SANTA CATALINA ISLAND CONSERVANCY

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 (WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

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 with Donor Restrictions). Other revenues are generated from a variety of activities that support its mission such as: land-lease revenues with tenants that provided educational experiences and added accessibility to our land 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 Revenues are the various impacts on the Conservancy's investment portfolio (consisting primarily of endowment assets) from investment market 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 such as a hiking trail system and vehicular eco tours. Significant functional and capital spending is also incurred each year to maintain Conservancy infrastructure, which includes the maintenance of over 200 miles of roads, 130 miles of hiking trails, the Airport in the Sky, numerous buildings, and a fleet of vehicles and heavy equipment which provides safety infrastructure for Catalina Island.

FINANCIAL STATEMENT HIGHLIGHTS FROM 2018 AND 2017

In 2018, the Conservancy's financial performance and position were influenced by two large capital projects. These were the Trailhead Visitor Center which opened in April of 2019 and the beginning of the reconstruction of the runway at the Conservancy's Airport in the Sky. This project was a unique public-private partnership that leveraged the U.S. Department of Defense's Innovative Readiness Training (IRT) Program, which matches community infrastructure investment with military training needs. The Airport in the Sky serves as a gateway to the island for mail, freight and visitors, and is a crucial component of the delivery of emergency services on the island. That project began at the very end of the year but was the culmination of nearly two years of preparatory work. Externally, volatility in investment markets had a negative impact on the Conservancy's financial performance in 2018.

The Conservancy's financial statements that follow reflect the impacts of these factors in a number of areas. In the area of Revenue and Other Support, total contributions were nearly $5 million in 2018, 2% lower than 2017. Of this, approximately $2.9 million was for the two projects noted above. This includes three major gifts for the airport runway reconstruction project, one of which incorporated naming rights for the runway (now known as ACE Clearwater Airfield at the Airport in the Sky). While the substantial portion of the work of this project was completed in 2019 (the airport reopened in May of 2019), the Conservancy's Statement of Financial Position reflects $722,000 in capitalized costs and a $1.2 million receivable from donors to the paid over the five years ending in 2022. The work necessary to complete the Trailhead wound down at the end of 2018 (and finished in 2019); nearly $1.4 million of additional funding for that project was raised in 2018, and $6.8 million was spent toward the construction of this facility. The work done on these two key projects are reflected throughout the Conservancy's financial statements, specifically in the increased Property and Equipment, net, 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.

Operating Revenues, excluding Contributions, increased 8% from 2017 driven mainly by growth in lease revenues and fees earned on third-party island tour revenues. Spending on Program Services were slightly lower than 2017 in part due to open positions in key program areas while Total Supporting Services expenses (administration and Development/fundraising) increased by 9%. Supporting Services expenses accounted for 26% of Total Expenses vs. 24% in 2017.

Finally, investment market conditions in 2018 had a significantly unfavorable impact on the Conservancy reversing some of the gains realized in the prior year. Combined net realized and unrealized losses on securities was ($3.6 million) in 2018 vs. gains of over $7 million 2017. These losses, coupled with endowment payouts during the year, led to an $8.1 million decrease in Investment balances. Despite the investment performance impact, the combination of all of activities let to a decrease in total net assets of just ($1.4 million) in 2018. At year-end, total assets were $88.8 million and net assets were $84.1 million.

SUMMARY

We hope this analysis helps to provide you with some additional insight as to the Conservancy's financial performance during 2018 and 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, 2018, 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 auditors consider 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.

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, 2018, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Conservancy's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 15, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Management Discussion and Analysis

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Management Discussion and Analysis, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

White Nelson Diehl Evans LLP

Irvine, California
May 23, 2019

SANTA CATALINA ISLAND CONSERVANCY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018
(WITH SUMMARIZED TOTALS FOR 2017)

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Total 2017
Assets:				
Cash and cash equivalents	$ 4,278,642	$ -	$ 4,278,642	$ 5,043,864
Investments	45,687,399	3,442,800	49,130,199	57,244,998
Receivables, net	574,079	66,569	640,648	1,399,162
Pledges receivable	-	2,364,670	2,364,670	1,657,214
Interest receivable	88,252	-	88,252	94,545
Prepaid expenses and other assets	411,678	-	411,678	299,657
Property and equipment, net	28,590,822	3,285,029	31,875,851	24,605,166
Total Assets	$ 79,630,872	$ 9,159,068	$ 88,789,940	$ 90,344,606
Liabilities:				
Accounts payable	$ 1,587,074	$ -	$ 1,587,074	$ 1,266,486
Accrued liabilities	1,687,800	-	1,687,800	1,907,767
Deferred revenue	74,856	-	74,856	68,369
Notes payable	1,313,001	-	1,313,001	1,527,891
Total liabilities	4,662,731	-	4,662,731	4,770,513
Commitments and Contingencies	-	-	-	-
Net Assets	74,968,141	9,159,068	84,127,209	85,574,093
Total Liabilities and Net Assets	$ 79,630,872	$ 9,159,068	$ 88,789,940	$ 90,344,606

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

SANTA CATALINA ISLAND CONSERVANCY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018
(WITH SUMMARIZED TOTALS FOR 2017)

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Total 2017
Revenues and Other Support:				
Operating:				
Airport/bus	$ 549,511	$ -	$ 549,511	$ 597,434
Contributions	1,358,606	3,576,933	4,935,539	5,041,775
Interior access	898,209	-	898,209	614,038
Jeep ECO tours	881,591	-	881,591	858,725
Leases	3,485,468	-	3,485,468	3,306,878
Memberships	226,092	-	226,092	231,806
Special events, net	388,182	-	388,182	403,032
Wrigley Memorial and Botanic Garden	366,592	-	366,592	367,921
Unrealized pension change	231,078	-	231,078	143,681
Other	142,598	2,000	144,598	92,837
Total operating	8,527,927	3,578,933	12,106,860	11,658,127
Investment Revenues, Net:				
Dividends and interest	1,116,197	53,201	1,169,398	1,107,577
Net realized and unrealized gains (losses) on securities	(3,592,823)	(14,613)	(3,607,436)	7,050,959
Investment expenses	(286,430)	(6,084)	(292,514)	(293,302)
Total investment revenues, net	(2,763,056)	32,504	(2,730,552)	7,865,234
Total revenues	5,764,871	3,611,437	9,376,308	19,523,361
Net Assets Released from Restrictions	7,883,511	(7,883,511)	-	-
Total Revenues and Other Support	13,648,382	(4,272,074)	9,376,308	19,523,361
Expenses:				
Program Services:				
Recreation services and activities	2,267,105	-	2,267,105	1,772,653
Conservation	1,147,518	-	1,147,518	1,327,099
Educational outreach	1,188,305	-	1,188,305	1,269,044
Interior access/maintenance/management	3,393,260	-	3,393,260	3,647,218
Total program services	7,996,188	-	7,996,188	8,016,014
Supporting services:				
Administrative	1,929,481	-	1,929,481	1,548,093
Development/fundraising	897,523	-	897,523	1,045,282
Total supporting services	2,827,004	-	2,827,004	2,593,375
Total expenses	10,823,192	-	10,823,192	10,609,389
Increase (Decrease) in Net Assets	2,825,190	(4,272,074)	(1,446,884)	8,913,972
Net Assets, Beginning of Year	72,142,951	13,431,142	85,574,093	76,660,121
Net Assets, End of Year	$ 74,968,141	$ 9,159,068	$ 84,127,209	$ 85,574,093

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, 2018
(WITH SUMMARIZED TOTALS FOR 2017)

	Program Services					Supporting Services				
	Recreation Services and Activities	Conservation	Educational Outreach	Interior Access/ Maintenance/ Management	Total Program Services	Administrative	Development/ Fundraising	Total Supporting Services	Total 2018	Total 2017
Accounting	$ -	$ -	$ -	$ -	$ -	$ 94,824	$ -	$ 94,824	$ 94,824	$ 76,270
Computer/IT	43,889	65,398	32,538	34,555	176,380	10,988	22,920	33,908	210,288	188,218
Depreciation	142,347	49,753	20,904	476,864	689,868	94,963	2,164	97,127	786,995	721,682
Insurance	61,281	15,522	25,573	96,267	198,643	59,083	12,392	71,475	270,118	283,296
Interest	-	-	-	74,168	74,168	232	-	232	74,400	87,607
Legal	-	-	-	27,331	27,331	172,559	-	172,559	199,890	123,397
Other	229,805	21,427	14,485	17,002	282,719	121,769	17,025	138,794	421,513	121,004
Professional development	5,147	5,317	3,530	7,014	21,008	4,442	3,264	7,706	28,714	25,061
Professional	6,000	68,481	70,102	1,395	145,978	81,317	750	82,067	228,045	813,870
Promotion	17,087	13,017	57,240	6,191	93,535	23,352	72,455	95,807	189,342	203,491
Property taxes	45,949	-	13,394	269,716	329,059	15,171	-	15,171	344,230	157,703
Recruiting	4,278	6,950	3,284	11,031	25,543	2,725	2,609	5,334	30,877	26,164
Rent	10,477	13,461	40,852	84,708	149,498	18,846	49,807	68,653	218,151	210,237
Repairs/maintenance	527,093	536,092	295,360	970,135	2,328,680	29,356	116,294	145,650	2,474,330	1,902,845
Salaries/benefits	908,008	197,458	472,813	1,064,695	2,642,974	1,092,767	533,452	1,626,219	4,269,193	4,713,587
Supplies/operating	243,021	137,943	97,255	201,902	680,121	83,607	56,960	140,567	820,688	786,618
Telephone/utilities	22,723	16,699	40,975	50,286	130,683	23,480	7,431	30,911	161,594	168,339
Total Expenses	$ 2,267,105	$ 1,147,518	$ 1,188,305	$ 3,393,260	$ 7,996,188	$ 1,929,481	$ 897,523	$ 2,827,004	$ 10,823,192	$ 10,609,389

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, 2018
(WITH SUMMARIZED TOTALS FOR 2017)

	2018	2017
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	$ (1,446,884)	$ 8,913,972
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	786,995	721,682
Gain on sale of property and equipment	(8,092)	(18,288)
Realized (gains) and losses on investments, net	(1,699,250)	(3,030,502)
Unrealized (gains) and losses on investments, net	5,306,686	(4,020,457)
Dividends and interest, net	(876,884)	(814,275)
Unrealized pension change	(161,442)	(78,318)
Contribution of marketable securities	(65,072)	-
Contribution of property and equipment	(150,000)	(265,522)
Pledges received	(1,427,000)	(298,500)
Discount on pledges	719	1,205
Allowance for doubtful accounts	138,247	9,846
Changes in operating assets and liabilities:		
(Increases) decreases in:		
Accounts receivable	620,267	(953,924)
Interest receivable	6,293	3,993
Prepaid expenses and other assets	(112,021)	7,942
Increases (decreases) in:		
Accounts payable	320,588	983,038
Accrued liabilities	(58,525)	(51,447)
Deferred revenue	6,487	4,146
Total adjustments	2,627,996	(7,799,381)
Net cash and cash equivalents provided by operating activities	1,181,112	1,114,591
Cash Flows from Investing Activities:		
Purchases of investments	(26,024,881)	(27,086,464)
Sales and maturities of investments	28,898,066	26,613,353
Realized gain on investments	1,699,250	3,030,502
Proceeds from dividends and interest	1,139,322	1,107,577
Investment expenses	(262,438)	(293,302)
Purchases of property and equipment	(7,902,437)	(6,021,500)
Proceeds from sales of property and equipment	2,849	24,371
Net cash and cash equivalents used in investing activities	(2,450,269)	(2,625,463)

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, 2018
(WITH SUMMARIZED TOTALS FOR 2017)

	2018	2017
Cash Flows from Financing Activities:		
Proceeds from pledges	$ 718,825	$ 3,033,486
Principal payments on notes payable	(214,890)	(201,451)
Net cash and cash equivalents provided by financing activities	503,935	2,832,035
Net Increase (Decrease) in Cash and Cash Equivalents	(765,222)	1,321,163
Cash and Cash Equivalents, Beginning of Year	5,043,864	3,722,701
Cash and Cash Equivalents, End of Year	$ 4,278,642	$ 5,043,864
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 74,400	$ 87,607
Noncash financing and investing activities:		
Purchase of automobile with trade-in	$ 38,000	$ 37,999

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 net assets with donor restrictions. 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 "Trailhead," this new facility opened in 2019. These consolidated financial statements reflect a consolidation of the activities of the Conservancy and Catherine, LLC. It is management's intention that Catherine, LLC will be dissolved, and the assets will be transferred to the Conservancy, though no date for this action is yet set.

Basis of Presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). References to the "ASC" hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board ("FASB") as the source of authoritative 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 FASB 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 Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under ASU 2016-14, the Conservancy is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Descriptions of the two net asset categories are as follows:

- Net Assets with Donor Restrictions - Net assets with donor restrictions are net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity but permit an organization to use or expend part or all the income derived from the contribution. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

- Net Assets without Donor Restrictions - Net assets without donor restrictions 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 core programs, such as the airport, interior access, and facilities management of the Conservancy; lease revenue; and investment income.

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.

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.

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

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. Allowance for doubtful accounts was $168,093 and $29,846, which included $35,795 and $9,846 related to pledges receivables, as of December 31, 2018 and 2017, respectively.

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 recorded 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 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.

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.

Concentration of Credit Risk

The Conservancy places its temporary cash in 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, 2018and 2017, the amount of uninsured cash balances at this institution totaled approximately $1,222,000 and $2,455,000, respectively.

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

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, and the related accumulated depreciation is removed from the depreciation accounts; 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 net assets with or without donor restrictions 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.

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 and 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 $260,000 and $354,000 for the years ended December 31, 2018 and 2017, respectively.

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

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. These costs include central office expenses; certain executive salaries, benefits, and taxes; and pension, insurance, and computer expenses charged to central cost centers that benefit the organization overall. The method used to allocate portions of these expenses from administrative support to program services and development/ fundraising was based on either developing estimates of underlying activities tied to the specific expenses, where possible, or evenly across all cost centers where underlying activity was difficult to estimate.

The major programs of the Conservancy are as follows:

- Recreation Services and Activities include expenses associated with providing guest services and tours, volunteer activities, airport activities, and hiking trail maintenance.
- Conservation Programs reflect expenses associated with plant and wildlife management programs.
- Educational Outreach includes expenses incurred to deliver programming to both local and visiting children, adults (via naturalist training), and local families, in addition to the operational expenses of the Wrigley Memorial and Botanic Garden.
- Interior Access/Maintenance/Management reflects a variety of expenses associated with providing access to the island and maintaining its infrastructure including the maintenance of the roads, buildings and vehicles needed to deliver program and emergency response services, as well as property management expenses.

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-PF. The Conservancy's tax years from 2015 to 2018 are open to review for federal tax purposes, and tax years from 2014 to 2018 are open to review for state tax purposes.

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

Income Taxes (Continued)

The Conservancy follows the accounting for uncertainty in income taxes as 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.

Recent Accounting Pronouncements - Adopted

On August 18, 2016, FASB issued ASU 2016-14. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Conservancy has implemented ASU 2016-14 and has adjusted the presentation in the consolidated financial statements accordingly.

Recent Accounting Pronouncements - Not Yet Adopted

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities - Revenue Recognition (Topic 958-605).* ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. This update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted. The Conservancy is currently evaluating the impact of the provisions of ASU 2018-08 on the presentation of its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, with subsequent improvements and corrections issued in ASU 2018-01, ASU 2018-10, and ASU 2018-20. ASU 2016-02 amends a number of aspects of lease accounting, including requiring lessees to recognize on their balance sheet a right-of-use asset and a lease liability for all operating leases with a term of more than 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize the right-of-use asset and lease liability. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019; however, early adoption is permitted. The Conservancy is currently evaluating the impact of the provisions of ASU 2016-02 on the presentation of its consolidated financial statements.

Note 2: Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date comprise the following:

Cash and equivalents	$ 1,919,000
Accounts receivable (net of allowance for doubtful accounts)	641,000
Pledges receivable	969,000
Board-approved endowment distributions	1,826,000
Total	$ 5,355,000

The Conservancy's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is available for general use. Donor-restricted endowment funds are not available for general expenditure. The Conservancy's board-designated endowment of approximately $47,000,000 is subject to annual spending rates of between 3.0 percent and 4.0 percent as described in Note 13.

The Conservancy's policy is to designate a portion of any operating cash flow surplus to an operating reserve, the value of which was approximately $990,000 as of December 31, 2018. The use of such reserve funds is approved by the board upon the request of management and is typically used for expenditures that are uncommon in nature.

Note 3: Pledges Receivable

During 2018, the Conservancy received written pledges for contributions totaling $1,427,000. All pledges, which are expected to be received over a four-year period ending December 31, 2022, are reported as net assets with donor restrictions. 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 0.8 percent. Total discounts on all pledges receivable after 2018 were approximately $28,000 as of December 31, 2018. The total amount of pledges receivable due to the Conservancy as of December 31, 2018, is as follows:

	2018	2017
Pledges receivable, net of discounts, beginning of year	$ 1,657,214	$ 4,393,405
Total pledges received during the year	1,727,000	298,500
Total collected	(1,018,825)	(3,033,486)
Discount on new pledges	(719)	(1,205)
Net Pledges Receivable, End of Year	$ 2,364,670	$ 1,657,214

Note 3: Pledges Receivable (Continued)

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

2019	$ 969,237
2020	782,433
2021	313,000
2022	300,000
Total	$ 2,364,670

Note 4: Investments

Investments held by the Conservancy at December 31, 2018 and 2017, are as follows:

	2018	
	Cost	Fair Value
Marketable Securities:		
Equities	$ 11,275,358	$ 16,292,201
Mutual funds	12,036,858	13,749,608
Fixed income:		
Mutual funds	2,737,421	2,703,376
Government securities	9,950,969	9,841,921
Asset- and mortgage-backed securities	2,363,036	2,338,448
Corporate bonds	4,306,429	4,204,645
Total Investments	$ 42,670,071	$ 49,130,199

	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

Note 5: Property and Equipment

The Conservancy's property and equipment consist of the following at December 31, 2018 and 2017:

	2018	2017
Land	$ 6,355,855	$ 6,355,855
Buildings and improvements	12,664,038	12,342,539
Machinery and equipment	5,976,589	5,963,917
Automobiles and trucks	2,866,035	2,588,502
Furniture and fixtures	182,090	182,090
Educational art collection	152,940	149,683
Airport runway	440,913	440,913
Work in progress	16,187,511	8,749,363
Other	30,000	30,000
Total property and equipment	44,855,971	36,802,862
Less: Accumulated depreciation	(12,980,120)	(12,197,696)
Property and Equipment, Net	$ 31,875,851	$ 24,605,166

Depreciation expense was approximately $787,000 and $722,000 for the years ended December 31, 2018 and 2017, respectively.

Note 6: Notes Payable

Details for notes payable at December 31, 2018 and 2017, are as follows:

	2018	2017
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.	$ 194,563	$ 252,973
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.	168,324	210,668

Note 6: Notes Payable (Continued)

	2018	2017
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.	$ 443,074	$ 519,328
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.	507,040	544,922
Total notes payable	1,313,001	1,527,891
Less: Current portion	(226,597)	(213,939)
Long-Term Notes Payable	$ 1,086,404	$ 1,313,952

The Conservancy was in compliance with the loan covenants or obtained wavier from the financial institution for all the notes payable listed above at December 31, 2018 and 2017.

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

2019	$ 226,597
2020	239,911
2021	250,620
2022	152,652
2023	132,572
Thereafter	310,649
Total	$ 1,313,001

Note 7: Special Events

Gross revenues for special events associated with the Conservancy's fundraising activities were as follows for the years ended December 31, 2018 and 2017:

	Year Ended December 31, 2018		
	Conservancy Ball	Other Special Events	Total
Gross revenues, including pledges	$ 726,024	$ 109,978	$ 836,002
Direct costs (including in-kind donations)	(382,010)	(65,810)	(447,820)
Net Revenue	$ 344,014	$ 44,168	$ 388,182

	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

Note 8: 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 8: 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 of December 31, 2018 and 2017. 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, 2018			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments	$ 49,130,199	$ 32,745,185	$ 16,385,014	$ -

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

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 9: Open-Space Easement

Substantially all 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 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 10: 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 \$363,000 per year. Certain 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:

2019	\$ 2,192,322
2020	2,309,080
2021	1,743,726
2022	1,207,168
2023	997,114
Thereafter	3,021,615
Total	\$ 11,471,025

Management expects all significant operating leases to be renewed upon expiration. Total lease revenue for the years ended December 31, 2018 and 2017, for land, facilities, and communication sites totaled approximately \$3,485,000 and \$3,307,000, 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 2026. Aggregate rent expense for the years ended December 31, 2018 and 2017, totaled approximately \$218,000 and \$210,000, respectively.

At December 31, 2018, minimum noncancelable annual rental commitments are as follows:

2019	\$ 225,110
2020	227,639
2021	216,838
2022	60,809
2023	63,642
Thereafter	114,924
Total	\$ 908,962

Note 11: 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, 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 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 plans 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 approximately $628,000 and $925,000 at December 31, 2018 and 2017, respectively, in the accompanying consolidated financial statements. Total amount contributed to meet the funding requirement was $135,000 and $151,000 for the years ended December 31, 2018 and 2017, respectively.

Note 11: Employee Retirement Plans (Continued)

Defined Benefit Plan (Continued)

The following table sets forth the funded status and amounts recognized in accrued liabilities in the consolidated statement of financial position at December 31, 2018 and 2017:

	2018	2017
Projected benefit obligation, end of year	$ (2,504,809)	$ (2,963,367)
Fair value of assets, end of year	1,876,467	2,038,583
Unfunded Status	$ (628,342)	$ (924,784)
Accrued Benefit Cost Recognized in the Consolidated Statement of Financial Position (Deficit)	$ (628,342)	$ (924,784)
Accumulated Benefit Obligation	$ 2,504,809	$ 2,963,367
Net Periodic Benefit Cost (Income)	$ 69,636	$ 65,363
Employer Contributions	$ 135,000	$ 151,000
Benefits Paid	$ 16,503	$ 109,733
Settlements	$ 209,826	$ -

The weighted-average discount rate used at the end of the year in determining the actuarial present value of the benefit obligations was 3.90 percent for 2018. The expected long-term rate of return on assets was 5.50 percent.

Net actuarial gain of $144,752 and $84,428, and the amortization of actuarial gain of $86,326 and $59,253, were netted for the years ended December 31, 2018 and 2017, respectively, and recognized as a gain of $231,078 and $143,681 in net assets without donor restrictions in the consolidated statement of activities, respectively. 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 that are held in a trust.

Net pension cost for the Plan for the years ended December 31, 2018 and 2017, included the following components:

	2018	2017
Interest cost	$ 88,047	$ 93,468
Expected return on plan assets	(104,737)	(87,358)
Amortization of net gain	45,342	59,253
Settlement/curtailment expense	40,984	-
Net Pension Cost	$ 69,636	$ 65,363

Note 11: Employee Retirement Plans (Continued)

Defined Benefit Plan (Continued)

The Conservancy's pension plan weighted-average asset allocations at December 31, 2018 and 2017, by asset categories are as follows:

	2018	2017
Equities securities	45%	49%
Debt securities	52%	48%
Other	3%	3%
Total	100%	100%

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

2019	$ 657,000
2020	224,000
2021	147,000
2022	80,000
2023	111,000
2024 - 2028	1,018,000
Total	$ 2,237,000

The total assumes that an additional contribution of $120,000 will be paid to the Plan in 2019.

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 $307,211 and $295,650 for the years ended December 31, 2018 and 2017, respectively.

Note 12: 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, 2018 and 2017, amounting to $246,863 and $244,860, 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 Harbor 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 13: Accounting and Reporting for Endowments

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

The Endowment

The Conservancy's endowment consists of land and marketable securities with the initial value of $3,285,029 and $1,864,995, respectively. 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 13: 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 donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conservancy retains in perpetuity (a) the original value of initial and subsequent gift amounts and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted amounts not retained in perpetuity are subject to appropriation 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, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 5,150,024	$ 5,150,024
Board-designated endowment funds	46,524,326	-	46,524,326
	$ 46,524,326	$ 5,150,024	$ 51,674,350

Note 13: Accounting and Reporting for Endowments (Continued)

Endowment Net Asset Composition by Type of Fund (Continued)

	December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	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

Change in Endowment Net Assets

	December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$ 53,013,639	$ 5,150,024	$ 58,163,663
Contributions	119,140	-	119,140
Investment return:			
Investment income	777,281	33,789	811,070
Net appreciation (realized and unrealized)	(3,396,564)	(143,815)	(3,540,379)
Total investment return	(2,619,283)	(110,026)	(2,729,309)
Appropriation of endowment assets for expenditures	(3,989,170)	110,026	(3,879,144)
Net Endowment Assets	$ 46,524,326	$ 5,150,024	$ 51,674,350

Note 13: Accounting and Reporting for Endowments (Continued)

Change in Endowment Net Assets (Continued)

	December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	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

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 net assets without donor restrictions as of December 31, 2018 and 2017.

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 13: 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 assets due to changing market conditions. The overall long-term asset allocation target 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 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 14: Net Assets

Net assets without donor restrictions include board designations of approximately $47,000,000 for endowment funds. Net assets with donor restrictions consist of pledges and contributions restricted by time and purpose.

Net assets with donor restrictions as of December 31, 2018, consist of the following:

Endowment assets	$ 5,150,024
Projects:	
Trailhead visitor center	2,133,329
Airport runway	1,232,535
Nature works	339,120
Other	304,060
	$ 9,159,068

Note 14: Net Assets (Continued)

During the year ended December 31, 2018, pledges released from donor-imposed time restrictions were approximately $718,000. These pledges were also restricted for a specific purpose. Net assets released from donor-imposed purpose restrictions during the year ended December 31, 2018, were approximately $7,884,000.

Note 15: 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.

Note 16: 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 as of and for the year ended December 31, 2017, from which the summarized information was derived.

Note 17: Subsequent Events

The Conservancy has evaluated subsequent events through May 23, 2019, 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.