SANTA CATALINA ISLAND CONSERVANCY

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)

WITH INDEPENDENT AUDITORS' REPORT

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MISSION & BACKGROUND

To be a responsible steward of our lands through a balance of conservation, recreation and education.

Founded in 1972 as a non-profit organization, the Catalina Island Conservancy ("Conservancy") is one of the oldest private land trusts in Southern California. It protects 88 percent of Catalina Island, including more than 62 miles of unspoiled beaches and secluded coves—the longest publicly accessible stretch of undeveloped coastline left in Southern California. Catalina Island is home to more than 60 plant, animal and insect species found nowhere else in the world. It is visited by more than one million people annually. More than sixty thousand school children each year visit camps on Conservancy lands.

FINANCIAL STATEMENT OVERVIEW

The Conservancy's Consolidated Statement of Activities reflects a number of sources of revenues including traditional philanthropic revenue (Contributions that are both Unrestricted and Temporarily Restricted in nature), revenues from a variety of activities that support its mission including land-lease revenues with tenants that provided educational experiences at various camps on the island, recreational activities such as eco tours, camping fees, admissions to the Wrigley Memorial and Botanic Garden, Airport access and transportation fees, etc. Also reflected in Total Revenue, gains (losses) and other support are the various impacts on the Conservancy investment portfolio (consisting primarily of endowment assets) from investment markets activities over the course of a year including dividends and interest income earned and gains and (losses), both recognized and unrecognized in investment balances.

These sources of funding, combined with annual endowment payouts, help to fund a wide array of activities each year. These include programmatic activities directly tied to the Conservancy's mission such as wildlife and plant conservation programs, a variety of youth education programs, and recreational programs including hiking trail system expansion and maintenance. Significant functional and capital spending is also incurred each year to maintain Conservancy infrastructure which includes maintaining over 200 miles of roads, the Airport in the Sky, numerous buildings, and a fleet of vehicles and heavy equipment.

FINANCIAL STATEMENT HIGHLIGHTS FROM 2017

2017 saw the Conservancy significantly advance two key capital projects related to the Comprehensive Fundraising Campaign (the "Campaign") that was launched in 2015. The Conservancy's financial statements that follow reflect the impacts of these projects in a number of areas.

In the area of Revenue and other support, total contributions were in excess of $5 million in 2017, an increase of 21% from 2016. Of this total, $2.7 million was for projects related to the Campaign. This includes $1.5 million for the expansion of the island-wide trail hiking network funded by a grant from the County of Los Angeles. This grant allowed the Conservancy to add 27 miles of new trails, enhanced trail signage and six new restroom buildings on the trails, all substantial improvements to the hiking infrastructure on the island. The work funded by this grant was substantially completed in 2017 and the Conservancy's Statement of Financial Position reflects a $932,000 receivable from the County related to the grant (and was collected in 2018). The Conservancy also made significant progress toward the completion of its new visitor center in Avalon, the Trailhead. In addition to funds raised in prior years, $1.1 million was raised in 2017, and $5 million was spent toward the construction of this facility in 2017 with its opening expected later in 2018. The work done on these two key projects are reflected throughout the Conservancy's financial statements, specifically in the increased Property and Equipment on the Statement of Financial Position, in the Net assets released from restrictions on the Statement of Activities, and in the Purchases of Property and Equipment on the Statement of Cash Flow. Receipts of payments on pledged Campaign contributions made in prior years was generally on schedule in 2017 and resulted in a reduction in net Pledges Receivable of over $2.7 million from 2016.

The Conservancy also realized growth in other areas of revenue and support in 2017. According to the Catalina Island Chamber of Commerce and Visitors Bureau, island visitor counts exceeded 1 million in 2017 with increases seen across all modes of transportation to the island. The Conservancy was able to capitalize on this trend and saw increases in tour-related revenues, particularly its Jeep Eco Tours revenues and Wrigley Memorial and Botanic Garden (WMBG) admittance fees which, taken together, increased over 40% in 2017. The Conservancy was also able to leverage growing funding levels to drive an overall 8.6% increase in program activity spending in 2017 while simultaneously reducing total support services (administration and Development/fundraising) by over 14% from 2016 levels.

Finally, investment market conditions in 2017 had a significantly favorable impact on the Conservancy. Net realized and unrealized gains on securities exceeded $7 million in 2017, an increase of over $5 million from 2016. In addition, this growth, offset by endowment payouts during the year, led to a nearly $4.5 million increase in Investment balances. Overall, the combination of all of these activities let to an increase in total net assets of $8.9 million in 2017, with total assets reaching $90.3 million by the end of 2017.

SUMMARY

We hope this analysis helps to provide you with some additional insight as to the Conservancy's financial performance during 2017. Should you have additional questions, please contact the Chief Financial and Business Development Officer at 562-437-8555.

Tony Budrovich,
Chief Executive Officer

Larry L. Lloyd, Chief Finance and
Business Development Officer

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Santa Catalina Island Conservancy
Avalon, California

We have audited the accompanying consolidated financial statements of Santa Catalina Island Conservancy and subsidiary (the "Conservancy") (a California nonprofit public benefit corporation), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Offices located in Orange and San Diego Counties

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Conservancy as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The consolidated financial statements of Santa Catalina Island Conservancy and subsidiary as of December 31, 2016, were audited by other auditors whose report dated May 19, 2017, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

White Nelson Diehl Evans LLP

Irvine, California
June 15, 2018

SANTA CATALINA ISLAND CONSERVANCY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(WITH SUMMARIZED TOTALS FOR 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2017	Totals 2016
Assets:					
Cash and cash equivalents	$ 2,462,303	$ 2,581,561	$ -	$ 5,043,864	$ 3,722,701
Investments	52,321,208	3,058,795	1,864,995	57,244,998	52,751,430
Receivables, net	415,614	983,548	-	1,399,162	455,084
Pledges receivable	-	1,657,214	-	1,657,214	4,393,405
Interest receivable	94,545	-	-	94,545	98,538
Prepaid expenses and other assets	299,657	-	-	299,657	307,599
Property and equipment, net	21,320,137	-	3,285,029	24,605,166	19,045,909
Total Assets	$ 76,913,464	$ 8,281,118	$ 5,150,024	$ 90,344,606	$ 80,774,666
Liabilities:					
Accounts payable	$ 1,266,486	$ -	$ -	$ 1,266,486	$ 283,448
Accrued liabilities	1,907,767	-	-	1,907,767	2,037,532
Deferred revenue	68,369	-	-	68,369	64,223
Notes payable	1,527,891	-	-	1,527,891	1,729,342
Total liabilities	4,770,513	-	-	4,770,513	4,114,545
Commitments and Contingencies	-	-	-	-	-
Net Assets	72,142,951	8,281,118	5,150,024	85,574,093	76,660,121
Total Liabilities and Net Assets	$ 76,913,464	$ 8,281,118	$ 5,150,024	$ 90,344,606	$ 80,774,666

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

SANTA CATALINA ISLAND CONSERVANCY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED TOTALS FOR 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2017	Totals 2016
Revenues and Other Support:					
Operating:					
Airport/bus	$ 597,434	$ -	$ -	$ 597,434	$ 589,026
Contributions	1,637,314	3,404,461	-	5,041,775	4,167,910
Interior access	614,038	-	-	614,038	753,634
Jeep ECO tours	858,725	-	-	858,725	583,661
Leases	3,306,878	-	-	3,306,878	3,173,483
Memberships	231,806	-	-	231,806	237,752
Special events, net	403,032	-	-	403,032	452,351
Wrigley Memorial and Botanic Garden	367,921	-	-	367,921	290,035
Unrealized pension change	143,681	-	-	143,681	(153,929)
Other	92,837	-	-	92,837	167,487
Total operating	8,253,666	3,404,461	-	11,658,127	10,261,410
Investment Revenues, Net:					
Dividends and interest	1,033,799	51,822	-	1,085,621	1,047,798
Net realized and unrealized gains (losses) on securities	7,055,090	(4,131)	-	7,050,959	1,827,809
Investment expenses	(271,346)	-	-	(271,346)	(269,918)
Total investment revenues, net	7,817,543	47,691	-	7,865,234	2,605,689
Total revenues	16,071,209	3,452,152	-	19,523,361	12,867,099
Net Assets Released from Restrictions	6,922,218	(6,922,218)	-	-	-
Total Revenues and Other Support	22,993,427	(3,470,066)	-	19,523,361	12,867,099
Expenses:					
Program Services:					
Airport/bus	686,631	-	-	686,631	647,542
Catherine, LLC	36,301	-	-	36,301	81,547
Conservation	1,327,099	-	-	1,327,099	1,317,593
Educational outreach	956,111	-	-	956,111	897,153
Interior access/buildings/vehicles	2,360,969	-	-	2,360,969	2,053,353
Lease management	949,926	-	-	949,926	894,569
Rangers	336,323	-	-	336,323	328,765
Visitor services	852,844	-	-	852,844	644,334
Volunteer services	196,877	-	-	196,877	226,547
Wrigley Memorial and Botanic Garden	312,933	-	-	312,933	286,861
Total program services	8,016,014	-	-	8,016,014	7,378,264
Supporting services:					
Administrative	1,548,093	-	-	1,548,093	1,595,330
Development/fundraising	1,045,282	-	-	1,045,282	1,431,609
Total supporting services	2,593,375	-	-	2,593,375	3,026,939
Total expenses	10,609,389	-	-	10,609,389	10,405,203
Increase (Decrease) in Net Assets	12,384,038	(3,470,066)	-	8,913,972	2,461,896
Net Assets, Beginning of Year	59,758,913	11,751,184	5,150,024	76,660,121	74,198,225
Net Assets, End of Year	$ 72,142,951	$ 8,281,118	$ 5,150,024	$ 85,574,093	$ 76,660,121

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

SANTA CATALINA ISLAND CONSERVANCY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED TOTALS FOR 2016)

		Supporting Services			
	Program Services	Administrative	Development/ Fundraising	Totals 2017	Totals 2016
Accounting	$ -	$ 76,270	$ -	$ 76,270	$ 75,654
Computer/IT	158,588	10,778	18,852	188,218	201,215
Depreciation	644,592	73,510	3,580	721,682	652,730
Insurance	208,454	60,578	14,264	283,296	270,818
Interest	87,607	-	-	87,607	98,605
Legal	77,799	45,598	-	123,397	139,600
Other	90,064	(8,918)	39,858	121,004	37,737
Professional development	13,396	3,986	7,679	25,061	35,662
Professional	515,004	109,275	189,591	813,870	891,963
Promotion	111,346	24,967	67,178	203,491	177,741
Property taxes	151,180	6,523	-	157,703	135,419
Recruiting	9,981	2,933	13,250	26,164	20,295
Rent	145,259	17,837	47,141	210,237	157,948
Repairs/maintenance	1,864,105	26,713	12,027	1,902,845	2,057,799
Salaries/benefits	3,138,389	1,024,658	550,540	4,713,587	4,745,802
Supplies/operating	666,091	47,202	73,325	786,618	543,780
Telephone/utilities	134,159	26,183	7,997	168,339	162,435
Total Expenses	$ 8,016,014	$ 1,548,093	$ 1,045,282	$ 10,609,389	$ 10,405,203

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

SANTA CATALINA ISLAND CONSERVANCY
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED TOTALS FOR 2016)

	2017	2016
Cash Flows from Operating Activities:		
Increase in net assets	$ 8,913,972	$ 2,461,896
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	721,682	652,730
Gain on sale of property and equipment	(18,288)	-
Realized gains and losses on investments, net	(3,030,502)	(733,843)
Unrealized gains and losses on investments, net	(4,020,457)	(1,093,966)
Dividends and interest, net	(814,275)	(777,880)
Unrealized pension change	(78,318)	207,107
Contribution of marketable securities	-	(166,293)
Contribution of property and equipment	(265,522)	(375,377)
Pledges received	(298,500)	(1,770,000)
Discount on pledges	1,205	21,889
Allowance for doubtful accounts	9,846	-
Changes in operating assets and liabilities:		
(Increases) decreases in:		
Accounts receivable	(953,924)	66,114
Interest receivable	3,993	7,859
Prepaid expenses and other assets	7,942	(14,337)
Increases (decreases) in:		
Accounts payable	983,038	(183,168)
Accrued liabilities	(51,447)	6,690
Deferred revenue	4,146	(41)
Total adjustments	(7,799,381)	(4,152,516)
Net cash provided by (used in) operating activities	1,114,591	(1,690,620)
Cash Flows from Investing Activities:		
Purchases of investments	(27,086,464)	(22,082,090)
Sales and maturities of investments	26,613,353	22,608,229
Realized gain on investments	3,030,502	733,843
Proceeds from dividends and interest	1,085,621	1,036,514
Investment expenses	(271,346)	(258,634)
Purchases of property and equipment	(6,021,500)	(3,472,601)
Proceeds from sales of property and equipment	24,371	-
Net cash used in investing activities	(2,625,463)	(1,434,739)

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

SANTA CATALINA ISLAND CONSERVANCY
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED TOTALS FOR 2016)

	2017	2016
Cash Flows from Financing Activities:		
Proceeds from pledges	$ 3,033,486	$ 3,890,431
Principal payments on notes payable	(201,451)	(190,453)
Net cash provided by financing activities	2,832,035	3,699,978
Net Increase in Cash and Cash Equivalents	1,321,163	574,619
Cash and Cash Equivalents, Beginning of Year	3,722,701	3,148,082
Cash and Cash Equivalents, End of Year	$ 5,043,864	$ 3,722,701
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 87,607	$ 98,605
Noncash financing and investing activities:		
Purchase of automobile with trade-in	$ 37,999	$ -
Payment of pledge receivable with marketable securities	$ -	$ 125,000
Pledges, net of discount and payments received	$ -	$ 1,268,584

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

Note 1: Nature of Business and Summary of Significant Accounting Policies

Organization and Nature of Activities

The Santa Catalina Island Conservancy (the "Conservancy") is a charitable private operating foundation organized in 1972 for the purpose of owning and preserving 88 percent of Santa Catalina Island in its natural state while providing appropriate access to the general public. Effective January 1, 2010, the Conservancy elected to terminate its tax-exempt private foundation status and operate as a tax-exempt public charity. The Conservancy maintains approximately 42,000 acres, including 50 miles of coastline, all roads on its property, the Airport-in-the-Sky, the Wrigley Memorial and Botanic Garden, two nature centers, housing, office, and shops. It also manages a variety of conservation, ecological restoration, education, and recreation programs.

Upon the formation of the Conservancy, a contribution of $5,804,324 was received. The portion of this contribution relating to land and marketable securities totaling $5,150,024 is permanently restricted by the donor and is not available for expenditure by the Conservancy and is, therefore, classified as a permanently restricted net asset. Income generated by marketable securities is available for the unrestricted use of the Conservancy.

In 2012, the Conservancy purchased the Catherine Hotel in Avalon, California, through a wholly owned subsidiary ("Catherine, LLC"). This property was purchased with the intention of relocating the Conservancy's customer facing functions to a more prominent location within Avalon. To be known as the "Trailhead," this new facility is now under construction and expected to open in 2018. These consolidated financial statements reflect a consolidation of the activities of the Conservancy and Catherine, LLC. In 2018, Catherine, LLC will be dissolved, and the assets will be transferred to the Conservancy.

Basis of Accounting

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Principles of Consolidation

The consolidated financial statements include the accounts of the Conservancy and Catherine, LLC, a related California corporation. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-810-50, *Reporting of Related Entities by Not-for-Profit Organizations*, this related entity has been consolidated with the Conservancy. All material intercompany transactions have been eliminated.

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

The Conservancy's consolidated financial statements are presented in conformity with FASB ASC 958, *Financial Statements of Not-For-Profit Organizations*. Under FASB ASC 958, the Conservancy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Descriptions of the three net asset categories are as follows:

- <u>Unrestricted Net Assets</u> - Unrestricted net assets are net assets that are not subject to donor-imposed restrictions, including the carrying value of all unrestricted physical properties (land, building, and equipment). Items that affect (i.e., increase or decrease) this net asset category include revenue, principally contributions; fees related to expenses associated with the core programs, such as the airport, interior access, and facilities management of the Conservancy; lease revenue; and investment income.

- <u>Temporarily Restricted Net Assets</u> - Temporarily restricted net assets are net assets subject to donor-imposed restrictions that may be met either by actions of the Conservancy or the passage of time. Items that affect this net asset category are contributions for which the restrictions have not been met (primarily contributions restricted by the donor for specified programs that had not yet been expended).

  Contributions restricted by the donor for specified programs are reported as temporarily restricted revenue when the Conservancy receives the contribution. When expenditures relating to the specified programs are incurred, the related temporarily restricted revenues are released from restriction and transferred into unrestricted revenue.

- <u>Permanently Restricted Net Assets</u> - Permanently restricted net assets are net assets subject to donor-imposed restrictions to be maintained in perpetuity by the Conservancy. Items that affect this net asset category include contributions wherein donors stipulate that the principal be maintained permanently, but permit an organization to use or expend part or all of the income derived from the contribution.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Conservancy considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash and cash equivalents.

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Investments

Marketable securities include equity securities, mutual funds, US government securities, corporate debt securities, and asset and mortgage-backed securities. Equity securities are reported at fair value based on the closing price reported on the active market where the individual securities are traded. Mutual funds are reported at fair value based on quoted net asset values of shares as reported by the fund. Fixed income securities composed of US government securities, corporate debt securities, and asset and mortgage-backed securities are reported at fair value which are valued using a market approach on yields currently available on comparable securities of issuers with similar credit ratings. Realized and unrealized gains and losses of the investments are reflected in the consolidated statement of activities.

Receivables

Grants and accounts receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible accounts through a provision for bad debt expense and a related adjustment to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a related credit to accounts receivable. The Conservancy has an allowance for doubtful accounts of $20,000 as of December 31, 2017 and 2016.

Pledges Receivable

Pledges receivable or unconditional promises to give are recognized as contributions in the consolidated statement of activities in the period when a donor makes a promise to give. Pledges receivable are recorded at net realizable value if they are expected to be collected within one year and at net present value if they are expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The majority of the pledges receivable are from a single contributor. An allowance for uncollectible promises to give is provided based on management's evaluation of potential uncollectible promises receivable at year-end. As of December 31, 2017, management recorded an allowance for uncollectible pledged receivable of approximately $10,000.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reported period. Accordingly, actual results could differ from those estimates.

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

The Conservancy places its temporary cash with a high-credit quality Federal Deposit Insurance Corporation insured financial institution. The Conservancy has exposure to credit risk to the extent that its cash exceeds the amount covered by federal deposit insurance. As of December 31, 2017 and 2016, the amount of uninsured cash balances at this institution totaled approximately $2,455,000 and $1,644,000, respectively.

Property and Equipment

Property and equipment are stated at cost at the date purchased, or estimated fair value at the date of the donation, if donated. The Conservancy follows the practice of capitalizing all expenditures for individual items in excess of $3,000 except for certain computer equipment. Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	5 - 40 years
Furniture and fixtures	5 - 8 years
Machinery and equipment	3 - 20 years
Automobiles and trucks	4 - 10 years
Airport runway	5 - 10 years
Educational art collection	Not applicable

The cost of maintenance, repairs, and minor replacements is charged to expense as incurred. Major replacements and betterments of properties are capitalized.

The cost of property replaced, retired, or otherwise disposed of is removed from the property and equipment accounts, the related accumulated depreciation is removed from the depreciation accounts, and any resulting gain or loss is included in revenues and expenses.

The Conservancy has capitalized its collection of educational art since its inception. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their fair value on the accession date (the date on which the item is accepted by a committee that includes members of the Board of Directors). Gains or losses on the deaccession of collection items are classified on the consolidated statement of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession.

Property and equipment are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Impairment losses are recognized if expected future cash flows from the assets are less than their carrying values.

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Contributed Goods and Services

The value of donated goods and services is reflected as a contribution in the accompanying consolidated financial statements at the fair value of these goods and services at the date of contribution. Contributed services are recorded in the financial statements only if they would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. Contributed goods and services totaled approximately $354,000 and $521,000 for the years ended December 31, 2017 and 2016, respectively.

Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Conservancy is operating as a tax-exempt public charity under Sections 501(c)(3) and 509(a)(2) of the Internal Revenue Code ("IRC") and Section 23701d of the California Revenue and Taxation Code.

In December 2009, the Conservancy elected to terminate its private foundation status under Section 507(b)(1)(B) of the IRC. After the end of the 60-month period, in April 2015, the Conservancy was notified by the Internal Revenue Service that it meets the requirements of IRC Section 509(a)(1). The Conservancy was classified as a public charity effective January 1, 2010.

For the five years ended December 31, 2014, the Conservancy was required to file Form 990-PF *Return of Private Foundation* and elected to pay the federal excise tax on its net investment income under IRC Section 4940. Beginning with the year ended December 31, 2015, during which its status as a public charity was confirmed, the Conservancy was required to file Form 990. The Conservancy's tax years from 2015 to 2017 are open to review for federal tax purposes and tax years from 2014 to 2017 are open to review for state tax purposes.

The Conservancy follows the accounting for uncertainty in income taxes recognized in a nonpublic entity's financial statements. It details how entities should recognize, measure, present, and disclose uncertain tax positions that have been or are expected to be taken. As such, financial statements will reflect expected future tax consequences of uncertain tax positions presuming the taxing authorities' full knowledge of the position and all relevant facts. There was no impact to the Conservancy's consolidated financial statements as a result of these provisions.

Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain amounts in prior periods have been reclassified to match the current period financial statement presentation. These reclassifications have no effect on previously reported net assets or changes in net assets.

New Accounting Standards Not Yet Adopted

On August 18, 2016, the FASB issued an accounting standard update, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The purpose of this pronouncement is to simplify and improve how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The amendments in this pronouncement are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments in this pronouncement is permitted. The amendments in this pronouncement should be initially adopted only for an annual fiscal period or for the first interim period within the fiscal year of adoption.

In May 2014, the FASB issued an accounting standard update for companies that earn revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The pronouncement is effective for years beginning after December 15, 2018, and interim periods within years beginning after December 15, 2019. Early adoption is permitted under several options, the earliest for a year beginning after December 15, 2016, and interim periods within that year. Various retrospective application methods are available.

In February 2016, the FASB issued an accounting standard update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The pronouncement is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The pronouncement is to be applied using a modified retrospective approach with optional expedients and other special transition provisions. Early application of the pronouncement is permitted for all entities.

Note 2: Pledges Receivable

During 2017, the Conservancy received written pledges for contributions totaling $298,500, which includes $183,500 for the Imagine Catalina Campaign. All pledges, which are expected to be received over a four-year period ending December 31, 2021, are reported as temporarily restricted assets. Pledges are recorded at their estimated net realizable value including discounts reflecting the estimated impact of the passage of time on pledges to be received over more than one year. The annual discount rate used was 0.7 percent. The total discounts on all pledges receivable after 2017 were approximately $34,000 as of December 31, 2017. The total amount of pledges receivable due to the Conservancy as of December 31, 2017, are as follows:

	2017	2016
Pledges receivable, net of discounts, beginning of year	$ 4,393,405	$ 6,660,725
Total pledges received during the year	298,500	1,770,000
Total collected	(3,033,486)	(4,015,431)
Discount on new pledges	(1,205)	(21,889)
Net Pledges Receivable, End of Year	$ 1,657,214	$ 4,393,405

The following schedule shows the anticipated timing of the receipt of these pledges for years ending December 31:

2018	$ 614,859
2019	560,575
2020	467,431
2021	14,349
Total	$ 1,657,214

Note 3: Investments

Investments held by the Conservancy at December 31, 2017 and 2016, are as follows:

	2017	
	Cost	Fair Value
Marketable Securities:		
Equities	$ 11,693,970	$ 18,658,739
Mutual funds	12,234,911	17,173,699
Fixed income:		
Mutual funds	3,741,903	3,716,692
Government securities	10,994,854	10,893,668
Asset and mortgage-backed securities	2,183,580	2,187,311
Corporate bonds	4,629,521	4,614,889
Total Investments	$ 45,478,739	$ 57,244,998

	2016	
	Cost	Fair Value
Marketable Securities:		
Equities	$ 14,056,210	$ 20,159,618
Mutual funds	6,989,492	8,880,785
Fixed income:		
Mutual funds	5,629,659	5,587,506
Government securities	10,449,800	10,358,925
Asset and mortgage-backed securities	2,264,291	2,211,776
Corporate bonds	5,616,176	5,552,820
Total Investments	$ 45,005,628	$ 52,751,430

Note 4: Property and Equipment

The Conservancy's property and equipment consist of the following at December 31, 2017 and 2016:

	2017	2016
Land	$ 6,355,855	$ 6,355,855
Buildings and improvements	12,342,539	11,544,683
Machinery and equipment	5,963,917	5,831,417
Automobiles and trucks	2,588,502	2,395,163
Furniture and fixtures	182,090	179,236
Educational art collection	149,683	140,788
Airport runway	440,913	440,913
Work in progress	8,749,363	3,659,564
Other	30,000	30,000
Total property and equipment	36,802,862	30,577,619
Less: Accumulated depreciation	(12,197,696)	(11,531,710)
Net Property and Equipment, Net	$ 24,605,166	$ 19,045,909

Depreciation expense was approximately $722,000 and $653,000 for the years ended December 31, 2017 and 2016, respectively.

Note 5: Notes Payable

Details for notes payable at December 31, 2017 and 2016, are as follows:

	2017	2016
In December 2006, the Conservancy entered into a loan agreement with a bank in the amount of $700,000. The loan bears interest at 6.27% and matures on December 1, 2021. Principal and interest payments of $6,045 are due in monthly installments. The loan is secured by a dwelling at 310 Whitley, Avalon, California.	$ 252,973	$ 307,513
In March 2007, the Conservancy entered into a note agreement with a bank in the amount of $550,000. The loan bears interest at 6.27% and matures on March 15, 2022. Principal and interest payments of $4,749 are due in monthly installments. The loan is secured by a dwelling at 56 Playa Azul, Avalon, California.	210,668	252,805

Note 5: Notes Payable (Continued)

	2017	2016
In November 2008, the Conservancy entered into a loan agreement with a bank in the amount of $1,040,000. The loan bears interest at 5.80% and matures on November 20, 2023. Principal and interest payments of $8,710 are due in monthly installments. The loan is secured by a dwelling at 341 Sumner, Avalon, California.	$ 519,328	$ 590,550
In June of 2016, the Conservancy entered into a loan agreement with a bank in the amount of $628,000. The loan bears interest at 3.75% and matures on June 1, 2030. Principal and interest payments of $4,584 are due in monthly installments. The loan is secured by a dwelling at 316.5 Whitley, Avalon, California.	544,922	578,474
Total notes payable	1,527,891	1,729,342
Less: Current portion	(213,939)	(201,451)
Long-Term Notes Payable	$ 1,313,952	$ 1,527,891

The Conservancy was in compliance with the loan covenants for all of the notes payable listed above at December 31, 2017.

Future principal payments on the loans are as follows for years ending December 31:

2018	$ 213,939
2019	226,626
2020	239,935
2021	250,987
2022	149,418
Thereafter	446,986
Total	$ 1,527,891

Note 6: Special Events

Gross revenues for special events associated with the Conservancy's fundraising activities were as follows:

	Year Ended December 31, 2017		
	Conservancy Ball	Other Special Events	Total
Gross revenues, including pledges	$ 663,498	$ 104,142	$ 767,640
Direct costs (including in-kind donations)	(302,973)	(61,635)	(364,608)
Net Revenue	$ 360,525	$ 42,507	$ 403,032

	Year Ended December 31, 2016		
	Conservancy Ball	Other Special Events	Total
Gross revenues, including pledges	$ 711,168	$ 146,344	$ 857,512
Direct costs (including in-kind donations)	(304,886)	(100,275)	(405,161)
Net Revenue	$ 406,282	$ 46,069	$ 452,351

Note 7: Fair Value

The Conservancy adopted FASB ASC 820-10, *Fair Value Measurements and Disclosures - Overall*, with respect to its financial assets and liabilities. FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Note 7: Fair Value (Continued)

The following table sets forth the Conservancy's financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by FASB ASC 820-10, assets and liabilities are classified in their entirety based on the lowest level of output that is significant to the fair value measurement.

	Fair Value at December 31, 2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments	$ 57,244,998	$ 39,549,130	$ 17,695,868	$ -

	Fair Value at December 31, 2016			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments	$ 52,751,430	$ 34,627,909	$ 18,123,521	$ -

Investments composed of equity securities are classified within Level 1 and are valued at the closing price reported on the active market on which the individual securities are traded. Investments composed of mutual funds are classified within Level 1 and are valued at the quoted net asset values of shares as reported by the fund.

Investments composed of US government securities, corporate debt securities, and asset and mortgage-backed securities are classified within Level 2 and are valued using a market approach on yields currently available on comparable securities of issuers with similar credit ratings.

FASB ASC 825, *The Fair Value Option for Financial Assets and Financial Liabilities*, permits measurement of certain financial assets and financial liabilities at fair value. If the fair value option is elected, the unrealized gains and losses are reported in earnings at each reporting date. Generally, the fair value option may be elected on an instrument-by-instrument basis as long as it is applied to the instrument in its entirety. The fair value option election is irrevocable unless a new election date occurs. The Conservancy did not elect the fair value option for any of its financial assets or liabilities, and therefore, the adoption of FASB ASC 825 had no impact on the Conservancy's financial position, changes in net assets, or cash flows.

Note 8: Open-Space Easement

Substantially all of the land owned by the Conservancy is covered by an open-space easement agreement with the County of Los Angeles. The Conservancy owns substantially all of the undeveloped land on Santa Catalina Island. The purpose of the easement, which expires in 2024, is (a) to provide an opportunity for and encourage access by the public to substantial portions of Santa Catalina Island for scenic, open-space, and recreational purposes, and (b) to preserve portions of Santa Catalina Island for the protection of wildlife, plants, and unique geological and archeological sites.

Note 9: Rentals under Operating Leases

Conservancy as Lessor

The Conservancy is the lessor in various property leases for land and facilities used principally for recreational and educational purposes. The leases expire at various dates through 2046. The Conservancy is also the lessor in various operating leases for communication sites with various terms, most of which are renewable on a yearly basis. Rental amounts for these leases range from approximately $100 to $346,000 per year. The leases can be canceled at any time by either party.

Future annual minimum revenues from operating leases are as follows for years ending December 31:

2018	$ 1,908,502
2019	1,800,739
2020	1,892,050
2021	1,399,633
2022	1,283,201
Thereafter	4,708,788
Total	$ 12,992,913

Management expects all significant operating leases to be renewed upon expiration. Total lease revenue for the years ended December 31, 2017 and 2016, for land, facilities, and communication sites totaled approximately $3,307,000 and $3,173,000, respectively.

Conservancy as Lessee

The Conservancy is the lessee of certain property, including office and communication sites, under operating leases expiring in various years through 2021. Aggregate rent expense for the years ended December 31, 2017 and 2016, totaled approximately $210,000 and $158,000, respectively.

At December 31, 2017, minimum noncancelable annual rental commitments are as follows:

2018	$ 190,295
2019	191,098
2020	187,962
2021	181,859
2022	58,853
Thereafter	266,345
Total	$ 1,076,412

Note 10: Employee Retirement Plans

Defined Benefit Plan

The Conservancy maintains a noncontributory defined benefit plan (the "Plan"). Prior to January 1, 1989, the Plan had a benefit formula equal to 59 percent of the participant's highest three years' average earnings minus 74 percent of the participant's Social Security primary insurance amount payable at age 65. Effective January 1, 1989, as a result of the change in the Social Security integration law for pension plans, the Plan changed its benefit formula as follows:

a. For service prior to January 1, 1989: The participant's accrued benefit as of December 31, 1988, is based on the old benefit formula.

b. For service after December 31, 1988: 1.5 percent of the participant's highest three years' average earnings plus 0.65 percent of the participant's highest three years' average earnings in excess of his or her Social Security covered compensation times the participant's years of service after December 31, 1989. (Social Security covered compensation is the average of the Social Security taxable wage base for the 35 calendar years ending with the year in which the participant attains Social Security retirement age.)

As a result of the March 31, 1996, combination of the Wrigley Memorial Garden Foundation (the "Foundation") with the Conservancy, the employees of the Foundation were included in the Plan and their prior years of service with the Foundation count for participation and vesting. No benefit services prior to the combination were carried over from the Foundation.

In 2008, the Santa Catalina Island Conservancy Defined Benefit Pension Plan was amended to cease future benefit accruals effective December 31, 2008. Only eligible compensation and years of participation earned through December 31, 2008, will be taken into consideration, and there will be no further benefit accruals earned after December 31, 2008. Of the number of active participants remaining in the Plan, more than half are current employees.

FAB ASC 715-30, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, requires companies to recognize an asset or liability for the overfunded or underfunded status of their benefit plan in their financial statements. The Conservancy has adopted the provisions of FASB ASC 715-30 and, accordingly, has recorded an accrued liability in the amount of $924,784 and $1,154,102 at December 31, 2017 and 2016, respectively, in the accompanying consolidated financial statements. Total amount contributed to meet the funding requirement was $151,000 and $137,000 for the years ended December 31, 2017 and 2016, respectively.

Note 10: Employee Retirement Plans (Continued)

Defined Benefit Plan (Continued)

The following table sets forth the funded status and amounts recognized in the consolidated statement of financial position at December 31, 2017 and 2016:

	2017	2016
Projected benefit obligation, end of year	$ 2,963,367	$ 2,933,591
Fair value of assets, end of year	2,038,583	1,779,489
Unfunded Status	$ (924,784)	$ (1,154,102)
Accrued Benefit Cost Recognized in the Consolidated Statement of Financial Position (Deficit)	$ (924,784)	$ (1,154,102)
Accumulated Benefit Obligation	$ 2,963,367	$ 2,933,591
Net Periodic Benefit Cost (Income)	$ 65,363	$ 53,178
Employer Contributions	$ 151,000	$ 137,000
Benefits Paid	$ 109,733	$ 16,503

The weighted-average discount rate used at the end of the year in determining the actuarial present value of the benefit obligations was 3.20 percent for 2017. The expected long-term rate of return on assets was 5.50 percent.

Net actuarial gain of $84,428 and the amortization of actuarial gain of $59,253 were netted for the year ended December 31, 2017, and recognized as a gain of $143,681 in unrestricted net assets in the consolidated statement of activities. Likewise, net actuarial loss of $198,556 and the amortization of actuarial gain of $44,627 were netted for the year ended December 31, 2016, and recognized as a loss of $153,929 in unrestricted net assets in the consolidated statement of activities. The Conservancy's policy is to fund an amount that is equal to the Plan's normal cost plus an amount necessary to amortize the Plan's past service liabilities. Plan assets consist of invested equity and debt securities and government and agency notes which are held in a trust.

Net pension cost for the Plan for the years ended December 31, 2017 and 2016, included the following components:

	2017	2016
Interest cost	$ 93,468	$ 96,718
Expected return on plan assets	(87,358)	(88,167)
Amortization of net gain	59,253	44,627
	$ 65,363	$ 53,178

Note 10: Employee Retirement Plans (Continued)

Defined Benefit Plan (Continued)

The Conservancy's pension plan weighted-average asset allocations at December 31, 2017 and 2016, by asset categories are as follows:

	2017	2016
Equities securities	49%	49%
Debt securities	48%	49%
Other	3%	2%
	100%	100%

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for years ending December 31:

2018	$ 427,000
2019	518,000
2020	228,000
2021	160,000
2022	86,000
2023 - 2027	1,026,000
Total	$ 2,445,000

The total assumes that an additional contribution of $135,000 will be paid to the Plan in 2018.

403(b) Thrift Plan

At January 1, 2009, the Conservancy began its sponsorship of a 403(b) thrift plan ("Thrift Plan") utilizing the safe harbor employer contribution:

a. 3 percent nonelective contribution for all employees
b. 100 percent match of an employee's contribution not to exceed 5 percent of his or her compensation

Whether an employee chooses to make salary reduction contributions or not, all employees are automatically enrolled and an amount equal to 3 percent of their earnings will be contributed to their account in the Thrift Plan. Total amounts contributed were $295,650 and $317,577 for the years ended December 31, 2017 and 2016, respectively.

Note 11: Commitments and Contingencies

Land Lease

In December 2002, the Conservancy and the Santa Catalina Island Company signed a 20-year lease as co-lessees with the State of California (the "State") for submerged lands adjacent to Santa Catalina Island. The lease term was effective beginning January 1, 2002, and expires on December 31, 2021. The lease requires the provision and maintenance of 720 recreational moorings, together with open coves for anchorage.

The Conservancy had assigned the maintenance of this lease to Two Harbor Enterprises, a subsidiary of the Santa Catalina Island Company. Under the terms of the agreement with Two Harbor Enterprises, the Conservancy earns 5.5 percent of the gross income from the operating lease. All operating costs, including lease payments to the State, are the responsibility of Two Harbor Enterprises. The Conservancy earned revenue related to this agreement for the years ended December 31, 2017 and 2016, amounting to $244,860 and $260,955, respectively, which is reflected on the accompanying consolidated statement of activities in the lease revenue balance. In 2012, the Santa Catalina Island Company merged Two Harbor Enterprises into a sister company, Santa Catalina Island Resort Services ("SCIRS") with SCIRS assuming the roles and responsibilities relating to this land lease that were previously held by Two Harbors Enterprises.

Contingencies

In the normal course of business, the Conservancy is a party to various legal claims, actions, and complaints. It is not possible to predict with certainty whether or not the Conservancy will ultimately be successful in any of these legal matters or, if not, what the impact might be. However, the Conservancy's management does not expect that the results in any legal proceedings will have a material adverse effect on the Conservancy's results of operations, financial position, or cash flows.

Note 12: Accounting and Reporting for Endowments

The Conservancy adopted the provisions of FASB ASC 958-205, *Accounting and Reporting for Endowments*.

The Endowments

The Conservancy's endowment consists of land and marketable securities. Its endowment includes donor-restricted and board-designated endowment funds. As required by US GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 12: Accounting and Reporting for Endowments (Continued)

Interpretation of Relevant Law

The Board of Directors of the Conservancy has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by an organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, an organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

a. The duration and preservation of the fund
b. The purposes of the organization and the donor-restricted endowment fund
c. General economic conditions
d. The possible effect of inflation or deflation
e. The expected total return from income and the appreciation of investments
f. Other resources of the organization
g. The investment policies of the organization

Endowment Net Asset Composition by Type of Fund

	December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 5,150,024	$ 5,150,024
Board-designated endowment funds	53,013,639	-	-	53,013,639
	$ 53,013,639	$ -	$ 5,150,024	$ 58,163,663

Note 12: Accounting and Reporting for Endowments (Continued)

Endowment Net Asset Composition by Type of Fund (Continued)

	December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 5,150,024	$ 5,150,024
Board-designated endowment funds	43,109,275	-	-	43,109,275
	$ 43,109,275	$ -	$ 5,150,024	$ 48,259,299

Change in Endowment Net Assets

	December 31, 2017			
	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 43,109,275	$ -	$ 5,150,024	$ 48,259,299
Contributions	481,299	-	-	481,299
Additional board-designated assets	3,285,029	-	-	3,285,029
Investment return:				
Investment income	695,725	24,217	-	719,942
Net appreciation (realized and unrealized)	6,725,481	242,302	-	6,967,783
Total investment return	7,421,206	266,519	-	7,687,725
Appropriation of endowment assets for expenditures	(1,283,170)	(266,519)	-	(1,549,689)
Net Endowment Assets	$ 53,013,639	$ -	$ 5,150,024	$ 58,163,663

Note 12: Accounting and Reporting for Endowments (Continued)

Change in Endowment Net Assets (Continued)

	December 31, 2016			
	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 42,027,697	$ -	$ 5,150,024	$ 47,177,721
Contributions	296,257	-	-	296,257
Investment return:				
Investment income	693,985	26,611	-	720,596
Net appreciation (realized and unrealized)	1,696,985	73,849	-	1,770,834
Total investment return	2,390,970	100,460	-	2,491,430
Appropriation of endowment assets for expenditures	(1,605,649)	(100,460)	-	(1,706,109)
Net Endowment Assets	$ 43,109,275	$ -	$ 5,150,024	$ 48,259,299

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds and board-designated endowment trends may fall below the level that the donor or UPMIFA requires the Conservancy to retain as a fund of perpetual duration. In accordance with US GAAP, there are no deficiencies of this nature that are reported in unrestricted net assets as of December 31, 2017 and 2016.

Return Objectives and Risk Parameters

The primary investment objective of the Conservancy is to obtain a return (income and capital appreciation), over time, that will provide funding for the Conservancy's programs and activities, with due consideration for the preservation of capital. Long-term growth is more important than short-term results.

Risk shall be carefully controlled by investing in broadly diversified investment strategies and by investing in several different asset classes (such as US large-cap equities, US small-cap equities, non-US equities, fixed income instruments). Risk, as defined by market value volatility and the possible loss of principal, is to be commensurate with the objective of an 8 percent return over time. Achievement of the objective shall be measured in rolling five-year periods.

Note 12: Accounting and Reporting for Endowments (Continued)

Strategies Employed for Achieving Objectives

The investment strategy shall be long-term, total return oriented, with a bias in favor of equities to achieve growth and broad diversification to control volatility of the value of the assets due to changing market conditions. The overall long-term asset allocation shall be 65 percent equities and 35 percent fixed income, with a target allocation for each asset class and a minimum and maximum range for each asset class. The Conservancy's investment advisor may, at his or her discretion, manage the assets under his or her control within the ranges specified for each asset class.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Conservancy has a payout policy for each of its board-designated endowment funds. The payout percentages established for the Wrigley Fund Endowment and the General Fund Endowment are 3 percent and 4 percent, respectively. The Conservancy's management calculates the amount available for distribution pursuant to this policy. The amount available for distribution is calculated by determining the average of the month-end values for the previous 36 months, and to this value shall be applied the payout percentage that was in effect as of June 30 of the prior year. Promptly following this computation by the Conservancy's chief financial officer ("CFO"), and with the written consent of the benefactors, funds shall be disbursed from the Wrigley Fund Endowment as needed, from time to time, using interest and dividend first and principal, if necessary, up to but never exceeding the approved payout percentage. The Conservancy's CFO, with the approval of the annual budget by the Board of Directors, shall disburse funds from the General Fund Endowment as needed, from time to time, using interest and dividend first and principal, if necessary, up to but never exceeding the approved payout percentage.

Note 13: Net Assets

Unrestricted net assets include board designations of approximately $53,000,000 for endowment funds. Temporarily restricted net assets consist of pledges and contributions restricted by time and purpose.

Temporarily restricted net assets consist of the following:

	Projects
Trailhead Visitor Center	$ 6,620,914
Nature works	361,765
Ocean conservation	191,728
Employee housing	181,872
Airport runway	153,085
West End	100,511
Muscat conservation	100,000
Other	571,243
	$ 8,281,118

Note 13: Net Assets (Continued)

During the year ended December 31, 2017, pledges released from donor-imposed time restrictions were approximately $3,080,000. These pledges were also restricted for a specific purpose. Net assets released from donor-imposed purpose restrictions during the year ended December 31, 2017, were approximately $6,922,000.

Note 14: Summarized Prior-Period Information

The consolidated financial statements include certain prior-year summarized comparative information in total, but not by asset class. Such information does not include sufficient detail to constitute a presentation in accordance with US GAAP. Accordingly, such information should be read in conjunction with the Conservancy's consolidated financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Note 15: Subsequent Events

The Conservancy has evaluated subsequent events through June 15, 2018, which was the date the consolidated financial statements were available to be issued and has not identified any events that it deems to be material.