH USED IN INVESTING ACTIVITIES	(845,041)	(2,373,545)
FINANCING ACTIVITIES		
Collections of contributions for long-term purposes	62,284	497,380
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	384,308	(2,040,419)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	4,253,721	6,294,140
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,638,029	\$ 4,253,721
Non-cash investing activity:		
Glen Leven renovations in accounts payable	\$ 1,350	\$ 51,527
Financially facilitated land projects obtained with notes payable	\$ -	\$ 3,868,900
Financially facilitated land projects transferred through relief of notes payable	\$ 3,868,900	\$ -

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, 2014 AND 2013

	2014				
	Program Services	Supporting Services			Total
		Administration	Fundraising	Total	
Salaries and related benefits	\$ 777,181	\$ 41,913	\$ 213,106	\$ 255,019	\$ 1,032,200
Contract labor	-	-	71,983	71,983	71,983
Computer expense	31,767	2,534	4,302	6,836	38,603
Depreciation	17,114	549	929	1,478	18,592
Development/fundraising	-	-	13,736	13,736	13,736
Dues and subscriptions	5,622	605	1,816	2,421	8,043
Easement and land acquisition assistance	136,243	-	-	-	136,243
Easement preparation	15,108	-	-	-	15,108
Education and outreach	35,166	-	-	-	35,166
Events:					
Related costs	-	-	110,492	110,492	110,492
Donated goods and services	-	-	16,046	16,046	16,046
Office expenses	41,077	4,459	7,798	12,257	53,334
Insurance	43,467	2,864	4,850	7,714	51,181
Marketing and public relations	45,136	409	5,871	6,280	51,416
Occupancy	75,488	10,745	18,194	28,939	104,427
Printing and publication	4,908	-	1,176	1,176	6,084
Professional services:					
Donated	33,720	-	-	-	33,720
Other	85,930	7,743	6,757	14,500	100,430
Property maintenance	21,418	80	135	215	21,633
Stewardship	10,154	-	-	-	10,154
Taxes, licenses and fees	15,290	236	399	635	15,925
Telephone and utilities	21,842	1,873	3,171	5,044	26,886
Transaction assistance	282,566	-	-	-	282,566
<b>TOTAL EXPENSES</b>	<b>1,699,197</b>	<b>74,010</b>	<b>480,761</b>	<b>554,771</b>	<b>2,253,968</b>
Less expenses included with revenues on the statement of activities - direct benefits to donors	-	-	(68,730)	(68,730)	(68,730)
<b>TOTAL EXPENSES INCLUDED IN EXPENSES SECTION OF STATEMENT OF ACTIVITIES</b>	<b>\$ 1,699,197</b>	<b>\$ 74,010</b>	<b>\$ 412,031</b>	<b>\$ 486,041</b>	<b>\$ 2,185,238</b>

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

2013

Program Services	Supporting Services			Total
	Administration	Fundraising		
\$ 781,315	\$ 34,425	\$ 144,098	\$ 178,523	\$ 959,838
-	-	92,290	92,290	92,290
29,296	1,862	3,240	5,102	34,398
14,993	2,448	4,260	6,708	21,701
-	-	20,527	20,527	20,527
3,258	425	740	1,165	4,423
473,345	-	-	-	473,345
13,123	-	-	-	13,123
34,416	-	-	-	34,416
-	-	140,767	140,767	140,767
-	-	23,571	23,571	23,571
25,585	2,653	4,639	7,292	32,877
32,474	1,570	2,732	4,302	36,776
54,607	9,057	15,761	24,818	79,425
47,781	-	-	-	47,781
36,016	-	1,000	1,000	37,016
55,048	9,846	18,072	27,918	82,966
19,744	-	-	-	19,744
14,077	-	-	-	14,077
2,750	139	242	381	3,131
20,794	2,280	3,968	6,248	27,042
221,062	-	-	-	221,062
1,879,684	64,705	475,907	540,612	2,420,296
-	-	(94,716)	(94,716)	(94,716)
<u>\$ 1,879,684</u>	<u>\$ 64,705</u>	<u>\$ 381,191</u>	<u>\$ 445,896</u>	<u>\$ 2,325,580</u>

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

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, 2014, the Organization has completed conservation transactions protecting 88,135 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").

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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.
- *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, 2014 and 2013.

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.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2014 and 2013, 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.

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, hedge funds and other assets. Money market accounts are carried at cash value plus accrued interest. Bond funds, exchange traded funds, equities, options, hedge funds and other assets 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.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Board Designated Net Assets

The Board of Directors has established several Board designated funds: an Operating Reserve for use in emergencies to sustain financial operations, a Working Capital Fund to meet the ebbs and flows during the year, a Revolving Fund to assist with the acquisition of land over short periods of approximately 24-36 months, and the Ashby Fund to generate revenue and capital growth. 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.

Board designated funds consisted of the following at March 31:

	<u>2014</u>	<u>2013</u>
Operating Reserve Fund	\$ 375,000	\$ 375,000
Working Capital Fund	300,000	300,000
Revolving Fund	395,227	406,834
Proceeds from sale of donated land reserved for special projects	118,921	118,921
Ashby Fund	<u>2,401,499</u>	<u>2,237,396</u>
	<u>\$ 3,590,647</u>	<u>\$ 3,438,151</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, 2014 AND 2013

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 flora 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, 2014 AND 2013

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.

The Organization files a U.S. federal Form 990 for organizations exempt from income tax. The Organization's returns for years prior to fiscal year 2011 are closed.

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 2013 financial statements to conform to the 2014 presentation. These reclassifications had no effect on the change in net assets previously reported.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between March 31, 2014 and October 7, 2014, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.



THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of March 31:

	<u>2014</u>	<u>2013</u>
Due in less than one year	\$ 400,604	\$ 353,005
Due in one to five years	37,164	52,785
Due in more than five years	<u>5,160</u>	<u>6,020</u>
	<u>\$ 442,928</u>	<u>\$ 411,810</u>

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, 2014 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>2014</u>	<u>2013</u>
Money market accounts	319,296	1,399,585
Mutual funds	1,100,577	738,966
Exchange traded funds	1,023,181	123,538
Equities	303,198	221,804
Put and call options	(3,404)	(12,360)
Other assets	11,990	-
Hedge fund	<u>254,544</u>	<u>-</u>
	<u>\$ 3,009,382</u>	<u>\$ 2,471,533</u>

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 6 - FURNITURE AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Furniture, fixtures and equipment	\$ 115,261	\$ 105,261
Computers and software	<u>36,300</u>	<u>36,300</u>
	151,561	141,561
Less: accumulated depreciation	<u>(106,303)</u>	<u>(101,827)</u>
Furniture and equipment, net	<u>\$ 45,258</u>	<u>\$ 39,734</u>

NOTE 7 - 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 decedent's will placed 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>2014</u>	<u>2013</u>
Insurance	\$ 12,513	\$ 11,020
Repairs	2,500	5,057
Security	-	300
Taxes	1,495	936
Grounds maintenance	9,990	12,587
Utilities and other	6,410	9,615
Professional fees	2,657	3,097
Outreach	11,172	2,458
Supplies	8,234	-
Computer and technology	<u>2,335</u>	<u>-</u>
	<u>\$ 57,306</u>	<u>\$ 45,070</u>

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 7 - PROPERTY BEQUEATHED FROM GLEN LEVEN ESTATE (CONTINUED)

During 2012, the Board of Directors approved a \$1 million capital campaign to address the structural needs of the property. Donations totaling \$183,614 were recorded as restricted contributions during 2014 (\$432,238 in 2013) with \$30,666 remaining in contributions receivable at March 31, 2014 (\$86,950 at March 31, 2013).

During 2013, renovations at Glen Leven began. Total costs incurred during 2014 were \$565,056 (\$200,246 in 2013) which were capitalized and reported as additions to the property.

Concurrent with the ongoing stabilization effort during year ended March 31, 2014, Glen Leven Farm hosted a myriad of events and activities 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.

NOTE 8 - 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. This property was put on the market in June 2013. The Organization will work with the potential buyer on the conservation to protect this property prior to closing.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 9 - 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 2013, the Organization acquired five properties amounting to over 1,100 acres at a total land cost of \$4,142,628. These properties added critical tracts to some of Tennessee's state parks including a 10 mile addition to the Cumberland Trail, an overlook at Burgess Falls State Park, a scenic view at New Johnsonville State Historic Park and an addition of 40 acres to Radnor Lake State Park. These projects were approved by the Tennessee State Building Commission as suitable land projects that the state would be willing to acquire from the Organization at the appraised value.

Two of the properties acquired in 2013 were sold to the State of Tennessee in May 2013 and the other two properties were sold to the State of Tennessee in August 2013. 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 transaction assistance contributions.

During 2014, the Organization acquired two properties at a total land cost of \$252,363 and received donated land valued at \$154,900. These properties represent important linkages along the Cumberland Trail. During 2014, one of these properties was sold to the State of Tennessee. The two remaining properties totaling \$287,263 were transferred to the State of Tennessee after year end.

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 2014, the Organization expended approximately \$283,000 (\$221,000 in 2013) from this fund to assist with transaction costs incurred for conservation transactions (easements or other methods).

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 9 - PROGRAM ACCOMPLISHMENTS (CONTINUED)

Easements and Land Acquisition Expenses

In 2014, the Organization expended approximately \$136,000 (\$473,000 in 2013) to assist landowners in obtaining easements and other land acquisition costs.

The Organization and the Tennessee Wildlife Resource Agency partnered to purchase 68 acres of critical wildlife habitat located along the Blythe Ferry Road near the confluence of the Hiwassee and Tennessee rivers. This property is now part of the Hiwassee Wildlife Refuge in Meigs County.

Additionally, the Organization helped to add more acreage to public parks in the Nashville area ranging in size from 15 acres to 600 acres, collectively adding 990 acres of parkland to the system.

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 279 easements it currently holds.

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.

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.

Sale of Donated Land

Three properties donated to the Organization were sold in 2013, subsequent to the Organization obtaining conservation easements to protect these properties.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 9 - PROGRAM ACCOMPLISHMENTS (CONTINUED)

USDA Forest Service Forest Legacy Program

The Organization received a grant from the United States Department of Agriculture's (the "USDA") Forest Service's Forest Legacy Program. The funding for this program is received from the State Department of Agriculture with funds received from the USDA. During the year ending March 31, 2014, the Organization received \$472,478 from the USDA for reimbursement of expenses incurred in previous years for the selling of conservation easement rights to the State of Tennessee on the 3,282 acres of land on the Fiery Gizzard tract located in Marion County, Tennessee. Those funds are reported under easement and land acquisition assistance revenue.

NOTE 10 - NOTES PAYABLE

In conjunction with the purchase of two financially facilitated land projects, the Organization obtained financing from The Conservation Fund ("TCF"). The Organization entered into the first note payable on December 28, 2012 in the amount of \$2,950,000, bearing interest at a rate of 3.90% and maturing on September 3, 2013. This loan was collateralized with cash funds up to \$500,000. The second note payable was dated March 27, 2013 in the amount of \$918,900 bearing interest at a rate of 3.25% and maturing on December 27, 2013. Total interest expense for the year ended March 31, 2014 was \$23,011 (\$29,641 in 2013).

These loans were repaid at the closing of the sale of these land projects to the State of Tennessee in May and August 2013. The sale proceeds, along with contributions raised in connection with a fundraising campaign for these properties, were sufficient to repay the note balance, accrued interest and related closing or settlement expenses.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
Operational:		
Contributions receivable for future years' operations	\$ 70,500	\$ 91,538
Land protection activities in the South Cumberland Plateau and Sequatchie Valley regions	345,776	39,556
Land conservation programs in North Davidson county, Robertson county, Sumner county and Northeast Tennessee	78,597	33,762
Land conservation programs in Giles and Williamson Counties	7,977	90,582
Shelby Farms conservation easement implementation	34,970	36,406
Middle Tennessee wildlife conservation	48,095	34,860
Capacity building funds	52,500	157,923
Ft. Campbell ACUB program	18,982	34,251
Stewardship and protection:		
Stewardship funds for monitoring and enforcement of protected properties	1,578,755	1,371,238
Revolving funds for temporary needs of land acquisition	14,934	14,934
Transaction assistance funds for landowners	123,154	136,683
Easement and land acquisition funds	1,678,889	761,273
Real estate:		
Glen Leven estate property	3,700,000	3,700,000
Glen Leven estate stabilization, operations, maintenance and capital campaign	272,803	497,627
Wilson County unimproved land	<u>210,000</u>	<u>210,000</u>
	<u>\$ 8,235,932</u>	<u>\$ 7,210,633</u>

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 12 - LEASES

The Organization leased its office facilities lease under a noncancelable operating lease through October 31, 2014. Monthly payments required under this lease range from \$3,553 to \$5,586. 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. Remaining lease payments under this lease total \$39,103 to be paid in the year ending March 31, 2015. In August, 2014, the Organization signed a new 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.

Additionally, the Organization leases one satellite office (two satellite offices in 2013) on an annual basis. The lease was renewed in April 2014 and expires April 2015. The satellite office is leased at \$555 a month in 2014 and 2013.

Rent expense totaled \$104,427 in 2014 (\$73,388 in 2013).

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>	
2015	\$ 80,579
2016	80,586
2017	83,004
2018	85,494
2019	88,059
Thereafter	<u>37,142</u>
	<u>\$ 454,864</u>

NOTE 13 - 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 \$20,991 in 2014 (\$19,081 in 2013).



THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 14 - 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.

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

	<u>2014</u>	<u>2013</u>
Events:		
Goods	\$ 10,916	\$ 13,228
Printing and publicity	5,130	10,343
Professional services:		
Public relations	29,006	-
Designers and photographers	-	1,000
Legal	33,720	28,425
Transaction assistance services	-	3,591
Investment services	-	4,000
Glen Leven - grounds maintenance and other	3,500	11,854
Occupancy	<u>8,400</u>	<u>8,400</u>
	<u>\$ 90,672</u>	<u>\$ 80,841</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 15 - 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 2014 or 2013. Total assets held in these funds approximated \$122,000 at March 31, 2014 (\$115,000 at March 31, 2013).

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 16 - CONCENTRATION OF CREDIT RISK

The Organization maintains deposit accounts at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. As of March 31, 2014, deposits at these institutions exceeded the statutory limits by approximately \$4,160,000.

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, 2014, contributions receivable from two sources comprised 23% of total contributions receivable. For the year ended March 31, 2013, there were no contributions from a source that were 10% or greater of total contributions receivable.

NOTE 17 - RELATED PARTY DISCLOSURES

During 2014 and 2013, the Organization paid \$6,600 to a Board member for satellite office space and recorded donated space for this satellite office in the amount of \$8,400 in 2014 and 2013. The donated office space amount represents the value of the discounted rent.

Pledges totaling \$31,551 are due from eight members of the Organization's board of directors as of March 31, 2014 (\$101,572 are due from 22 members as of March 31, 2013).

NOTE 18 - 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.

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

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 18 - FAIR VALUE MEASUREMENTS (CONTINUED)

Equities, put and call options and other assets are valued at closing price reported on the active market on which the individual funds are traced.

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, 2014 and 2013.

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, 2014 AND 2013

NOTE 18 - 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:

	2014			
	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	\$ 319,295	\$ -	\$ -	\$ 319,295
Mutual funds - short-term bond funds	1,100,577	-	-	1,100,577
Equities:				
Basic materials	72,316	-	-	72,316
Consumer goods	77,997	-	-	77,997
Healthcare	30,144	-	-	30,144
Industrial goods	17,704	-	-	17,704
Services	12,056	-	-	12,056
Technology	60,983	-	-	60,983
Utilities	23,250	-	-	23,250
Other equities	8,748			8,748
Put and call options	-	(3,404)	-	(3,404)
Exchange traded funds:				
Diversified emerging markets	116,870	-	-	116,870
Europe stock	117,900	-	-	117,900
Foreign large blend	154,762	-	-	154,762
Large blend	596,562	-	-	596,562
Other	37,088	-	-	37,088
Other assets	11,990	-	-	11,990
Hedge fund	-	-	254,544	254,544
	<u>\$ 2,758,242</u>	<u>\$ (3,404)</u>	<u>\$ 254,544</u>	<u>\$ 3,009,382</u>

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 18 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2013			
	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	\$ 1,399,585	\$ -	\$ -	\$ 1,399,585
Mutual funds - short-term bond funds	738,966	-	-	738,966
Equities:				
Basic materials	50,800	-	-	50,800
Consumer goods	30,205	-	-	30,205
Healthcare	8,153	-	-	8,153
Industrial goods	17,170	-	-	17,170
Services	24,273	-	-	24,273
Technology	56,363	-	-	56,363
Utilities	24,420	-	-	24,420
Other equities	10,420			10,420
Put and call options	-	(12,360)	-	(12,360)
Exchange traded funds:				
Diversified emerging markets	123,538	-	-	123,538
	<u>\$ 2,483,893</u>	<u>\$ (12,360)</u>	<u>\$ -</u>	<u>\$ 2,471,533</u>

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2014 AND 2013

NOTE 18 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables set forth a summary of changes in the fair value of the Organization's Level 3 investments for the year ended March 31, 2014:

	<u>Hedge Fund</u>
Balance, beginning of year	\$ -
Unrealized gain	9,544
Purchases	<u>245,000</u>
Balance, end of year	<u>\$ 254,544</u>

Fair value of level 3 investments in certain entities that calculate net asset value per share (or its equivalent):

Investment	Fair Value at March 31, 2014	Fair Value at March 31, 2013	Unfunded Commitment at March 31, 2014	Redemption Frequency	Redemption Notice Period
FEG Absolute Access TEI Fund LLC	\$254,544	\$0	\$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.