
The San Juan Preservation Trust

Financial Statements

For the Years Ended December 31, 2019 & 2018

Thomson & Company, PLLC

Certified Public Accountants and Consultants

1334 King St. #2, PO Box 28190
Bellingham, WA 98228
ph:360.734.3939 fax:360.483.0207

Susan L. Thomson, CPA
susie@thomsoncpa.net

Member of:
American Institute of CPA's
Washington Society of CPA's

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The San Juan Preservation Trust
Friday Harbor, Washington

We have audited the accompanying statement of financial position of The San Juan Preservation Trust (a nonprofit corporation) as of December 31, 2019 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

These financial statements are the responsibility of the Trust's management. Management is responsible for the fair presentation and preparation 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 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 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 San Juan Preservation Trust as of December 31, 2019 and the changes in net assets, functional expenses, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Prior year Audit Information

The San Juan Preservation Trust's December 31, 2018 financial statements were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those audited financial statements in their report dated August 30, 2019.

Thomson & Company PLLC

Bellingham, Washington
October 6, 2020

THE SAN JUAN PRESERVATION TRUST
STATEMENT OF FINANCIAL POSITION

December 31 , 2019 and 2018	2019	2018
ASSETS		
Cash and cash equivalents	\$ 3,802,482	\$ 1,719,170
Accrued investment income receivable	2,726	728
Grants receivable	1,088	7,600
Prepaid expenses	35,066	51,233
Unconditional promises to give:		
Without donor restrictions	-	5,827
With donor restrictions - land acquisition	247,926	-
With donor restrictions - endowment & stewardship	1,984	2,173
Allowance for doubtful accounts	<u>(6,000)</u>	<u>(1,000)</u>
	243,910	7,000
Long term investments - with & without restrictions	8,614,983	6,595,847
Long term investments - with donor restrictions	2,751,697	2,638,815
Buildings, equipment and furnishings - net	2,374,957	2,274,307
Land	<u>36,026,530</u>	<u>36,099,936</u>
TOTAL ASSETS	<u>\$ 53,853,439</u>	<u>\$ 49,394,636</u>
 LIABILITIES		
Accounts payable & accrued expenses	<u>\$ 63,717</u>	<u>\$ 59,906</u>
TOTAL LIABILITIES	<u>63,717</u>	<u>59,906</u>
 NET ASSETS		
Without Donor Restrictions:		
Undesignated	3,386,683	1,590,033
Designated for stewardship	942,774	589,069
Designated for land acquisition	908,396	550,440
Designated for endowment	1,241,451	1,001,600
Land holdings	<u>38,190,693</u>	<u>38,230,953</u>
	44,669,997	41,962,095
With Donor Restrictions	<u>9,119,725</u>	<u>7,372,635</u>
TOTAL NET ASSETS	<u>53,789,722</u>	<u>49,334,730</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 53,853,439</u>	<u>\$ 49,394,636</u>

The accompanying notes are an integral part of these financial statements

THE SAN JUAN PRESERVATION TRUST
STATEMENT OF ACTIVITIES & CHANGES IN NET ASSETS

Years Ended December 31, 2019 & 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Contributions	\$ 848,947	\$ 899,581	\$ 1,748,528	\$ 882,030	\$ 560,120	\$ 1,442,150
Bequests	1,551,547	60,000	1,611,547	579,859	-	579,859
Land & easement donations	841,160	-	841,160	530,110	-	530,110
Government grants	-	23,184	23,184	-	60,093	60,093
Other income	44,926	92,509	137,435	19,881	-	19,881
Fundraising events	5,473	-	5,473	11,159	-	11,159
Asset sales	(116,147)	-	(116,147)	3,643	-	3,643
In-kind contributions	-	-	-	1,500	-	1,500
Net investment return	973,068	1,120,145	2,093,213	(193,089)	(267,169)	(460,258)
Released from restriction	448,329	(448,329)	-	762,088	(762,088)	-
TOTAL SUPPORT AND REVENUE	4,597,303	1,747,090	6,344,393	2,597,181	(409,044)	2,188,137
FUNCTIONAL EXPENSES						
Land preservation programs:						
Easements & acquisitions	547,762	-	547,762	144,123	-	144,123
External education	188,960	-	188,960	212,728	-	212,728
Land stewardship	709,841	-	709,841	691,308	-	691,308
	1,446,563	-	1,446,563	1,048,159	-	1,048,159
Supporting services:						
Management and general	233,340	-	233,340	280,586	-	280,586
Fundraising	209,498	-	209,498	188,176	-	188,176
TOTAL FUNCTIONAL EXPENSES	1,889,401	-	1,889,401	1,516,920	-	1,516,920
CHANGE IN NET ASSETS	2,707,902	1,747,090	4,454,992	1,080,261	(409,044)	671,217
NET ASSETS, BEGINNING	41,962,095	7,372,635	49,334,730	40,881,834	7,781,679	48,663,513
NET ASSETS, ENDING	\$ 44,669,997	\$ 9,119,725	\$ 53,789,722	\$ 41,962,095	\$ 7,372,635	\$ 49,334,730

The accompanying notes are an integral part of these financial statements

SAN JUAN PRESERVATION TRUST
STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended December 31, 2019

2019

	<u>Easements & Acquisitions</u>	<u>External Education</u>	<u>Land Stewardship</u>	<u>Total Programs</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Staff Salaries & Benefits	\$ 95,237	\$ 132,584	\$ 300,409	\$ 528,230	\$ 103,185	\$ 118,525	\$ 749,940
Contract services	11,358	6,718	21,378	39,454	18,382	23,275	81,111
Maintenance	531	-	150,125	150,656	4,036	-	154,692
Legal	31,858	-	4,953	36,811	-	-	36,811
Meetings	-	6,558	3,281	9,839	18,110	12,998	40,947
Payroll Taxes	7,200	10,230	23,043	40,473	7,695	8,857	57,025
Insurance	4,136	3,540	40,601	48,277	16,571	3,540	68,388
Rent & Utilities	6,526	7,179	6,636	20,341	11,550	3,787	35,678
Depreciation	557	566	98,091	99,214	557	557	100,328
Printing/Media/Identity	794	10,945	1,329	13,068	3,031	25,858	41,957
Taxes & Fees	3,356	-	39,123	42,479	313	5,236	48,028
Bad Debt Expense	-	-	-	-	20,000	-	20,000
Travel	749	2,163	9,951	12,863	2,261	894	16,018
Accounting	-	-	-	-	18,794	-	18,794
Phone	1,760	2,430	7,888	12,078	4,595	541	17,214
Postage	25	827	31	883	1,452	3,559	5,894
Advertising/ Outreach	-	780	-	780	460	1,025	2,265
Supplies	220	405	2,330	2,955	2,188	273	5,416
Subscriptions & Dues	3,400	3,935	472	7,807	160	573	8,540
Grants	380,055	100	200	380,355	-	-	380,355
	<u>\$ 547,762</u>	<u>\$ 188,960</u>	<u>\$ 709,841</u>	<u>\$ 1,446,563</u>	<u>\$ 233,340</u>	<u>\$ 209,498</u>	<u>\$ 1,889,401</u>

The accompanying notes are an integral part of these financial statements

SAN JUAN PRESERVATION TRUST
STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended December 31, 2018

2018

	<u>Easements & Acquisitions</u>	<u>External Education</u>	<u>Land Stewardship</u>	<u>Total Programs</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Staff Salaries & Benefits	\$ 83,542	\$ 131,630	\$ 310,727	\$ 525,898	\$ 145,206	\$ 103,464	\$ 774,568
Contract services	5,558	23,034	33,915	62,507	44,476	14,858	121,841
Maintenance	-	-	121,239	121,239	3,594	-	124,833
Legal	29,222	-	8,819	38,041	718	-	38,759
Meetings	330	14,649	1,799	16,778	15,402	23,636	55,817
Payroll Taxes	7,076	9,233	23,352	39,661	9,360	7,909	56,930
Insurance	3,483	3,483	35,145	42,111	15,024	3,483	60,618
Rent & Utilities	6,584	6,320	7,176	20,080	11,389	3,555	35,024
Depreciation	589	612	88,202	89,403	589	589	90,581
Printing/Media/Identity	640	12,973	1,826	15,439	5,234	13,997	34,670
Taxes & Fees	-	-	31,050	31,050	474	5,537	37,062
Travel	2,291	2,271	17,472	22,033	2,717	3,186	27,936
Accounting	-	-	-	-	17,028	-	17,028
Phone	1,110	1,842	7,592	10,544	4,590	816	15,951
Postage	338	2,476	307	3,121	1,645	2,899	7,665
Advertising/ Outreach	-	720	74	794	575	3,790	5,159
Supplies	262	118	1,990	2,369	2,487	375	5,231
Subscriptions & Dues	2,600	3,367	422	6,389	80	80	6,549
Grants	500	-	200	700	-	-	700
	<u>\$ 144,123</u>	<u>\$ 212,728</u>	<u>\$ 691,308</u>	<u>\$ 1,048,159</u>	<u>\$ 280,586</u>	<u>\$ 188,176</u>	<u>\$ 1,516,920</u>

The accompanying notes are an integral part of these financial statements

THE SAN JUAN PRESERVATION TRUST
STATEMENT OF CASH FLOWS

For The Years Ended December 31, 2019 & 2018	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 4,454,992	\$ 671,217
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	100,328	90,581
Loss (Gain) on sale of capital assets	116,147	(3,643)
Increase (Decrease) in allowance for doubtful accounts	5,000	(8,700)
(Increase) decrease in:		
Accrued investment income receivable	(1,998)	(483)
Prepaid expenses	16,167	(27,398)
Grants receivable	6,512	(7,600)
Unconditional promises to give - unrestricted	5,828	2,372
Unconditional promises to give - restricted	(263,861)	43,316
Amortization of discount on promises to give	1,124	(3,548)
Bad debt expense	15,000	-
Increase (decrease) in payables	3,811	(46,881)
Net realized and unrealized losses (gains) on investments	(1,843,668)	661,221
Contributions of marketable securities	(791,093)	(103,062)
Contributions of land, buildings, & equipment	(841,160)	(530,110)
Contributions restricted for land acquisition projects	(540,762)	(265,875)
Contributions restricted for permanent endowment	(110,710)	(247,815)
Net Cash Provided By (Used By) Operating Activities	<u>331,657</u>	<u>223,592</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,466,373)	(1,159,443)
Proceeds from sale & maturity of investments	1,923,499	1,880,104
Proceeds from sale of capital assets	874,987	4,043
Acquisition of land and buildings	(96,424)	(82,783)
Acquisition of equipment	(135,506)	(50,351)
Net Cash Provided By (Used By) Investing Activities	<u>1,100,183</u>	<u>591,570</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for land acquisition projects	540,762	265,875
Contributions restricted for permanent endowment	110,710	247,815
Net Cash Provided By (used By) Financing Activities	<u>651,472</u>	<u>513,690</u>
Beginning Cash in Banks	<u>1,719,170</u>	<u>390,318</u>
Ending Cash in Banks	<u>\$ 3,802,482</u>	<u>\$ 1,719,170</u>

The accompanying notes are an integral part of these financial statements

THE SAN JUAN PRESERVATION TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

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 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

b. Restricted and unrestricted revenue.

Contributions received are recorded as increases in revenue without donor restrictions or donor 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 donor restricted net assets. When a donor restriction ends, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to net assets without donor restrictions 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 net assets with donor restrictions.

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 net assets with donor restrictions are treated by the Trust as income and may be combined with other net assets without donor restriction.

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 gift. Fair value is based on appraised value, if available, or at assessed value for property taxation purposes. Donated conservation easements are not valued in the Trust 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.

THE SAN JUAN PRESERVATION TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies (continued)

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, taxes, and legal fees. Purchased conservation easements, along with direct related costs of purchase, are treated as an expense in the Trust 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 upon 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) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Trust. Contributions of unspecialized labor are not recorded in the financial records. For example, unpaid volunteers make significant contributions of their time to the Trust throughout the year that is not reflected in these statements since aforementioned recognition criteria were not met.

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. Recognizing revenue from contracts with customers.

The Financial Accounting Standards Board (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The standard will be effective for annual periods beginning after December 15, 2018. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The Trust follows these principles. The guidance will initially be applied retrospectively. There was no changes in receivables and deferred revenue for 2019 and 2018.

THE SAN JUAN PRESERVATION TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Upon receipt of an advance from grants and contracts from their funding sources, the Trust recognizes deferred revenue in the amount of the advance for its performance obligation to perform services in the future. At December 31, 2019 and 2018, the Trust has recorded deferred revenue of \$0 and \$0, respectively, which the Trust expects to recognize as revenue in the following year, when it performs those services and, therefore, satisfies its performance obligation to the funding sources.

The balances of receivables and deferred revenue from grants and contracts are as follows as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Grants Receivable	\$ 1,088	\$ 7,600
Deferred Revenue	\$ -	\$ -

l. Investments.

Investments in marketable debt and equity securities 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 Statements of Activities. Donated investments are reflected as contributions at their fair values at date of receipt.

m. 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.
- Land Stewardship - oversight and protection of Trust land 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.

n. 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 amounts of revenues and expenses. Actual results could differ from those estimates.

o. Advertising.

Advertising costs are expensed as incurred. Advertising costs totaled \$2,265 in 2019, and \$1,272 in 2018.

THE SAN JUAN PRESERVATION TRUST
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies (continued)

p. Federal income tax.

The Trust’s increases in net assets are exempt from federal income taxation under I.R.C. Section 501(c)(3) as a publicly 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 2016 are no longer subject to income tax examination.

q. Investment Pool.

The Trust maintains a master investment account for its with 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 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 October 6, 2020, 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:

	2019		
	<u>COST</u>	<u>ACCUMULATED DEPRECIATION</u>	<u>NET</u>
Stewardship Buildings	\$2,323,287	\$ 204,206	\$2,119,081
Stewardship Improvements	67,839	22,765	45,074
Stewardship Equipment	172,772	81,467	91,305
Office Equipment & Furnishings	<u>185,306</u>	<u>65,809</u>	<u>119,497</u>
	<u>\$2,749,204</u>	<u>\$ 374,247</u>	<u>\$2,374,957</u>
	2018		
	<u>COST</u>	<u>ACCUMULATED DEPRECIATION</u>	<u>NET</u>
Stewardship Buildings	\$2,226,863	\$ 145,451	\$2,081,412
Stewardship Improvements	67,839	18,243	49,596
Stewardship Equipment	174,959	72,981	101,978
Office Equipment & Furnishings	<u>90,047</u>	<u>48,726</u>	<u>41,321</u>
	<u>\$2,559,708</u>	<u>\$ 285,401</u>	<u>\$2,274,307</u>

Stewardship buildings, improvements, equipment, office equipment and furnishings for Trust operations include 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 furnishings, 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 is depreciated over seven years.

THE SAN JUAN PRESERVATION TRUST
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 2- Buildings, Equipment and Furnishings (continued)

All acquisitions of equipment and furnishings in excess of \$1,000 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 \$100,328 in 2019, and \$90,581 in 2018.

Note 3- Cash, Cash Equivalents and Investments

Cash and 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 0.05% to 0.35% in 2019, and 0.05% to 0.35% in 2018.

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 2019 and 2018 follows:

December 31, 2019

	MARKET <u>COST</u>	FAIR <u>VALUE</u>	UNREALIZED <u>GAIN(LOSS)</u>
Cash and cash equivalents	\$ 3,802,482	\$ 3,802,482	\$ -
Mutual funds- Fixed Income	3,082,156	3,125,614	43,458
Mutual funds- Equity securities	<u>5,605,624</u>	<u>8,241,066</u>	<u>2,635,442</u>
Totals	<u>\$ 12,490,262</u>	<u>\$ 15,169,162</u>	<u>\$ 2,678,900</u>

December 31, 2018

	MARKET <u>COST</u>	FAIR <u>VALUE</u>	UNREALIZED <u>GAIN(LOSS)</u>
Cash and cash equivalents	\$ 1,719,170	\$ 1,719,170	\$ -
Mutual funds- Fixed Income	3,165,343	3,030,901	(134,442)
Mutual funds- Equity securities	<u>5,179,997</u>	<u>6,203,761</u>	<u>1,023,764</u>
Totals	<u>\$ 10,064,510</u>	<u>\$ 10,953,832</u>	<u>\$ 889,322</u>

Investment gains and losses follow:

	<u>2019</u>	<u>2018</u>
Realized gains	\$ 54,089	\$ 259,381
Unrealized gains (losses)	1,789,579	(920,602)
Investment fees	(43,682)	(41,673)
Interest and dividends:		
Unrestricted	19,136	6,755
Unrestricted designated by the Board	137,583	124,191
Temporarily restricted	<u>136,508</u>	<u>111,690</u>
Net investment return	<u>\$2,093,213</u>	<u>\$ (460,258)</u>

THE SAN JUAN PRESERVATION TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 3- Cash, Cash Equivalents and Investments (continued)

The Trust's investment portfolio is managed by a professional investment firm. Monthly investment fees are paid based on portfolio market value. 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 \$2,491,239 at year-end 2019, and \$573,240 at year-end 2018. 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 was above the limit by \$1,020,317 at December 31, 2019, and above the limit by \$855,408 at December 31, 2018.

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 term of the 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 SAN JUAN PRESERVATION TRUST
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 4- Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 3,802,482	\$1,719,170
Fixed income mutual funds	3,125,614	3,030,901
Large-Cap mutual funds	6,494,963	4,888,356
Foreign equity mutual funds	<u>1,746,103</u>	<u>1,315,405</u>
	<u>\$ 15,169,162</u>	<u>\$ 10,953,832</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 non-cash donations for the years ended December 31, 2019 and 2018 have been recorded in the financial records:

	<u>2019</u>	<u>2018</u>
Land	\$841,160	\$530,110
Marketable securities	791,093	103,062
Event Supplies	-	1,500

Cash expenditures for interest expense were \$0 in 2019, and \$0 in 2018.

Note 6- Unconditional promises to give

Payments on unconditional promises to give at December 31, 2019 and 2018, are expected to be received as follows:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$172,662	\$ 6,927
Receivable in future years (net present value)	77,248	1,073
Less allowance for uncollectible promises receivable	<u>(6,000)</u>	<u>(1,000)</u>
Net unconditional promises to give at December 31	<u>\$243,910</u>	<u>\$ 7,000</u>

THE SAN JUAN PRESERVATION TRUST

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December 31, 2019 and 2018

Note 7- Land Holdings and Conservation Easements

At the end of 2019 a total of 17,788 acres are under protection, after adjustment for the overlap between owned land and conservation easements. The Trust holds and protects 241 conservation easements.

In 2019, the Trust received one gift of land, a .52 acre parcel on Orcas Island with a home the donor intended for us to sell and split net proceeds with another local non-profit. The sale and distribution was completed within the year. The Trust received two conservation easements: a 30 acre forested, agricultural property on San Juan Island; and a 10 acre parcel on the north end of Lopez, which had previously been an SJPT preserve encumbered with deed restrictions. The 10 acre parcel on Lopez was sold at a reduced price due to the deed restrictions and a conservation easement put in place to further protect the property.

In 2018, the Trust received two gifts of land, a 15 acre parcel on Lopez Island and a 48 acre parcel on Orcas Island which had been previously protected by a conservation easement. The Trust received three conservation easements, including the 285 acre Zylstra Lake Land Bank property on San Juan, a 25 acre parcel on the south end of Lopez and a 7 acre shoreline property on Stuart Island.

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 8- Operating Leases

The Trust rents office space on San Juan Island. It is leased until October, 2019. The lease includes the option to cancel with 90 days notice. Operating lease payments were \$28,800 in 2019, and \$28,800 in 2018. Maximum lease payment commitments total \$28,800 annually for 2020, subject to CPI adjustments which are 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 \$17,285 in 2019, and \$14,856 in 2018.

The Trust allows qualifying full-time employees to participate in a group health insurance plan. Plan expenses were \$61,717 in 2019, and \$68,544 in 2018.

Note 10- Endowment

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 endowment funds existing on or established after that date.

THE SAN JUAN PRESERVATION TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 10- Endowment (continued)

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 and donor imposed restrictions.

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

Trust 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.

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

The Board of Trustees designated unrestricted net assets as a general endowment fund to support the mission of the Trust. Since this amount resulted from an internal designation and is not donor-restricted, the general board-designated fund is classified as without donor restriction 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, Gann Endowment, Named Endowment (new 2017), Special Stewardship 1, Special Stewardship 2 (new 2017), Waldron Endowment, and Vendovi-Jack Island Endowment:

General Endowment: The Trust's permanently restricted General Endowment corpus was established to provide a sustainable source of revenue for the Trust. Transfers for general expenses were \$79,900 in 2019, and \$92,233 in 2018. For investment purposes, the General Endowment is pooled with the Trust's Board designated endowment portfolio, and earnings are allocated annually. Investment pool earnings are reported net of investment fees of \$9,518 in 2019, and \$9,450 in 2018.

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.

THE SAN JUAN PRESERVATION TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 10- Endowment Funds (continued)

Named Endowment: The Trust began an endowment outreach in 2017 to allow donors to establish funds named by the donors. Principal is permanently restricted. Two such funds were established in 2017. For investment purposes, these funds are pooled with the Trust's donor-designated general endowment portfolio and earnings are allocated annually.

Special Stewardship 1: In 2006, the Trust, together with the San Juan County Land Bank (the "Land Bank") acquired a large parcel of land on Orcas Island designated 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 fund are available for distribution under the supervision of both the Trust and the Land Bank. The corpus and earnings of this quasi-endowment fund are classified as temporarily restricted. Earnings are reported net of investment fees, which were \$6,171 in 2019, and \$6,346 in 2018.

The Trusts transfers funds from this endowment after approval of the Land Bank. Transfers for general expenses were \$42,930 in 2019, and \$54,132 in 2018. A special distribution of \$250,000 was transferred in 2012 to complete the financing package for the Turtleback land parcel, which is contiguous to the Turtleback Preserve.

Special Stewardship 2: In 2015, the Trust, together with the San Juan County Land Bank (the "Land Bank") acquired the Mt Grant property on San Juan Island. Under the arrangement, the Land Bank received title to the land and the Trust received a conservation easement. Final payment on the acquisition was made in 2017. Under an agreement between the Trust and the Land Bank, the Trust is establishing a Special Stewardship quasi-endowment to support the long-term maintenance of Mt Grant. The principal and earnings of this fund are available for distribution under the supervision of both the Trust and the Land Bank. While the goal is to create a \$1,000,000 endowment, the corpus collected for the fund is \$850,244. No distributions from the fund are expected in the early years in order to grow the fund balance. The corpus and earnings of this quasi-endowment are classified as temporarily restricted.

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 \$26,000 in 2019 and \$34,151 in 2018. Earnings are reported net of investment fees, which were \$2,765 in 2019 and \$2,843 in 2018. The TNC requires status reporting on this endowment for a period of ten years.

Vendovi-Jack Island Endowment: The Trust's permanently restricted Vendovi-Jack Island endowment was established in 2014 to provide a source of earnings to support stewardship costs of Vendovi Island and Jack Island. Additional endowment contributions were received in 2016 and in 2015. Earnings transferred to offset Vendovi-Jack stewardship expenses were \$42,024 in 2019 and \$138,648 in 2018. Earnings are reported net of investment fees, which were \$4,585 in 2019 and \$5,461 in 2018.

THE SAN JUAN PRESERVATION TRUST
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 10- Endowment Funds (continued)

Endowment composition by type:

	Without Donor Restrictions	With Donor Restrictions	Total
December 31, 2019			
Net assets, beginning	\$1,001,600	\$5,260,516	\$6,262,116
Contributions		110,710	110,710
Disbursements		(190,854)	(190,854)
Net Investment Income	24,783	133,751	158,534
Net Unrealized Gain (Loss)	<u>215,068</u>	<u>986,394</u>	<u>1,201,462</u>
	<u>\$1,241,451</u>	<u>\$6,300,517</u>	<u>\$7,541,968</u>
	Without Donor Restrictions	With Donor Restrictions	Total
December 31, 2018			
Net assets, beginning	\$1,069,472	\$5,683,734	\$6,753,206
Contributions		162,615	162,615
Disbursements		(318,665)	(318,665)
Net Investment Income	35,432	207,507	242,939
Net Unrealized Gain (Loss)	<u>(103,304)</u>	<u>(474,675)</u>	<u>(577,979)</u>
	<u>\$1,001,600</u>	<u>\$5,260,516</u>	<u>\$6,262,116</u>

Note 11- Net Assets

Net assets are classified as follows:

NET ASSETS WITHOUT DONOR RESTRICTIONS

Use of without donor restriction net assets is at the discretion of the Trustees. From time to time, the Trustees designate net assets without donor restriction for particular purposes. Earnings of net assets restricted to land stewardship have been designated for future land stewardship needs. Earnings of net assets restricted to land acquisition have been designated for future land acquisition needs. Periodically, the Trustees budget their Board designated categories and become undesignated net assets without donor restrictions. The net equity from land holdings (cost of land and stewardship structures less related debt) is separated from other types of net assets without donor restrictions.

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions	\$ <u>44,669,997</u>	\$ <u>41,962,095</u>

THE SAN JUAN PRESERVATION TRUST
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 11- Net Assets (continued)

Net Assets With Donor Restrictions

The following are net assets restricted by purpose:

<u>Net assets restricted for land stewardship</u> 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.	\$ 1,083,751	\$ 1,094,208
<u>Net assets restricted for land acquisition</u> 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.	1,728,920	1,008,362
<u>Net assets restricted for endowment</u> are resources establishing a quasi-endowment to provide earnings temporarily restricted to support specific properties.	3,548,319	2,619,529
<u>Net assets restricted for specific programs</u> are contributions restricted for various special projects.	<u>7,037</u>	<u>9,549</u>
Total net assets donor restricted to a purpose	<u>\$ 6,368,368</u>	<u>\$ 4,731,648</u>

Net Assets With Permanent Donor Restrictions

<u>General Endowment</u> contains assets donated to create a perpetual source of unrestricted income to the Trust.	\$ 669,090	\$ 608,449
<u>Named Endowment</u> was established in 2017. Each named fund contains assets donated to create a perpetual source of unrestricted income to the Trust.	326,371	276,301
<u>Waldon Endowment</u> was established in 2012 to provide earnings temporarily restricted to stewardship maintenance of Waldron Island preserves.	556,237	556,237
<u>Gann Endowment</u> was established in 2013 to provide earnings temporarily restricted to stewardship maintenance of Red Mill Farm on San Juan Island.	100,000	100,000

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December 31, 2019 and 2018

Note 11- Net Assets (continued)

<u>Vendovi Jack Endowment</u> was established in 2014 to provide earnings temporarily restricted to stewardship maintenance of Vendovi Island and Jack Island.	<u>1,100,000</u>	<u>1,100,000</u>
Total net assets with permanent donor restriction	<u>\$ 2,751,698</u>	<u>\$ 2,640,987</u>
Total Net Assets	<u>\$ 53,789,722</u>	<u>\$ 49,334,730</u>

Note 12 – Liquidity and Availability

The Trust has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Trust had financial assets available within one year of the date of the statement of financial position to meet cash needs, consisting of:

	<u>2019</u>	<u>2018</u>
Financial assets at year-end	\$ 15,388,235	\$ 10,960,460
Less those unavailable for general expenditure within one year, due to:		
Donor imposed restrictions:		
Restricted by donor subject to appropriation and satisfaction of donor restrictions	6,368,027	4,731,648
Restricted by donor for permanent endowment	2,751,698	2,640,987
Board designation of financial assets	<u>3,092,621</u>	<u>2,141,109</u>
Financial assets available within one year	<u>\$ 3,175,889</u>	<u>\$ 1,446,716</u>

Note 13 – Coronavirus (Covid-19) Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread worldwide and is impacting the State of Washington, where the Trust operates.

On February 29, 2020 the Governor of the State of Washington declared a State of Emergency. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. On March 13, 2020, the President of the United States declared a national emergency. Finally, on March 23, 2020, the Governor of the State of Washington issued “Stay at Home, Stay Healthy” order for all Washington residents to stay at home to combat the spread of the COVID-19 virus. This order allows certain essential business to continue to maintain their operations during this time. The Trust’s business is not included in the definition of essential businesses but has been able to maintain some of its operations through the coronavirus pandemic.

The Trust closed their office on March 25, 2020 and set staff up to work remotely from home.

THE SAN JUAN PRESERVATION TRUST
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 13 – Coronavirus (Covid-19) Pandemic (continued)

Short-term and long-term potential impacts to the Trust have not been determined, but may include access to labor, materials and capital, or even its ability to operate by matter of law. Management’s knowledge and awareness of the situation is changing on a daily basis and the financial statements do not reflect any negative outcome or impairment, as management has not been able to determine any such outcome or impairment to the Trust as of the date of issuance of the financial statements.

The financial statements of the Trust are based on fundraising events, donations, and grants, among many other estimates. The Trust has not assessed any impact to its financial statements, nor determined any change in budgeted amounts as a result of the pandemic. The Trust has not included any contingencies in the financial statements specific to the coronavirus pandemic.