

THE SAN JUAN PRESERVATION TRUST
FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014

The San Juan Preservation Trust

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December 31, 2015 and 2014

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Sanders & Sanders Sanders

CERTIFIED PUBLIC ACCOUNTANTS

A Professional Service Corporation

Independent Auditors' Report

The Board of Trustees
The San Juan Preservation Trust
San Juan Islands, Washington

We have audited the accompanying financial statements of San Juan Preservation Trust, (a nonprofit organization) which comprise the statements of financial position as of December 31, 2015, and 2014, and the related statements of activities, cash flows and functional expenses 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 controls relevant to the preparation and fair presentation of the 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 auditors consider 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 San Juan Preservation Trust, as of December 31, 2015, and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



August 24, 2016

**The San Juan Preservation Trust
Statements of Financial Position
December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents	\$ 899,687	\$ 593,575
Accrued investments income receivable	8	4
Inventory		3,096
Prepaid expenses	25,451	19,771
Unconditional promises to give:		
Unrestricted	2,723	6,957
Restricted to land acquisition	205,364	428,406
Allowance for doubtful accounts	<u>(9,000)</u>	<u>(9,000)</u>
Net unconditional promises to give	199,087	426,363
Long term investments - temporarily and unrestricted	5,089,979	6,217,851
Long term investments - permanently restricted	2,130,860	1,779,145
Buildings, equipment and furnishings	672,071	689,629
Land and conservation easements	<u>34,168,087</u>	<u>29,356,650</u>
Total assets	<u>\$ 43,185,230</u>	<u>\$ 39,086,084</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 160,909	\$ 100,850
Note payable - land transactions	<u>3,883,000</u>	<u>1,601,161</u>
Total liabilities	4,043,909	1,702,011
Net assets		
Unrestricted		
Undesignated	913,345	891,594
Designated for land acquisition	413,791	1,095,127
Designated for land stewardship	577,030	802,533
Designated for endowment	794,066	825,286
Land holdings	<u>30,910,920</u>	<u>28,392,401</u>
	33,609,152	32,006,941
Temporarily restricted		
Restricted for land stewardship	1,192,538	1,158,289
Restricted for land acquisition	628,524	735,212
Restricted for special stewardship endowment	1,578,297	1,700,036
Restricted for specific programs	<u>1,950</u>	<u>4,450</u>
	3,401,309	3,597,987
Permanently restricted		
General endowment	474,623	472,908
Gann endowment	100,000	100,000
Waldron endowment	556,237	556,237
Vendovi/Jack Endowment	<u>1,000,000</u>	<u>650,000</u>
	2,130,860	1,779,145
Total net assets	<u>39,141,321</u>	<u>37,384,073</u>
Total liabilities and net assets	<u>\$ 43,185,230</u>	<u>\$ 39,086,084</u>

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

The San Juan Preservation Trust
Statements Of Activities
For the Years Ended December 31, 2015 and 2014

	2015			2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue								
Contributions	\$ 674,776	\$ 2,328,999	\$ 351,715	\$ 3,355,490	\$ 745,542	\$ 1,126,340	\$ 651,900	\$ 2,523,782
Bequests	102,012			102,012	2,129			2,129
State grant		55,972		55,972		12,500		12,500
In-kind contributions	700,000			700,000				-00
Land and easements	363,600			363,600	681,360			681,360
Fundraising events, net of expenses	3,409			3,409	6,843			6,843
Other income	500			500	58	100,000		100,058
Net investment return	(72,069)	(40,444)		(112,513)	296,166	215,111		511,277
Released from restriction	2,541,205	(2,541,205)		-00	737,520	(737,520)		-00
Total support and revenue	4,313,433	(196,678)	351,715	4,468,470	2,469,618	716,431	651,900	3,837,949
Expenses								
Land preservation programs:								
Conservation easement purchases	1,365,892			1,365,892				
Easements and acquisitions	341,942			341,942	211,858			211,858
External education	198,915			198,915	188,233			188,233
Stewardship	447,697			447,697	407,362			407,362
Total preservation programs	2,354,446			2,354,446	807,453			807,453
Supporting services								
Management and general	132,852			132,852	135,752			135,752
Fundraising	223,924			223,924	179,009			179,009
Total expenses	2,711,222	-00	-00	2,711,222	1,122,214	-00	-00	1,122,214
Change in net assets	1,602,211	(196,678)	351,715	1,757,248	1,347,404	716,431	651,900	2,715,735
Net assets at beginning of year	32,006,941	3,597,987	1,779,145	37,384,073	30,659,537	2,881,556	1,127,245	34,668,338
Net assets at end of year	\$ 33,609,152	\$ 3,401,309	\$ 2,130,860	\$ 39,141,321	\$ 32,006,941	\$ 3,597,987	\$ 1,779,145	\$ 37,384,073

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

The San Juan Preservation Trust
Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 1,757,248	\$ 2,715,735
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Depreciation	34,251	30,251
Allowance for doubtful accounts		9,000
Non-cash contribution-debt forgiveness	(700,000)	
Non-cash contribution-easement adjustment	900,000	
 (Increase) decrease		
Accrued investment income receivable	(4)	1,365
Inventory	3,096	2,092
Prepaid expenses	(5,681)	(2,868)
Grants receivable		43,928
Unconditional promises to give - unrestricted	4,234	(368)
Unconditional promises to give - restricted	223,042	(425,931)
Increase (decrease) in accounts payable	60,055	40,926
Net realized and unrealized (gain) loss on investments	326,984	(317,062)
Net realized (gain) loss on dispositions of assets		544
Contributions of marketable securities	(791,126)	(737,584)
Contributions of land & buildings	(363,600)	(681,360)
Contributions restricted for land acquisition	(1,589,548)	(85,200)
Contributions restricted for permanent endowment	(351,715)	(650,000)
Net cash used by operating activities	<u>(492,764)</u>	<u>(56,532)</u>
 Cash Flows From Investing Activities		
Purchase of investments	(1,413,673)	(1,776,667)
Proceeds from sale and maturity of investments	2,653,475	1,627,022
Proceeds from sale of equipment	500	
Acquisition of land and buildings	(806,642)	(558,882)
Acquisition of equipment	(7,886)	(15,182)
Net cash used by investing activities	<u>425,774</u>	<u>(723,709)</u>
 Cash Flows From Financing Activities		
Contributions restricted for land acquisition	1,589,548	85,200
Payment on note payable	(1,568,161)	(250,000)
Contributions restricted for permanent endowment	351,715	650,000
Net cash provided by financing activities	<u>373,102</u>	<u>485,200</u>
 Cash and Cash Equivalents at Beginning of Year	<u>593,575</u>	<u>888,616</u>
Cash and Cash Equivalents at End of Year	<u>\$ 899,687</u>	<u>\$ 593,575</u>

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

**The San Juan Preservation Trust
Statement of Functional Expenses
For the Year Ended December 31, 2015**

	Easements & Acquisitions	External Education	Land Stewardship	Management and General	Fundraising	Total
Easement purchases	\$ 1,365,892					\$ 1,365,892
Staff salaries/Benefits	120,164	101,967	176,473	70,370	113,600	582,574
Contract services	27,378	27,017	30,982	2,035	34,137	121,549
Maintenance			114,574	1,475		116,049
Legal	109,732		2,396	34		112,162
Interest expense	55,197					55,197
Printing/Media/Identity	2,388	24,740	2,204	2,859	20,220	52,411
Payroll taxes	9,517	7,456	13,339	5,365	8,236	43,913
Insurance		4,428	25,502	14,058		43,988
Deprecation	812	980	30,835	812	812	34,251
Taxes /Fees			25,069	655	7,449	33,173
Rent and utilities	6,334	7,729	4,939	7,626	4,939	31,567
Meetings	411	6,199	1,715	4,405	9,934	22,664
Advertising/Outreach		8,675	1,146	358	9,601	19,780
Travel	1,220	2,226	11,660	1,942	1,521	18,569
Accounting				16,254		16,254
Postage	65	4,203	332	1,048	6,811	12,459
Phone	1,319	1,960	4,329	1,916	3,201	12,725
Supplies	382	943	2,078	1,484	3,463	8,350
Subscriptions/Dues	2,023	392	124	156		2,695
Grants	5,000					5,000
	<u>\$ 1,707,834</u>	<u>\$ 198,915</u>	<u>\$ 447,697</u>	<u>\$ 132,852</u>	<u>\$ 223,924</u>	<u>\$ 2,711,222</u>

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

**The San Juan Preservation Trust
Statement of Functional Expenses
For the Year Ended December 31, 2014**

	Easements & Acquisitions	External Education	Land Stewardship	Management and General	Fundraising	Total
Staff salaries/Benefits	\$ 121,045	\$ 105,454	\$ 180,188	\$ 59,829	\$ 105,128	\$ 571,644
Maintenance			82,774	1,410		84,184
Contract Services	5,559	13,412	14,854	1,912	14,263	50,000
Payroll taxes	9,833	8,325	15,129	5,828	8,220	47,335
Legal	29,546		16,248	34		45,828
Meetings	469	10,829	588	10,396	16,096	38,378
Insurance		2,271	21,452	14,063		37,786
Printing/Media/Identity	437	23,747	1,162	568	11,751	37,665
Interest	32,046					32,046
Rent/Utilities	6,247	7,475	4,705	7,475	4,705	30,607
Depreciation	1,102	1,415	25,530	1,102	1,102	30,251
Taxes & fees			23,910	244	3,851	28,005
Travel	1,629	2,301	10,851	1,820	1,423	18,024
Accounting				16,136		16,136
Phone	1,344	2,092	4,484	2,095	3,206	13,221
Supplies	468	1,378	5,166	1,303	2,357	10,672
Bad debts				10,000		10,000
Postage	108	4,783	251	623	3,776	9,541
Advertising/Outreach		3,070		821	2,898	6,789
Subscriptions/Dues	2,025	1,681	70	93	233	4,102
	<u>\$ 211,858</u>	<u>\$ 188,233</u>	<u>\$ 407,362</u>	<u>\$ 135,752</u>	<u>\$ 179,009</u>	<u>\$ 1,122,214</u>

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

The San Juan Preservation Trust
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014

The Organization

The San Juan Preservation Trust (the Trust) is a not-for-profit corporation exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. It was established in 1979 to preserve and protect the natural values and scenic beauty of the San Juan Islands by acting as custodian of land of special significance through acquisitions of conservation easements and land by gift or purchase.

Note 1 – Summary of Significant Accounting Policies

The financial statements of the San Juan Preservation Trust have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

a. Financial Statement Presentation.

The Trust follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958 *Not-for-Profit Entities*, which requires reporting of 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.

b. Restricted and Unrestricted Revenue.

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

When the Trust receives resources donated for specific purposes, the resources are treated as temporarily restricted net assets. When a donor restriction ends, that is, 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. When a donor places permanent restrictions on income producing assets, the resources are classified as permanently restricted net assets.

The Trust reports gifts of long-lived assets that arrive with a donor's explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, as restricted support. The Trust reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Other gifts of land, buildings and equipment are treated as unrestricted support if there are no explicit donor stipulations specifying how the donated assets must be used.

Absent explicit donor instructions investment earnings of temporarily restricted net assets are treated by the Trust as unrestricted income and may be combined with other unrestricted net assets.

c. Designated Net Assets

From time to time, the Trust designates a portion of its unrestricted net assets for special purposes. Since these designations are made by the Trustees and not by donors, the net assets are considered to be designated, but unrestricted.

d. Gifts of Land and Conservation Easements

The Trust records gifts of land at their estimated fair value as of the date of the gift. Fair value is based on appraised value, if available, or at assessed value for property taxation purposes. Conservation easements are not valued in the Trust's financial records as they carry no rights of affirmative use or access except for monitoring purposes, and constitute an obligation of the Trust to maintain and defend them.

e. Purchases of Land and Conservation Easements

The Trust records purchases of land at the lower of cost or fair value. Cost includes direct related costs, closing fees and taxes, legal fees. Purchased conservation easements, along with direct related costs of purchase, are treated as an expense in the Trust's financial records.

f. Promises to Give

Unconditional promises to give are recognized as revenue in the period received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discount over time is included in contribution revenue. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. The Trust provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

g. Cash and Cash Equivalents

The Trust considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

h. Inventories

Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

i. Donated Property and Services

The Trust records the value of materials donated by businesses and individuals in the regular course of business at their estimated fair value. Donated services are recognized as contributions only if the services a) create or enhance nonfinancial assets or b) required specialized skills, are performed by people with those skills, and would otherwise be purchased by the Trust. No contributed services were recorded for the years 2015 and 2014. Contributions of unspecialized labor are not recorded in the financial records. For example, unpaid volunteers make significant contributions of their time to the Trust. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation. No contributed services were recorded for the years 2015 and 2014.

j. Concentration of Contributions

The organization's fundraising efforts focus primarily on land owners and residents of the San Juan Islands. Economic conditions that impact the region can impact Trust contributions. Contributions are also sought from other individuals and organizations interested in the preservation of this geographic area.

k. Investments

Investments consist of marketable debt and equity securities, which are carried at their fair values in the statements of financial position. The Trust determines fair value for these investments in accordance with ASC Topic 820-10 *Fair Value Measurements*. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. Donated investments are reflected as contributions at their market value at the date of receipt.

l. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized in accordance with their principal purpose in the statements of activities and in the statements of functional expenses. Expenses related to more than one purpose are allocated among the programs and support services benefited.

The Trust provided the following program services:

- Easements & Acquisitions - costs of acquiring land and easements
- External Education - education of members and the public on conservation issues
- Stewardship – oversight and protection of Trust lands and easements including restoration of natural habitat and annual monitoring of land status.

Supporting services are divided between Management and General and Fundraising expenditures. Periodically, fundraising includes major campaigns to raise funds for specific land acquisition projects.

m. Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

n. Reclassifications

Certain accounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements. The reclassifications have no impact on the previously reported change in net assets.

o. Advertising

Advertising costs are expensed as incurred. Advertising costs totaled \$2,293 in 2015 and \$336 in 2014.

p. Federal Income Tax

The Trust's increases in net assets are exempt from federal income taxation under Internal Revenue Code Section 501(c)(3) as a public supported charity. In addition, the Trust qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and

has been classified as an organization other than a private foundation under Section 509(a)(2). The Trust's management believes that returns for years prior to 2012, are no longer subject to income tax examination.

q. Investment Pool

The Trust maintains a master investment account for its donor-restricted and board-designated endowment accounts. Realized and unrealized gains and losses from securities in the master investment account are allocated at least annually to the two segments of the master account based on the relationship of the market value of each endowment to the total market value of the master investment account, as adjusted for additions to or deductions from those accounts.

r. Subsequent Events

Management has evaluated subsequent events through August 24, 2016, the date the financial statements were available to be issued.

Note 2 – Buildings, Equipment and Furnishings

Buildings, equipment and furnishings at year end consist of the following components:

2015

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Stewardship buildings	\$ 621,500	\$ 58,832	\$ 562,668
Stewardship improvements	67,839	4,675	63,164
Stewardship equipment	64,352	30,007	34,345
Office equipment & furnishings	<u>88,586</u>	<u>76,692</u>	<u>11,894</u>
Total	<u>\$ 842,277</u>	<u>\$ 170,206</u>	<u>\$ 672,071</u>

2014

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Stewardship buildings	\$ 621,500	\$ 43,295	\$ 578,205
Stewardship improvements	59,034	328	58,706
Stewardship equipment	62,063	20,984	41,079
Office equipment & furnishings	<u>89,588</u>	<u>77,949</u>	<u>11,639</u>
Total	<u>\$ 832,185</u>	<u>\$ 142,556</u>	<u>\$ 689,629</u>

Stewardship buildings, equipment and furnishings include: office equipment and furnishings for Trust operations, assets acquired as part of Stewardship operations, land improvements capitalized as part of Stewardship restoration projects, Stewardship equipment for maintenance of managed lands. Depreciation is calculated using the straight-line method. Office equipment and furnishing, which includes software, are depreciated over three to seven years. Stewardship buildings are depreciated over forty years, and stewardship land improvements are depreciated over fifteen years. Stewardship equipment for maintenance of managed lands is depreciated over seven years.

All acquisitions of equipment and furnishings in excess of \$200, and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Equipment and furnishings are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation expenses totaled \$34,251 in 2015, and \$30,251 in 2014.

Note 3 – Cash, Cash Equivalents and Investments

Cash and cash equivalents include deposits (including certificates of deposit) with institutions insured by the Federal government, as well as in cash management accounts that are not directly insured by the Federal government. Interest rates on cash and cash equivalents ranged from .0001% to .16% in 2015, and .0001% to .18% in 2014. Investments are held in mutual funds in equities and fixed income investments. Fair values for investments are determined by reference to quoted market prices.

A summary of cash, cash equivalents and investments at the end of years 2015, and 2014, follows:

	<u>2015</u>	Unrealized	Gain (Loss)
	Market Cost	Value	
Cash and cash equivalents	\$ 899,687	\$ 899,687	\$
Mutual funds-Fixed income	2,534,764	2,450,042	(84,722)
Mutual funds-Equity securities	<u>3,871,511</u>	<u>4,770,797</u>	<u>899,286</u>
Total	<u>\$ 7,305,962</u>	<u>\$ 8,120,526</u>	<u>\$ 814,564</u>

	<u>2014</u>	Unrealized	Gain (Loss)
	Market Cost	Value	
Cash and cash equivalents	\$ 593,575	\$ 593,575	\$
Mutual funds-Fixed income	2,855,099	2,833,710	(21,389)
Mutual funds-Equity securities	<u>3,757,865</u>	<u>5,163,286</u>	<u>1,405,421</u>
Total	<u>\$ 7,206,539</u>	<u>\$ 8,590,571</u>	<u>\$ 1,384,032</u>

Investment gains and losses follow:

	<u>2015</u>	<u>2014</u>
Realized gains	\$ 242,485	\$ 169,378
Unrealized gains (losses)	(569,469)	147,684
Investment fees	(33,529)	(32,076)
Interest and dividends:		
Unrestricted	3,113	1,949
Unrestricted designated by the Board	117,952	120,899
Temporarily restricted	<u>126,935</u>	<u>103,443</u>
Net investment return	<u>\$ (112,513)</u>	<u>\$ 511,277</u>

The Trust's investment portfolio is managed by a professional investment firm. Monthly investment fees are paid based on portfolio market value. Investment fees paid or accrued totaled \$33,529 in 2015, and \$32,076 in 2014. Fees paid to mutual funds are deducted directly from investment earnings and have not been shown separately.

Financial instruments that potentially subject the Trust to concentrations of credit risk include temporary cash investments. The Trust places its temporary cash investments with financial and brokerage institutions. Temporary cash investment credit exposure is limited by investments in cash management funds that invest in a broad range of liquid investments. The Trust's temporary cash investments subject to credit risk held in brokerage accounts totaled \$363,321 at year end 2015, and \$285,944 at year end 2014. The Trust also invests in bond mutual funds and individual bond issues. Credit risk is minimized by selecting a broad assortment of issuers.

The Trust maintains cash balances for operations or before transfer to brokerage institutions at a single bank. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Trust had an uninsured balance of \$232,110 at December 31, 2015, and \$30,606 at December 31, 2014.

A portion of equity securities and fixed income investments are handled through investments in mutual funds some of which invest in international markets. Such investments may expose the Trust to financial risk through currency fluctuations and unforeseen international events.

Note 4 – Fair Value Measurements

The Trust has adopted the FASB ASC Topic 820-10 *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and specifies disclosures concerning fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.

Topic 820-10 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from participants and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs, with decreasing levels of reliability, used to measure fair value and the primary valuation methodologies used by the Trust for financial instruments measured at fair value on a recurring basis.

- Level 1 – quoted prices in active markets for identical assets or liabilities.
- Level 2 – inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same assets or liabilities.
- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the Trust's financial instruments carried at fair value as of December 31, 2015, and 2014:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 899,687	\$ 593,575
Fixed income mutual funds	2,450,042	2,833,709
Large-Cap mutual funds	3,356,372	3,646,228
Mid-cap equity mutual funds	387,640	429,601
Small cap equity mutual funds	112,748	172,255
Foreign equity mutual funds	<u>914,037</u>	<u>915,203</u>
	<u>\$ 8,120,526</u>	<u>\$ 8,590,571</u>

All valuations are considered to be Level 1 valuations and are provided by the Trust's investment advisory firm. Fair values reported may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Trust believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Note 5 – Non Cash Transactions and Cash Flow Information

The following donations have been recorded in the financial records:

	<u>2015</u>	<u>2014</u>
Land	\$ 363,600	\$ 681,360
Marketable securities	791,126	737,584
Forgiveness of debt	700,000	

The final \$700,000 debt for the purchase of Vendovi Island was cleared by way of a non-cash contribution (forgiveness of debt) from the lender.

Cash expenditures for interest expense were \$18,838 in 2015, and \$40,040 in 2014. There were no payments for income taxes in either year.

Note 6 - Land and Conservations Easements

At the end of 2015 a total of 15,963 acres are under protection after adjustment for the overlap between owned land and conservations easements. The Trust holds and protects 226 conservation easements. The Trust purchased a conservation easement covering 121 acres in 2015 on San Juan Island as well as a related half interest (balance held by the San Juan County Land Bank) in 20 acres which may be sold or placed under Trust protection. Two parcels of land covering 23 acres on Orcas Island were donated to the Trust in 2015. The Trust purchased three parcels adding 58 acres on two other islands in 2015. The Trust entered into a purchase jointly with the San Juan County Land Bank involving 313 acres on San Juan Island.

In 2014, two easements were amended to include an additional 91 covered acres. The Trust purchased a 10 acre parcel on San Juan Island in 2014 and received three land donations covering 21 acres.

The Trust holds four land parcels that are encumbered by life estates. It is the intention of the Trust to sell these parcels when the encumbrances are lifted.

Note 7 – Promises to Give

Payments on unconditional promises to give at December 31, 2015 and 2014, are expected to be received as follows:

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 198,707	\$ 429,682
Receivable in future years (net present value)	9,380	5,681
Less allowance for uncollectable promises	<u>(9,000)</u>	<u>(9,000)</u>
Net unconditional promises to give	<u>\$ 199,087</u>	<u>\$ 426,363</u>

Note 8 – Operating Leases

The Trust rents office space on San Juan Island, with a lease that expires in March 2017. The lease includes an option to cancel with 90 days notice. Operating lease payments were \$27,900 in 2015, and \$26,400, in 2014. Maximum lease payment commitments total \$27,900 annually for 2016 through March, 2017, subject to a CPI adjustment which is not yet determined.

Note 9 – Employee Benefit Plans

The Trust allows qualifying full-time employees to participate in a tax deferred SIMPLE IRA plan. Employees may make elective contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The Trust matches these contributions up to a maximum of 3% of gross salaries for participating employees. Plan expenses were \$14,981 in 2015, and \$14,486 in 2014.

The Trust allows qualifying full-time employees to participate in a group health insurance policy. Plan expenses totaled \$35,958 in 2015, and \$29,362 in 2014.

Note 10 – Notes Payable

The Trust borrowed \$3,400,000 from a private party to serve as bridge financing for the purchase of Vendovi Island, in 2010. Interest only payments are due annually at an interest rate of 1.53%. The loan is non-recourse and secured by the property with a Deed of Trust. The final scheduled payment was due in 2018. The Trust actively sought contributions for repayments of the loan and was required to transfer those funds to the lender as received. The note payable amounted to \$1,401,161, December 31, 2014. The note was paid in full in 2015 through a principal payment of \$701,161 and a \$700,000 contribution (forgiveness of debt) from the lender to bring the balance to zero at the year ending December 31, 2015.

As part of the acquisition of the Red Mill Farm property on San Juan Island, a real estate contract with a seller was negotiated with a face value of \$600,000. Payments of \$200,000 plus interest at 4% per annum are payable annually. The note matured in 2015, and was paid in full. The note payable amounted to \$-0-, and \$200,000, at December 31, 2015, and 2014, respectively.

Acquisitions in 2015 created four new notes payable:

The purchase of 40 acres with waterfront on Henry Island includes a real estate contract with the seller at 4% per annum interest and a face value of \$500,000. Full payment is due in July 2016. The balance on the note is \$500,000 at December 31, 2015.

The purchase of another 17 acres with waterfront on Henry Island includes a real estate contract with the seller at 4% interest and a face value of \$600,000. Payments of \$200,000 plus interest are due in April and October of 2016, and in April of 2017. The balance on the note is \$600,000 at December 31, 2015.

As part of a joint project with the San Juan County Land Bank, the Trust purchased a conservation easement on the Mount Grant/Lawson Ridge Preserve on San Juan Island. The Trust and the San Juan County Land Bank are co-borrowers on a non-recourse note with a face amount of \$2,000,000 held by the seller which requires 4% per annum interest. The agreement with the San Juan County Land Bank obligated the Trust for \$1,000,000 of the note. The Trust's portion of the principal payments are \$167,000 in 2016, and \$166,000 in 2017. The Trust's portion of the balance on the note is \$333,000 at December 31, 2015, after a principal payment of \$667,000 in 2015.

As part of a joint project with the San Juan County Land Bank, the Trust assisted in the purchase of 313 acres surrounding Zylstra Lake on San Juan Island. The Trust and the San Juan County Land Bank are co-borrowers on a \$2,700,000 non-recourse note held by the seller, which requires 4% per annum interest. The agreement with the San Juan County Land Bank obligated the Trust for \$2,450,000 of the note. The Trust's scheduled principal payments are \$900,000 in 2016, and 2017, and \$650,000 in 2018. The Trust's portion of the balance on the note is \$2,450,000 at December 31, 2015.

Future scheduled payments by year are as follows:

2016	1,967,000
2017	1,266,000
2018	<u>650,000</u>
	<u>\$ 3,883,000</u>

Note 11 – Endowments

The Trust manages endowments that include both donor-restricted net assets and net assets designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including amounts designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Adoption of UPMIFA and reclassifications

The State of Washington enacted the Uniform Prudent Management of Institutional Funds Act (the Act), effective July 1, 2009, the provisions of which apply to endowments existing on or established after that date.

Under the Act, the Trust classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the donor. The remaining portion of the donor-restricted endowment that is not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Trust in accordance with the Act.

Endowment investment policies

Under the Trust's endowment policies, the Trust's investment firm maintains a portfolio diversified among equity and fixed rate investments and seeks to maximize investment returns through both capital appreciation and current yield. Investment risk is measured in terms of total endowment funds. Investment assets and allocation between asset classes and strategies are managed to reduce levels of market or other risks.

Endowment spending policies-General Endowment

The Trust's spending policies have been adopted to balance the objective of maintaining the purchasing power of the endowment through investment return while providing current funds for Trust operations. Beginning in 2013, the Board has determined that 4% of the fair value of the general endowment should be transferred for current expenditure. Prior to 2013, only investment fee expenditures had been charged to the endowments.

Endowment spending policies-Special Endowments

Trust spending policies have been adopted to balance the objective of maintaining the purchasing power of the endowments through investment return and providing current funds for the endowed projects.

Board-designated Endowment

In prior years, the Board of Trustees designated \$588,540 of unrestricted net assets as a general endowment fund to support the mission of the Trust. An additional \$50,000 was designated by the Board in 2015. Since these amounts resulted from an internal designation and are not donor-restricted, the general board-designated fund is classified as unrestricted net assets. For investment purposes, these funds are pooled with the Trust's donor-designated general endowment portfolio and earnings are allocated annually.

Donor Restricted Endowments

The Trust maintains donor restricted endowments; General Endowment, Waldron Endowment, Special Stewardship, Gann Endowment, and Vendovi-Jack Island Endowment (established in 2014):

General Endowment: The Trust's permanently restricted General Endowment corpus was established to provide a sustainable source of unrestricted revenue for the Trust. Transfers for general expenses were \$68,000 in 2015, and \$66,000 in 2014. For investment purposes the General Endowment is pooled with the Trust's Board Designated Endowment portfolio, and earnings are allocated annually. Earnings are reported net of investment fees of \$7,371 in 2015, and \$7,289 in 2014.

Waldron Endowment: In 2012 The Nature Conservancy (TNC) transferred \$556,237 for a permanently restricted endowment, the earnings of which are to be used to support the maintenance of 480 acres of land on Waldron Island. Earnings transferred to offset Waldron Stewardship expenses were \$23,000 in 2015 and \$29,000 in 2014. Earnings are reported net of investment fees of \$2,793 in 2015, and \$2,789 in 2014. TNC requires status reporting on this endowment for a period of ten years.

Special Stewardship: In 2006, the Trust, together with the San Juan County Land Bank (the Land Bank) acquired a large parcel of land on Orcas Island known as "Turtleback Preserve". Under the arrangement, the Land Bank received title to the land and the Trust received a conservation easement. Under an agreement between the Trust and the Land Bank the Trust established a Special Stewardship quasi-endowment in the amount of \$1,000,000 to support the long term maintenance of the Preserve. The principal and earnings of this endowment are available for distribution under the supervision of both the Trust and the Land Bank. The corpus and earnings of this quasi-endowment are classified as temporarily restricted. Earnings are reported net of investment fees which were \$5,603 in 2015, and \$5,543 in 2014.

The Trust transfers funds from this endowment after approval from the Land Bank. Transfers for general expenses were \$40,295 in 2015, and \$30,807 in 2014. A special distribution of \$250,000 was transferred in 2012 to complete the financing package for the Turtleneck land parcel which is contiguous to the Turtleback Preserve.

Gann Endowment: The Trust's permanently restricted Gann endowment was established in 2013, with a \$100,000 contribution, to provide earnings restricted to stewardship maintenance of Red Mill Farm on San Juan Island. For investment purposes, these funds are pooled with the Trust's donor-restricted general endowment portfolio and earnings are allocated annually.

Vendovi-Jack Island Endowment: The Trust's permanently restricted Vendovi-Jack Island Endowment was established in 2014 with a \$650,000 contribution to provide a source of earnings to support stewardship costs of Vendovi Island and Jack Island. An additional \$350,000 was contributed to this endowment in 2015. Earnings are reported net of investment fees, which were \$3,492 in 2015, and \$890 in 2014. This fund was \$20,366 below the \$1,000,000 permanent equity value because of unrealized stock losses of \$62,696 at year end 2015.

Endowment composition by type:

	2015			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Net assets - beginning	\$ 825,286	\$ 1,700,036	\$ 1,779,145	\$ 4,304,467
Changes in investments:				
Contributions	50,000		351,715	401,715
Distributions	(50,000)	(81,295)		(131,295)
Net investment income	28,587	138,553		167,140
Net appreciation (depreciation)	<u>(59,807)</u>	<u>(178,997)</u>	<u> </u>	<u>(238,804)</u>
Net assets - ending	<u>\$ 794,066</u>	<u>\$ 1,578,297</u>	<u>\$ 2,130,860</u>	<u>\$ 4,503,223</u>

	2014			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets - beginning	\$ 769,270	\$ 1,610,732	\$ 1,127,245	\$ 3,507,247
Changes in investments:				
Contributions			651,900	651,900
Distributions		(125,807)		(125,807)
Net investment income	28,344	134,732		163,076
Net appreciation (depreciation)	<u>27,672</u>	<u>80,379</u>	<u> </u>	<u>108,051</u>
Net assets - ending	<u>\$ 825,286</u>	<u>\$ 1,700,036</u>	<u>\$ 1,779,145</u>	<u>\$ 4,304,467</u>

Note 12 – Restrictions on Net Assets

Restrictions on net assets are classified as follows:

Unrestricted Net Assets

Use of unrestricted net assets is at the discretion of the Trustees. From time to time, the Trustees designate unrestricted net assets for particular purposes. Earnings of temporarily restricted land stewardship net assets have been designated for future land stewardship needs, earnings of temporarily restricted land acquisition net assets have been designated for future land acquisition needs. Periodically the Trustees budget these designated earnings for current expenses and those amounts are removed from their Board designated categories and become undesignated unrestricted net assets. The net equity from land holdings (cost of land and stewardship structures less related debt) is separated from other types of unrestricted net assets.

Temporarily Restricted Net Assets

Net assets restricted for land stewardship are resources donated to the Trust to cover expenses of the Trust for management of Trust lands, for restoration of natural habitat on Trust lands and defense of the Trust's interest in land and easements. This supports the Trust's efforts to carry out the donor's intent in transferring conservation easements or outright gifts of land to the Trust.

Net assets restricted for land acquisition are resources donated to the Trust for the purchase of significant conservation land or easements. Some donations are further restricted as to island of interest or acquisition project of interest.

Net assets restricted for special stewardship endowment are resources establishing a quasi-endowment to provide earnings temporarily restricted to support the Turtleback Preserve.

Net assets restricted for specific programs are contributions restricted for various special projects.

Permanently Restricted Net Assets

General Endowment contains assets donated to create a perpetual source of unrestricted income to the Trust.

Waldron Endowment was established in 2012 to provide earnings temporarily restricted to stewardship maintenance of Waldron Island preserves.

Gann Endowment was established in 2013 to provide earnings temporarily restricted to stewardship maintenance of Red Mill Farm on San Juan Island.

Vendovi-Jack Endowment was established in 2014 to provide earnings temporarily restricted to stewardship maintenance of Vendovi Island and Jack Island.

Note 13 – Contingent Liabilities

As described in Note 6 and 10, The Trust entered into two joint land purchases with the San Juan County Land Bank in 2015. The Trust has recorded liabilities for the amount of Trust's agreed upon portion of these purchases. These amounts do not include debt balances which are expected to be paid by the Land Bank. A failure of the San Juan County Land Bank to fund these liabilities could result in the Trust taking over these debts or, could result in a default on the purchases and subsequent loss of the Trust's investment in the land parcels. The Land Bank's portion of the two notes payable, for which the Trust may be contingently liable at December 31, 2015, amount to \$1,000,000, and \$250,000, respectively.