

THE LAND INSTITUTE
Salina, Kansas

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

June 30, 2014

CLUBINE AND RETTELE, CHARTERED
CERTIFIED PUBLIC ACCOUNTANTS
SALINA, KANSAS

THE LAND INSTITUTE
Salina, Kansas

I N D E X

	Page
INDEPENDENT AUDITORS' REPORT	1
STATEMENT OF FINANCIAL POSITION - Exhibit I	2
STATEMENT OF ACTIVITIES - Exhibit II	3-4
STATEMENT OF FUNCTIONAL EXPENSES - Exhibit III	5
STATEMENT OF CASH FLOWS - Exhibit IV	6
NOTES TO FINANCIAL STATEMENTS	7-13



Robert I. Clubine, CPA.
David A. Rettele, CPA.
Jay D. Langley, CPA, CGMA
Jon K. Bell, CPA
Leslie M. Corbett, CPA
Stacy J. Osner, CPA

Marci K. Fox, CPA
Linda A. Suelter, CPA
Valerie K. Linenberger, CPA
Johnna R. Vosseller, CPA

218 South Santa Fe
P.O. Box 2267
Salina, Kansas
67402-2267

Salina
785 / 825-5479
Salina Fax
785 / 825-2446

Ellsworth
785 / 472-3915
Ellsworth Fax
785 / 472-5478

To: The Board of Directors
The Land Institute

We have audited the accompanying financial statements of The Land Institute (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 Institute as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Land Institute's June 30, 2013 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 14, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Clubine and Rettele, Chartered

CLUBINE AND RETTELE, CHARTERED
SALINA, KANSAS

September 11, 2014

THE LAND INSTITUTE
Salina, Kansas

Exhibit I

STATEMENT OF FINANCIAL POSITION
June 30, 2014 with Comparative Totals as of June 30, 2013

	Unrestricted		Temporarily Restricted	Permanently Restricted	Totals	
	Operations	Fixed Assets			June 30, 2014 (Memorandum)	June 30, 2013 (Memorandum)
Assets						
Cash and cash equivalents (Note 1)	\$ 3,672,775	\$ 150,114	\$ 1,797,791	\$ -	\$ 5,620,680	\$ 5,719,109
Accounts receivable	112,615	-	-	-	112,615	20,681
Interest receivable	3,650	-	-	-	3,650	3,922
Prepaid expenses	46,002	-	-	-	46,002	39,129
Security deposit	500	-	-	-	500	-
Inventory	6,265	-	-	-	6,265	6,740
Pledges receivable (Note 4)	-	-	1,065,671	-	1,065,671	214,016
Cash and cash equivalents restricted for term endowment and permanent endowment (Note 13)	-	-	870,000	39,000	909,000	809,000
Beneficial interest in assets held by Greater Salina Community Foundation (Note 11)	18,392	-	-	-	18,392	15,623
Note receivable (Note 5)	-	-	-	-	-	3,096
Property held for sale (Note 8)	-	18,000	-	-	18,000	18,000
Property and equipment, net (Note 7)	-	6,579,467	-	-	6,579,467	4,708,289
Total Assets	\$ 3,860,199	\$ 6,747,581	\$ 3,733,462	\$ 39,000	\$ 14,380,242	\$ 11,557,605
Liabilities						
Accounts payable	\$ 35,107	\$ -	\$ 401	\$ -	\$ 35,508	\$ 21,046
Payroll taxes and sales tax payable	58	-	-	-	58	64
Security deposit payable	200	-	-	-	200	-
Accrued vacations payable	59,632	-	-	-	59,632	46,586
Total Liabilities	94,997	-	401	-	95,398	67,696
Net Assets	3,765,202	6,747,581	3,733,061	39,000	14,284,844	11,489,909
Total Liabilities and Net Assets	\$ 3,860,199	\$ 6,747,581	\$ 3,733,462	\$ 39,000	\$ 14,380,242	\$ 11,557,605

See accompanying notes to the financial statements which are an integral part hereof.

THE LAND INSTITUTE
Salina, Kansas

Exhibit II

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014 with Comparative Totals For the Year Ended June 30, 2013

	Unrestricted		Temporarily Restricted	Permanently Restricted	Totals	
	Operations	Fixed Assets			June 30, 2014 (Memorandum)	June 30, 2013 (Memorandum)
Public Support, Revenue and Reclassifications						
Public Support						
Grants						
Individuals	\$ 1,579,042	\$ 1,745,000	\$ 750,700	\$ -	\$ 4,074,742	\$ 1,455,660
Foundations	864,725	-	235,000	-	1,099,725	917,099
Corporations and partnerships	500	-	248,147	-	248,647	177,581
Total Public Support	<u>2,444,267</u>	<u>1,745,000</u>	<u>1,233,847</u>	<u>-</u>	<u>5,423,114</u>	<u>2,550,340</u>
Revenue						
Event fees	12,620	-	-	-	12,620	19,989
Book royalties, honoraria and miscellaneous	-	-	-	-	-	5,308
Rent income	4,901	-	-	-	4,901	1
Interest	31,488	1,488	-	-	32,976	35,410
Farm income	4,014	-	-	-	4,014	7,340
Book and merchandise sales	16,504	-	-	-	16,504	25,634
Net unrealized and realized gain (loss) on sale of investments	2,781	-	-	-	2,781	(2,002)
Gain on sale of assets	-	2,800	-	-	2,800	7,075
Total Revenue	<u>72,308</u>	<u>4,288</u>	<u>-</u>	<u>-</u>	<u>76,596</u>	<u>98,755</u>
Reclassifications						
Net Assets Released from Restrictions						
Satisfaction of program restrictions	475,010	49,769	(524,779)	-	-	-
Expiration of time restrictions	4,000	-	(4,000)	-	-	-
Total Reclassifications (Note 10)	<u>479,010</u>	<u>49,769</u>	<u>(528,779)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Public Support, Revenue and Reclassifications	<u>2,995,585</u>	<u>1,799,057</u>	<u>705,068</u>	<u>-</u>	<u>5,499,710</u>	<u>2,649,095</u>

See accompanying notes to the financial statements which are an integral part hereof.

THE LAND INSTITUTE
Salina, Kansas

Exhibit II

STATEMENT OF ACTIVITIES (Continued)
For the Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

	Unrestricted		Temporarily Restricted	Permanently Restricted	Totals	
	Operations	Fixed Assets			June 30, 2014 (Memorandum)	June 30, 2013 (Memorandum)
Expenses						
Program Services						
Education & Public Policy	476,970	-	-	-	476,970	364,141
NSA research	1,419,908	-	-	-	1,419,908	1,142,669
Total Program Services	1,896,878	-	-	-	1,896,878	1,506,810
Supporting Services						
Management and general	278,173	-	-	-	278,173	274,315
Fundraising	529,724	-	-	-	529,724	401,647
Total Supporting Services	807,897	-	-	-	807,897	675,962
Total Expenses	2,704,775	-	-	-	2,704,775	2,182,772
Loss on impairment of Kansas City property (Note 8)	-	-	-	-	-	14,700
Total Expenses and Losses	2,704,775	-	-	-	2,704,775	2,197,472
Change in Net Assets	290,810	1,799,057	705,068	-	2,794,935	451,623
Net Assets, Beginning of Year	3,474,392	4,948,524	3,027,993	39,000	11,489,909	11,038,286
Net Assets, End of Year	\$ 3,765,202	\$ 6,747,581	\$ 3,733,061	\$ 39,000	\$ 14,284,844	\$ 11,489,909

See accompanying notes to the financial statements which are an integral part hereof.

THE LAND INSTITUTE
Salina, Kansas

Exhibit III

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

	Program Services			Supporting Services			Totals	
	Education & Public Policy	NSA Research	Total	Management & General	Fundraising	Total	June 30, 2014 (Memorandum)	June 30, 2013 (Memorandum)
Salaries	\$ 256,680	\$ 717,968	\$ 974,648	\$ 189,409	\$ 347,792	\$ 537,201	\$ 1,511,849	\$ 1,239,658
Payroll taxes	18,674	52,960	71,634	13,248	23,649	36,897	108,531	89,312
Employee benefits	49,978	168,677	218,655	34,360	59,349	93,709	312,364	282,485
Employee recruitment	-	495	495	-	721	721	1,216	4,463
Total Salaries and Related Expenses	325,332	940,100	1,265,432	237,017	431,511	668,528	1,933,960	1,615,918
Advertising, promotion and printing	36,375	280	36,655	55	4,014	4,069	40,724	6,272
Books, subscriptions and dues	132	1,148	1,280	90	3,053	3,143	4,423	1,612
Computer expense	4,342	30,819	35,161	2,985	9,788	12,773	47,934	18,815
Contract services	1,710	68,733	70,443	3,464	4,081	7,545	77,988	30,947
Events	32,695	-	32,695	-	-	-	32,695	33,440
Insurance	7,874	36,016	43,890	5,413	9,351	14,764	58,654	49,143
Advisory and board meetings	-	-	-	7,377	-	7,377	7,377	7,252
Small equipment	499	9,108	9,607	493	592	1,085	10,692	10,641
Maintenance and repairs	2,409	46,160	48,569	4,113	2,897	7,010	55,579	55,195
Rent and utilities	3,872	20,997	24,869	2,662	4,598	7,260	32,129	21,661
Office supplies and repairs	2,651	10,944	13,595	1,712	3,202	4,914	18,509	18,382
Postage and freight	1,244	5,349	6,593	750	9,112	9,862	16,455	15,251
Professional services	3,592	18,864	22,456	2,469	4,265	6,734	29,190	17,114
Land report and other publications	34,808	-	34,808	-	-	-	34,808	21,017
Research stipends	-	22,400	22,400	-	-	-	22,400	39,171
Supplies and materials	-	50,559	50,559	8	-	8	50,567	51,621
Taxes	334	11,066	11,400	229	396	625	12,025	1,941
Telephone	920	4,158	5,078	633	1,092	1,725	6,803	6,487
Travel	17,865	13,976	31,841	1,736	41,397	43,133	74,974	37,505
Miscellaneous	316	1,065	1,381	217	375	592	1,973	2,159
Total Expenses Before Depreciation and Amortization	476,970	1,291,742	1,768,712	271,423	529,724	801,147	2,569,859	2,061,544
Depreciation and Amortization Expense	-	128,166	128,166	6,750	-	6,750	134,916	121,228
Total Expenses	\$ 476,970	\$ 1,419,908	\$ 1,896,878	\$ 278,173	\$ 529,724	\$ 807,897	\$ 2,704,775	\$ 2,182,772
Total Expenses, Year Ended June 30, 2013 (Memorandum)	\$ 364,141	\$ 1,142,669	\$ 1,506,810	\$ 274,315	\$ 401,647	\$ 675,962		

See accompanying notes to the financial statements which are an integral part hereof.

THE LAND INSTITUTE
Salina, Kansas

Exhibit IV

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

	June 30, 2014	June 30, 2013 (Memorandum)
Cash Flows From Operating Activities		
Cash received from public support and revenues	\$ 2,600,096	\$ 3,113,644
Interest received	33,248	35,198
Cash paid to employees, suppliers, program expenses, vendors and others	<u>(2,548,908)</u>	<u>(2,037,254)</u>
Net Cash Provided by Operating Activities	<u>84,436</u>	<u>1,111,588</u>
Cash Flows From Investing Activities		
Proceeds from sales of assets and investments	75,132	1,330,620
Note receivable payments received	690	1,015
Increase in restricted cash	(100,000)	(20,000)
Purchase of equipment, land and building	<u>(258,687)</u>	<u>(307,362)</u>
Net Cash Provided (Used) by Investing Activities	<u>(282,865)</u>	<u>1,004,273</u>
Net Cash Provided by Financing Activities		
Collection of contributions restricted for endowment and term endowment	<u>100,000</u>	<u>20,000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(98,429)	2,135,861
Cash and Cash Equivalents at beginning of year	<u>5,719,109</u>	<u>3,583,248</u>
Cash and Cash Equivalents at end of year (Note 1)	<u>\$ 5,620,680</u>	<u>\$ 5,719,109</u>

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

Change in Net Assets - Exhibit II	<u>\$ 2,794,935</u>	<u>\$ 451,623</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	134,916	121,228
Donated investments, vehicles and services included in contributions	(1,817,468)	(1,340,114)
Net unrealized and realized loss (gain) on sale of investments	(2,781)	2,002
Gain on sale of assets	(2,800)	(7,075)
Loss on impairment of Kansas City property	-	14,700
Contributions restricted for endowment and term endowment	(100,000)	(20,000)
Administrative fee charged by Greater Salina Community Foundation	147	134
Increase in accounts receivable	(91,934)	(12,423)
Decrease (Increase) in interest receivable	272	(212)
Decrease (Increase) in pledges receivable	(851,655)	1,877,569
Decrease in inventory	475	1,163
Decrease (Increase) in prepaid expenses	(6,873)	14,867
Increase in security deposit paid	(500)	-
Increase (Decrease) in accounts payable	14,462	(404)
Decrease in payroll taxes and sales tax payable	(6)	(71)
Increase in security deposit received	200	-
Increase in retirement plan and accrued vacations payable	<u>13,046</u>	<u>8,601</u>
Total Adjustments	<u>(2,710,499)</u>	<u>659,965</u>
Net Cash Provided by Operating Activities	<u>\$ 84,436</u>	<u>\$ 1,111,588</u>

Noncash investing and financing activities for the year ended June 30, 2014 consist of donated investments valued at \$72,468 and donated buildings and land valued at \$1,745,000.

See accompanying notes to the financial statements
which are an integral part hereof.

THE LAND INSTITUTE
Salina, Kansas

NOTES TO FINANCIAL STATEMENTS
June 30, 2014

The Land Institute is a 501(c)(3) non-profit educational and research organization devoted to sustainable agriculture and good stewardship of the earth.

1. Summary of Significant Accounting Policies

- A. Organization: The Organization is a not-for-profit corporation organized under the laws of the State of Kansas. Income taxes are not provided for in the financial statements because the organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.
- B. Basis of Accounting: The financial statements of The Land Institute have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.
- C. Basis of Presentation: The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.
- D. Estimates: Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.
- E. Comparative Financial Information: The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2013, from which the summarized information was derived.
- F. Cash and Cash Equivalents: The Land Institute considers all bank accounts, savings accounts and certificates of deposit to be cash equivalents. Cash and cash equivalents for the purpose of the Statement of Cash Flows excludes cash and cash equivalents restricted for term endowment and permanent endowment.
- G. Receivables: Pledges receivable and accounts receivable are considered to be fully collectible. Accordingly, no allowances for doubtful accounts are required. Amounts considered uncollectible, if any, are charged off to operations as incurred.
- H. Inventory: Inventory is stated at cost determined by the first-in, first-out method and consists of books, totes, mugs, and shirts.
- I. Investments: Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are stated at fair market values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.
- J. Property and Equipment: All acquisitions of property and equipment in excess of \$1,000 are capitalized and are recorded at cost. Depreciation is determined using the direct write-down method. The direct write-down method recognizes depreciation at irregular intervals at the direction of management based on actual circumstances.
- K. Public Support and Revenue: Contributions and grants are generally available for unrestricted use in the year of the gift unless specifically restricted by the donor. Pledges are recorded as receivables in the year made. Amounts received or pledged that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Endowment contributions and investments are permanently and temporarily restricted by the donor. Endowment funds are invested in fully FDIC and SIPC insured accounts in accordance with investment policy. Investment earnings are available for operations and are recorded in unrestricted net assets.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation, are recorded at their fair values in the period received.

The net fixed assets balance is recorded as a separate component in unrestricted net assets. The funded depreciation method of accounting is used and provides for the transfer of cash from the unrestricted operations net assets to the unrestricted fixed assets net assets to the extent of the current year's depreciation expense at the Board of Directors' discretion.

- L. Expense Allocation: The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among programs and supporting services benefited.

2. Program and Service Activities

The program and service activities of The Land Institute are as follows

Program Services - To provide services related to the educational, NSA research, and other programs of The Land Institute.

Supporting Services

Management and General - Direction of the overall affairs of The Land Institute's administration, personnel, and accounting.

Fundraising - Activities to secure support from the private and public sectors for the needs of the education, NSA research, and other programs and administration of The Land Institute.

3. Certificates of Deposit

Certificates of deposit totaling \$2,619,767 are included in cash in the accompanying financial statements. The certificates bear interest ranging from .25% to 2.1% and have maturities ranging from six to sixty months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

4. Pledges Receivable

Pledges receivable as of June 30, 2014 are temporarily restricted net assets. These unconditional promises to give are to be received in the fiscal years ending June 30, 2015, June 30, 2016 and June 30, 2017. Pledges receivable consist of amounts receivable from one individual, two foundations, and three corporations and other entities.

The timing of the receipt of the pledges receivable is summarized as follows:

Amounts due in:	
Less than one year	\$ 622,770
One to five years	442,901
More than five years	-
Total	<u>\$ 1,065,671</u>

All unconditional promises to give are recorded at net realizable value. Net realizable value was not materially different from the present value of the estimated future cash flow of unconditional promises to be collected in one to five years.

5. Note Receivable

A house and 4.76 acres of land were sold to an employee at a loss. The Land Institute was financing this sale through a no-interest loan with a face value of \$58,000 and monthly payments of \$242 starting July 1, 2002 and ending May 31, 2022. The property was repurchased by The Land Institute from the former employee on March 20, 2014 for \$89,125. The remaining balance of the note receivable was forgiven. The present value of the note receivable balance forgiven was \$2,407.

6. Operating Leases

A farmer agreed to pay \$35 an acre for 2014 haying rights on 27 acres of property owned by The Land Institute. The rent income for this lease was \$945 for the year ended June 30, 2014.

A house, barn, and barn house at 984 N. 1800 Road, Lawrence, KS are being leased to a tenant in exchange for property maintenance and providing housekeeping services for guests of The Land Institute. The tenant reimburses The Land Institute for all utilities less \$6 per day for each day that The Land Institute uses the facilities. The term of the lease is for one year beginning January 1, 2014. After the expiration of the initial term, the lease shall automatically renew on a year-to-year basis.

7. Property and Equipment

Property and equipment at June 30, 2014 is summarized by the following schedule:

Land	\$ 2,214,542
Buildings	4,017,645
Leasehold improvements	27,094
Equipment	1,189,726
Vehicles	<u>100,253</u>
	7,549,260
Less: Accumulated depreciation	<u>969,793</u>
Total Property and Equipment	<u>\$ 6,579,467</u>

8. Property Held for Sale

Vacant lots located in Kansas City, Missouri were donated to The Land Institute in the fiscal year ended June 30, 2010. The appraised value of the lots was \$31,500 and an environmental study was conducted at a cost of \$1,200. The lots have been listed for sale several years and have not sold. An impairment loss is being recognized and is included in the Statement of Activities for the year ended June 30, 2013. The impairment loss represents the excess of the aggregate carrying value of the lots over their fair value less estimated selling costs. The Kansas City lots are reported on the Statement of Financial Position as Property held for sale" valued at \$18,000.

9. Right of First Refusal Agreement

As part of an agreement with Saline County, Kansas to allow the County to purchase 2.057 acres of land to improve East Water Well Road, The Land Institute received a right of first refusal to purchase an agreed upon piece of land.

10. Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

Periods after June 30, 2014	\$ 800,000
Capital assets	242,618
Term endowment	870,000
Program activities	
Ecology	1,492,113
NSA research	<u>328,330</u>
Total Temporarily Restricted Net Assets	<u>\$ 3,733,061</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Purpose restriction accomplished:	
Ecology	\$ 248,813
Educational event	4,500
NSA research	221,697
Asset purchases	<u>49,769</u>
Total purpose restrictions accomplished	524,779
Time restrictions expired	<u>4,000</u>
Total Restrictions Released	<u>\$ 528,779</u>

Permanently restricted net assets consist of an endowment fund account to be held indefinitely, the income from which is expendable to support operating activities.

11. Beneficial Interest in Assets held by Greater Salina Community Foundation

The Land Institute has a board-designated endowment held in pooled investment funds with the Greater Salina Community Foundation (the Foundation). The Land Institute transferred \$10,000 to the Greater Salina Community Foundation in the fiscal year ended June 30, 2005 and may make additions to its organization fund. The Land Institute gave variance power over the transferred assets to the Foundation which allows the Foundation to exercise ultimate authority and control over the assets. Should the purpose for which the fund at the Foundation was created ever become obsolete or incapable of fulfillment, or should The Land Institute cease to exist, the Foundation will disperse any distributions from the fund to a similar charity comparable to The Land Institute for purposes as similar as possible to those set forth in The Land Institute's agreement with the Foundation.

The Land Institute's organization fund is invested by and held at the Foundation. The fund is co-mingled with other Foundation funds to encourage maximum investment performance. The Foundation's portfolio is managed with a view toward maximization of total return considering inflation risk, interest rate risk, and business or economic risk, while at all times being prudently diversified. The investment policy governing the underlying investments is established by the Board of the Foundation. The investment process of the Foundation seeks to achieve an after-cost total rate of return, (interest and dividend payments plus realized and unrealized capital appreciation) which exceeds the annual distribution with acceptable levels of risk. The assets are invested in a well-diversified asset mix, which includes equity and debt securities, fixed income and cash that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5% while growing the funds if possible. Actual returns in any given year may vary. Investment strategies are managed to not expose the funds to unacceptable levels of risk.

At the end of the Foundation's fiscal year (June 30), the Foundation calculates the spendable balance from the Land Institute's organization fund. The spendable balance is calculated based on 5% of the average daily balance of the fund from the previous 20 quarters. If the fund is below the minimum of \$10,000 at the end of the fiscal year, no allocation will be made from the fund to the spendable balance for the year. The balance of the endowed portion of The Land Institute's total fund is included when making these calculations. The endowed portion is funded by third-party donors and is recorded on the books of the Foundation rather than The Land Institute. Distributions from the organization fund are ordinarily processed within 30 days of a written request by The Land Institute.

Activity in the board-designated (unrestricted) endowment fund included in investment income and expense during the fiscal year ended June 30, 2014 was as follows:

Beginning balance, July 1, 2013	\$ 15,623
Appreciation	2,916
Additions	-
Investment fees	<u>(147)</u>
Ending balance, June 30, 2014	<u>\$ 18,392</u>

12. Fair Value Measurements

For assets and liabilities measured at fair value on a recurring basis during the period, U.S. generally accepted accounting principles requires quantitative disclosures about the fair value measurements separately for each major category of assets and liabilities.

Those assets measured at fair value on a recurring basis in the Statement of Net Assets and the types of inputs used to estimate fair value are as follows at June 30, 2014:

Description	6/30/2014	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial Interest	\$ 18,392	-	18,392	-
Total	\$ 18,392	\$ -	\$ 18,392	\$ -

Fair value for the beneficial interest is measured using the fair value of the assets held in the Greater Salina Community Foundation as reported by the Foundation at June 30, 2014.

13. Endowment Funds

The Land Institute's permanent endowment and term endowment funds are invested in fully FDIC and SIPC insured money market and certificate of deposit accounts in accordance with investment policy. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of or absence of donor-imposed restrictions.

The Board of Directors of The Land Institute has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the presentation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Land Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Land Institute in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, The Land Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of The Land Institute, and (7) The Land Institute's investment policies.

Investment Policies. The Land Institute has adopted investment policies, approved by the Board of Directors, for endowment assets that attempt to provide a reasonable long term rate of return on the endowment and that consider preservation of the endowment for the long term and the long term needs of The Land Institute. The endowment shall be invested only in the following: publicly traded mutual funds; publicly traded bond mutual funds; fully FDIC insured certificates of deposit; fully FDIC insured money market accounts; and United States bonds, notes, treasury bills, and similar obligations (guaranteed by the United States) of agencies of the United States. Any such bond mutual funds shall be invested at least 75 percent in bonds or other indebtedness of the United States or agencies of the United States. All such stock and bond mutual funds shall be organized in and operated under the laws of the United States. Investments in assets that do not pay dividends or interest may be made if the investment committee believes the long term capital appreciation or other future income from the assets is a reasonable basis for making the investment. To achieve a balance between stock fund and bond fund investments, the preservation of the real purchasing power of the endowment shall be considered while at the same time providing protection against declines in the market value of equity assets.

Spending Policy. The Land Institute has a policy of spending the endowment earnings for operations.

Endowment net asset composition by type of fund as of June 30, 2014 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Endowment Assets</u>
Donor-Restricted Endowment Funds	\$ 870,000	\$ 39,000	\$ 909,000

Changes in endowment net assets as of June 30, 2014 are as follows.

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 770,000	\$ 39,000	\$ 809,000
Contributions	100,000	-	100,000
Investment income	11,251	72	11,323
Net appreciation (depreciation)	-	-	-
Amounts appropriated for expenditure	<u>(11,251)</u>	<u>(72)</u>	<u>(11,323)</u>
Endowment net assets, end of year	<u>\$ 870,000</u>	<u>\$ 39,000</u>	<u>\$ 909,000</u>

14. Related Party Transactions

The Land Institute leases 25 acres of farmland including certain water rights, two buildings and two barns, and non-mechanized farm equipment from a member of the board of directors, Wes Jackson. The terms of the lease provide for annual automatic lease renewals unless specific notice is given and annual rentals of \$ 8,400, with the lessor paying for repairs, property taxes, electricity, and insurance.

The Land Institute leases 3.03 acres of land to an employee, Lee DeHaan. The term of the lease is for 100 years commencing on September 15, 2005. An annual rental of \$1 plus real property taxes and assessments is payable in advance on or before January 2nd of each year. The lessee shall make all improvements and repairs to the property.

A house located at 2281 E. Water Well Road is being leased to an employee, John Mai, for \$400 a month for a one year term beginning April 1, 2014. The rent income for this lease was \$1,200 for the year ended June 30, 2014. Upon termination of the initial one-year term, either party may terminate this agreement upon providing 180 days written notice.

Land Institute interns are renting a furnished shared 3-bedroom house at 3537 S. Ohio which is owned by the The Land Institute and a house at 230 E. Republic which is being leased by The Land Institute for the interns. The rent income for these leases was \$2,755 for the year ended June 30, 2014. The Land Institute paid rent of \$500 for the house at 230 E. Republic for the year ended June 30, 2014 and also paid a security deposit of \$500. A security deposit of \$200 was received for the house at 3537 S. Ohio. The house at 3537 S. Ohio is being rented on a month-to-month basis. The house at 230 E. Republic is only being rented from May 15, 2014 to September 15, 2014.

15. Board Member Contributions

Grants and contributions received from members of the Board of Directors and organizations related to them, totaled \$516,986 for the year ended June 30, 2014.

16. Grants and Contributions

The Land Institute receives significant public support from individuals, foundations, corporations, and other entities. During the year, sixty foundations contributed a total of \$1,099,725 and five corporations and other entities contributed a total of \$248,647. The remaining public support of \$4,074,742 came from numerous individuals.

17. Advertising

The Land Institute uses advertising to promote its programs. The production costs of advertising are expensed as incurred.

18. Retirement Plan

The Land Institute has a defined contribution salary deferral plan covering employees meeting certain requirements. Under the plan, The Land Institute contributes five percent of each eligible employee's salary. The contribution expenses incurred in the fiscal year ending June 30, 2014 were \$50,138. Employees may also contribute their own pre-tax dollars under another retirement plan. The Land Institute does not match this voluntary contribution.

19. Collaborative Arrangement

The Land Institute and Kansas State University entered into a collaborative agreement on May 12, 2014 in order to develop Natural Systems Agriculture. Forms of program collaboration may include seeking acceptance by the University for granting adjunct faculty status for researchers at The Land Institute who end up collaborating on projects or serve on graduate student committees, joint use of facilities after respective approvals of each Party, collaborative proposal submissions for funding in targeted areas, sponsored research projects under separate research agreements executed between the Parties and/or with third parties, and exchange of faculty and/or students in accordance with the Parties' respective institutional procedures regarding same. Specific collaborative tasks other than those mentioned above shall be determined through mutual consultation and agreement of the Parties.

Transportation and per diem expenses for each Party shall be determined through mutual consultation and agreement of the Parties, but at least initially, each Party will be responsible for their own respective costs of participation and collaboration. The Parties shall strive to make the results of the collaboration publicly known to the scientific community and society at large utilizing numerous outreach methods, including publications, seminars, lectures, and conferences, which will be clearly established prior to the commencement of a definitive activity, or by mutual agreement at any time. Procedures for disclosing results shall be determined through mutual consultation and agreement by the Parties. Details concerning the sharing of expenses, publication of results, ownership of reports, data and results, and other matters shall be determined through mutual consultation and agreement by the Parties. For the avoidance of doubt, either Party may publish its results from any collaborative projects. Treatment of intellectual property rights will be more specifically outlined in separate research agreements and shall be determined consistent with principles of U.S. Patent Law, as well as each Party's regulations, procedures and policies. Ownership of intellectual property shall vest in the Party whose personnel conceived the subject matter and diligently pursued reducing the subject matter to practice, and such Party may perfect legal protection therein in its own name and at its own expense. Jointly made or generated intellectual property shall be jointly owned by the Parties unless otherwise agreed in writing.

Prior to signing the collaborative agreement, The Land Institute entered into a research agreement with Kansas State University to support a post doctoral researcher to carry out laboratory and field work to identify and quantify non-legume sources of nitrogen fixation in perennial crop agroecosystems. The term of the project is November 12, 2013 to November 11, 2014 and the cost to The Land Institute shall not exceed \$54,940. The Land Institute paid Kansas State University \$14,984 under this agreement for the year ended June 30, 2014. The expense is reported as contract services in the financial statements.

The Land Institute is also seeking a collaborative agreement with the University of Kansas.

20. Concentrations of Credit Risk

The company maintains cash balances and certificates of deposit at several banks. Balances at each bank are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2014, The Land Institute had uninsured cash balances in one bank in the amount of \$53. The company also maintains accounts at two brokerage firms including cash balances totaling \$229,813 and fourteen insured savings accounts totaling \$3,119,810 which are insured by the FDIC and the SIPC.

21. Subsequent Events

Subsequent events were evaluated through September 11, 2014, which is the date the financial statements were available to be issued.

22. Open Tax Years

The Land Institute's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2011, 2012, 2013, and 2014 are subject to examination by the IRS, generally for three years after they are filed.