

**THE SAN JUAN PRESERVATION TRUST**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 and 2017**

# The San Juan Preservation Trust

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December 31, 2018 and 2017

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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, 2018, and 2017, 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, 2018, and 2017, 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 30, 2019  
Belfair, Washington

**The San Juan Preservation Trust**  
**Statements of Financial Position**  
**December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,719,170	\$ 390,318
Accrued investments income receivable	728	245
Grants receivable	7,600	
Prepaid expenses	51,233	23,836
Unconditional promises to give:		
Without donor restrictions	5,827	8,200
With donor restrictions - land acquisition		6,608
With donor restrictions - endowment and stewardship	2,173	38,881
Allowance for doubtful accounts	(1,000)	(9,700)
Net unconditional promises to give	7,000	43,989
Long term investments - with and without restrictions	6,595,847	8,072,490
Long term investments - with donor restrictions	2,638,815	2,439,991
Buildings, equipment and furnishings	2,274,307	2,229,605
Land	36,099,936	35,569,826
Total assets	\$ 49,394,636	\$ 48,770,300
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 59,906	\$ 106,787
Total liabilities	59,906	106,787
Net assets		
Without donor restrictions		
Undesignated	1,590,033	979,927
Designated for land acquisition	550,440	506,618
Designated for land stewardship	589,069	644,087
Designated for endowment	1,001,600	1,069,472
Land holdings	38,230,953	37,681,730
	41,962,095	40,881,834
With donor restrictions	7,372,635	7,781,679
Total net assets	49,334,730	48,663,513
Total liabilities and net assets	\$ 49,394,636	\$ 48,770,300

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, 2018 and 2017**

	2018		2017	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
	Total	Total	Total	Total
<b>Support and Revenue</b>				
Contributions	\$ 882,030	\$ 560,120	\$ 1,442,150	\$ 1,641,648
Bequests	579,859		579,859	1,572
Land and easements donation	530,110		530,110	5,066,500
Government grants		60,093	60,093	7,674
Other income	19,881		19,881	2,610
Fundraising events, net of expenses	11,159		11,159	8,492
Asset sale	3,643		3,643	
In-kind contributions	1,500		1,500	778
Net investment return	(193,089)	(267,169)	(460,258)	726,159
Released from restriction	762,088	(762,088)	-	(518,908)
Total support and revenue	<u>2,597,181</u>	<u>(409,044)</u>	<u>2,188,137</u>	<u>1,061,470</u>
			<u>7,007,926</u>	<u>8,069,396</u>
<b>Expenses</b>				
Land preservation programs:				
Conservation easement purchases			141,544	141,544
Easements and acquisitions	144,123		144,123	206,529
External education	212,728		212,728	233,056
Stewardship	691,308		691,308	548,685
Total preservation programs	<u>1,048,159</u>		<u>1,048,159</u>	<u>1,129,814</u>
Supporting services				
Management and general	280,585		280,585	252,196
Fundraising	188,176		188,176	173,679
Total expenses	<u>1,516,920</u>	<u>-</u>	<u>1,516,920</u>	<u>1,555,689</u>
<b>Change in net assets</b>	<u>1,080,261</u>	<u>(409,044)</u>	<u>671,217</u>	<u>1,061,470</u>
Net assets at beginning of year	40,881,834	7,781,679	48,663,513	6,720,209
Net assets at end of year	<u>\$ 41,962,095</u>	<u>\$ 7,372,635</u>	<u>\$ 49,334,730</u>	<u>\$ 7,781,679</u>
			<u>\$ 40,881,834</u>	<u>\$ 48,663,513</u>

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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities</b>		
Increase in net assets	\$ 671,217	\$ 6,513,707
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Depreciation	90,581	38,808
Non-cash contribution-easement adjustment		141,544
Gain on sale of equipment	(3,643)	
(Increase) decrease		
Accrued investment income receivable	(483)	(125)
Prepaid expenses	(27,398)	1,385
Grants receivable	(7,600)	4,513
Unconditional promises to give - unrestricted	2,372	(3,360)
Unconditional promises to give - restricted	43,316	342,284
Amortization of discount on promises to give	(3,548)	(2,645)
Increase (decrease) in allowance for uncollectable pledges	(8,700)	(300)
Increase (decrease) in accounts payable	(46,881)	(53,049)
Net realized and unrealized (gain) loss on investments	661,221	(1,165,224)
Contributions of marketable securities	(103,062)	(72,926)
Contributions of land & buildings	(530,110)	(5,066,500)
Contributions restricted for land acquisition	(265,875)	(912,230)
Contributions restricted for permanent endowment	(247,815)	(207,815)
Net cash used by operating activities	<u>223,592</u>	<u>(441,933)</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of investments	(1,159,443)	(1,943,017)
Proceeds from sale and maturity of investments	1,880,104	684,353
Proceeds from sale of land and equipment	4,043	
Acquisition of land and buildings	(82,783)	(13,313)
Acquisition of equipment	(50,351)	(40,568)
Net cash used by investing activities	<u>591,570</u>	<u>(1,312,545)</u>
<b>Cash Flows From Financing Activities</b>		
Contributions restricted for land acquisition	265,875	912,230
Payment on note payable		(366,000)
Contributions restricted for permanent endowment	247,815	207,815
Net cash provided by financing activities	<u>513,690</u>	<u>754,045</u>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>390,318</u>	<u>1,390,751</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 1,719,170</u>	<u>\$ 390,318</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, 2018**

	Easements & Acquisitions	External Education	Land Stewardship	Total Programs	Management and General	Fundraising	Total
Staff salaries/Benefits	\$ 83,542	\$ 131,630	\$ 310,727	\$ 525,899	\$ 145,206	\$ 103,464	\$ 774,569
Maintenance			121,239	121,239	3,594		124,833
Contract Services	5,558	23,034	33,915	62,507	44,476	14,858	121,841
Legal	29,222		8,819	38,041	718		38,759
Insurance	3,483	3,483	35,145	42,111	15,024	3,483	60,618
Payroll taxes	7,076	9,233	23,352	39,661	9,360	7,909	56,930
Printing/Media/Identity	640	12,973	1,826	15,439	5,234	13,997	34,670
Depreciation	589	612	88,202	89,403	589	589	90,581
Taxes & fees			31,050	31,050	474	5,537	37,061
Rent/Utilities	6,584	6,320	7,176	20,080	11,389	3,555	35,024
Meetings	330	14,649	1,799	16,778	15,402	23,636	55,816
Travel	2,291	2,271	17,472	22,034	2,717	3,186	27,937
Accounting				0	17,028		17,028
Subscriptions/Dues	2,600	3,367	422	6,389	80	80	6,549
Phone	1,110	1,842	7,592	10,544	4,590	816	15,950
Advertising/Outreach		720	74	794	575	3,790	5,159
Grants	500		200	700			700
Supplies	262	118	1,990	2,370	2,487	375	5,232
Postage	336	2,476	308	3,120	1,642	2,901	7,663
	<u>\$ 144,123</u>	<u>\$ 212,728</u>	<u>\$ 691,308</u>	<u>\$ 1,048,159</u>	<u>\$ 280,585</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 Functional Expenses**  
**For the Year Ended December 31, 2017**

	Easements & Acquisitions	External Education	Land Stewardship	Total Programs	Management and General	Fundraising	Total
Staff salaries/Benefits	\$ 95,559	\$ 143,801	\$ 263,220	\$ 502,580	\$ 132,505	\$ 92,725	\$ 727,810
Easement purchases	141,544			141,544			141,544
Contract services	34,903	20,176	32,935	88,014	26,473	10,074	124,561
Maintenance	216	1,113	79,683	81,012	1,720	384	83,116
Legal	39,006		24,584	63,590	3,191	1,258	68,039
Meetings	88	21,599	3,520	25,207	12,943	21,000	59,150
Payroll taxes	7,442	10,051	19,262	36,755	9,435	6,757	52,947
Insurance	3,708	3,708	26,689	34,105	14,620	3,708	52,433
Rent and utilities	6,552	7,908	10,561	25,021	9,143	5,081	39,245
Deprecation	576	599	36,482	37,657	576	576	38,809
Printing/Media/Identity	811	14,751	2,192	17,754	2,478	13,904	34,136
Taxes /Fees	100		22,652	22,752	167	6,258	29,177
Travel	356	790	15,822	16,968	10,708	286	27,962
Accounting				0	16,825		16,825
Phone	1,104	1,606	8,122	10,832	4,121	1,114	16,067
Interest expense	12,628			12,628			12,628
Postage	205	4,384	249	4,838	1,784	4,673	11,295
Advertising/Outreach		738	243	981	3,277	4,958	9,216
Supplies	676	455	1,818	2,949	1,872	759	5,580
Subscriptions/Dues	2,599	1,377	651	4,627	358	164	5,149
	<u>\$ 348,073</u>	<u>\$ 233,056</u>	<u>\$ 548,685</u>	<u>\$ 1,129,814</u>	<u>\$ 252,196</u>	<u>\$ 173,679</u>	<u>\$ 1,555,689</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, 2018 and 2017**

**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 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 the 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'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, taxes, and 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. 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 financial 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. 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 \$1,272 in 2018, and \$1,482 in 2017.

*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 2015, 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 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 30, 2019, 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:

	<b><u>2018</u></b>		
	<u>Cost</u>	Accumulated <u>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>
Total	<u>\$ 2,559,708</u>	<u>\$ 285,401</u>	<u>\$ 2,274,307</u>
	<b><u>2017</u></b>		
	<u>Cost</u>	Accumulated <u>Depreciation</u>	<u>Net</u>
Stewardship buildings	\$ 2,144,080	\$ 90,820	\$ 2,053,260
Stewardship improvements	67,839	13,720	54,119
Stewardship equipment	138,096	51,123	86,973
Office equipment & furnishings	<u>76,559</u>	<u>41,306</u>	<u>35,253</u>
Total	<u>\$ 2,426,574</u>	<u>\$ 196,969</u>	<u>\$ 2,229,605</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 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 \$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 \$90,581 in 2018, and \$38,808 in 2017.

### 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 .05% to .35% in 2018, and .05% to .72% in 2017. 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 2018, and 2017, follows:

	<b>2018</b>		
	Market Cost	Unrealized Value	Gain (Loss)
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>
Total	<u>\$ 10,064,510</u>	<u>\$ 10,953,832</u>	<u>\$ 889,322</u>

	<b>2017</b>		
	Market Cost	Unrealized Value	Gain (Loss)
Cash and cash equivalents	\$ 390,318	\$ 390,318	\$
Mutual funds-Fixed income	3,340,491	3,296,305	(44,186)
Mutual funds-Equity securities	<u>5,362,067</u>	<u>7,216,176</u>	<u>1,854,109</u>
Total	<u>\$ 9,092,876</u>	<u>\$ 10,902,799</u>	<u>\$ 1,809,923</u>

Investment gains and losses follow:

	<b>2018</b>	<b>2017</b>
Realized gains	\$ 259,381	\$ 32,621
Unrealized gains (losses)	(920,602)	1,132,603
Investment fees	(41,673)	(38,290)
Interest and dividends:		
Unrestricted	6,755	3,177
Unrestricted designated by the Board	124,191	109,426
Temporarily restricted	<u>111,690</u>	<u>100,585</u>
Net investment return	<u>\$ (460,258)</u>	<u>\$ 1,340,122</u>

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 \$1,719,170 at year end 2018, and \$390,318 at year end 2017. 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 \$1,172,310 at December 31, 2018, and below the limit at December 31, 2017.

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, 2018, and 2017:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 1,719,170	\$ 390,318
Fixed income mutual funds	3,030,901	3,296,305
Large-Cap mutual funds	4,888,356	5,665,350
Foreign equity mutual funds	<u>1,315,405</u>	<u>1,550,826</u>
	<u>\$ 10,953,832</u>	<u>\$ 10,902,799</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>2018</u>	<u>2017</u>
Land	\$ 530,110	\$ 5,066,500
Marketable securities	103,062	72,926
Event supplies	1,500	778

The Zylstra property which was acquired along with the San Juan County Land Bank in 2015 was fully transferred to the Land Bank at the end of 2017 in exchange (as originally planned) for a conservation easement. The net amount expended in prior years was converted from asset and liability to an expense for the purchase of the easement.

Cash expenditures for interest expense were \$-0- in 2018, and \$12,628 in 2017.

#### **Note 6 – Unconditional Promises to Give**

Payments on unconditional promises to give at December 31, 2018 and 2017, are expected to be received as follows:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 6,927	\$ 21,790
Receivable in future years (net present value)	1,073	31,899
Less allowance for uncollectable promises	<u>(1,000)</u>	<u>(9,700)</u>
Net unconditional promises to give at December 31	<u>\$ 7,000</u>	<u>\$ 43,989</u>

**Note 7 - Land and Conservations Easements**

At the end of 2018 a total of 17,789 acres are under protection after adjustment for the overlap between owned land and conservations easements. The Trust holds and protects 239 conservation easements.

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.

In 2017, the Trust received three land gifts: A 2 acre forest and wetland parcel on Lopez Island near Port Stanley, a 5 acre forested parcel on Buck Mountain on Orcas Island, and a 330 acre parcel on Shaw Island which had previously been protected by a conservation easement held by the Trust. The Shaw parcel includes a historic home and other buildings and improvements. The Trust received five conservation easements on three islands. Final financing for the Zylstra property was completed in 2017 when the Land Bank directly paid all outstanding debt on the land acquisition. The Trust transferred all interest in the land to the Land Bank in exchange for the conservation easement protections.

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 an option to cancel with 90 days notice. Operating lease payments were \$28,800 in 2018, and \$28,800, in 2017. Maximum lease payment commitments total \$28,800 annually for 2019, 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 \$14,856 in 2018, and \$16,368 in 2017.

The Trust allows qualifying full-time employees to participate in a group health insurance policy. Plan expenses totaled \$68,544 in 2018, and \$66,083 in 2017.

**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 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

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.

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 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, Gann Endowment, Named Endowment (new in 2017), Special Stewardship 1, Special Stewardship 2 (new in 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 unrestricted revenue for the Trust. Transfers for general expenses were \$86,233 in 2018, and \$72,679 in 2017. 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 \$9,450 in 2018, and \$7,967 in 2017.

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.

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 the Trust's donor-restricted 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 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 \$6,346 in 2018, and \$6,013 in 2017.

The Trust transfers funds from this endowment after approval of the Land Bank. Transfers for general expenses were \$54,132 in 2018, and \$26,847 in 2017. 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.

Special Stewardship 2: In 2015, the Trust together with the San Juan County 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 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, funds currently collected total approximately \$850,000.

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 \$34,151 in 2018, and \$16,158 in 2017. Earnings are reported net of investment fees of \$2,843 in 2018 and \$2,807 in 2017. 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 2015. Earnings transferred to offset Vendovi-Jack stewardship expenses were \$138,648 in 2018 and \$45,389 in 2017. Earnings are reported net of investment fees, which were \$5,461 in 2018 and \$5,263 in 2017.

Endowment composition by type:

	<b><u>2018</u></b>		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment			
Net assets - beginning	\$ 1,069,472	\$5,683,734	\$ 6,753,206
Changes in investments:			
Contributions		162,615	162,615
Distributions		(318,665)	(318,665)
Net investment income	35,432	207,507	242,939
Net appreciation (depreciation)	<u>(103,304)</u>	<u>(474,675)</u>	<u>(577,979)</u>
Endowment			
Net assets - ending	<u>\$ 1,001,600</u>	<u>\$ 5,260,516</u>	<u>\$ 6,262,116</u>
	<b><u>2017</u></b>		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment			
Net assets - beginning	\$ 897,503	\$4,022,208	\$ 4,919,711
Changes in investments:			
Contributions		1,096,440	1,096,440
Distributions		(161,073)	(161,073)
Net investment income	21,110	89,989	111,099
Net appreciation (depreciation)	<u>150,859</u>	<u>636,170</u>	<u>787,029</u>
Endowment			
Net assets - ending	<u>\$ 1,069,472</u>	<u>\$5,683,734</u>	<u>\$ 6,753,206</u>

### **Note 11 – Net Assets**

Net assets are classified as follows:

#### Net Assets without donor restrictions

Use of net assets without donor restrictions is at the discretion of the Trustees. From time to time, the Trustees designate net assets without donor restrictions 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 these designated earnings for current expenses and those amounts are removed from 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>2018</u>	<u>2017</u>
Net assets without donor restrictions	\$ 41,962,095	\$ 40,881,834

Net Assets With Donor Restrictions

The following are net assets restricted by purpose:

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.

	\$ 1,094,208	\$ 1,343,309
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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.

	1,008,362	742,487
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Net assets restricted for endowment are resources establishing a quasi-endowment to provide earnings temporarily restricted to support specific properties.

	2,619,529	3,204,862
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Net assets restricted for specific programs are contributions restricted for various special projects.

	<u>9,549</u>	<u>12,149</u>
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Total net assets donor restricted to a purpose	\$ 4,731,648	\$ 5,302,807
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Net Assets With Permanent Donor Restrictions

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

	\$ 608,449	\$ 607,114
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Named Endowment was established in 2017. Each named fund contains assets donated to create a perpetual source of unrestricted income to the Trust.

	276,301	115,521
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Waldron Endowment was established in 2012 to provide earnings temporarily restricted to stewardship maintenance of Waldron Island preserves.

556,237	556,237
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Gann Endowment 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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Vendovi-Jack Endowment 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>
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Total net assets with permanent donor restriction	<u>\$ 2,640,987</u>	<u>\$ 2,478,872</u>
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Total Net Assets	<u>\$49,334,730</u>	<u>\$48,663,513</u>
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#### 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>2018</u>	<u>2017</u>
Financial assets at year-end	\$ 10,960,460	\$ 10,947,034
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	4,731,648	5,302,807
Restricted by donor for permanent endowment	2,640,987	2,478,87
Board designation of financial assets	<u>2,141,109</u>	<u>2,220,177</u>
Financial assets available within one year	<u>\$ 1,446,716</u>	<u>\$ 945,178</u>

#### Note 13 – Change in Presentation

The Trust adopted Accounting Standards Update 2016-14 (ASU 2016-14) during the year ended December 31, 2018. ASU 2016-14 requires net assets to be presented as “without donor restrictions” and “with donor restrictions” on the statement of financial position. Also on the statement of activities, the columns will be labeled as “without donor restrictions” and “with donor restrictions”. Prior to adoption, the net assets on the statement of financial position were presented as unrestricted, temporarily restricted, and permanently restricted. ASU 2016-14 states that it should be applied on a retrospective basis for comparative basis financial statements in the year of adoption. There were not changes in the net asset classes and there were not reclassifications.