# SANTA CATALINA ISLAND CONSERVANCY

## CONSOLIDATED FINANCIAL STATEMENTS

## YEAR ENDED DECEMBER 31, 2019
## (WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

## WITH INDEPENDENT AUDITORS' REPORT

**SANTA CATALINA ISLAND CONSERVANCY**
**TABLE OF CONTENTS**
**DECEMBER 31, 2019**

Page

CATALINA ISLAND CONSERVANCY™

*A responsible steward of its lands through a balance of conservation, education and recreation.*

SANTA CATALINA ISLAND CONSERVANCY
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEARS ENDED DECEMBER 31, 2019 AND 2018

## MISSION & BACKGROUND

To be a responsible steward of our Santa Catalina Island 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 and largest private land trusts in the western United States. It protects 88 percent of Catalina Island (over 42,000 acres), 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 one million people, including more than sixty thousand youth campers, annually.

## FINANCIAL STATEMENT OVERVIEW

The Conservancy's Consolidated Statement of Activities reflects several revenue sources 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 provide 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.

P. O. Box 2739, Avalon, CA 90704 – 310.510.2595 – www.catalinaconservancy.org
320 Golden Shore, Suite 220, Long Beach, CA 90802 – 562.437.8555

These sources of funding, combined with annual endowment payouts, help to fund a wide array of activities and programs each year. These include programmatic activities directly tied to the Conservancy's mission such as wildlife and plant conservation programs, a variety of 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, 165 miles of hiking trails and roads, the Airport in the Sky, numerous buildings, and a fleet of vehicles and heavy equipment which provides safe infrastructure for Catalina Island.

FINANCIAL STATEMENT HIGHLIGHTS FROM 2019 AND 2018

2019 was a milestone year for the Conservancy. Within one week in April/May we opened both the new Trailhead Visitor Center in Avalon and reopened the newly reconstructed ACE Clearwater Airfield at the Airport in the Sky. And we successfully completed our first two capital campaigns. The opening of the Trailhead was the culmination of a project with roots that go back to 2011 when the Conservancy purchased a key "front street" property where the Trailhead now operates. The airport runway project, on the other hand, came to fruition much more quickly. In about three years from inception to completion, the actual construction work itself took just six months with the exceptional efforts of the Marines and Navy Seabees. It 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 actual construction work was done with enlisted service men and women from the U.S. Marine Corps and U.S. Navy along with a variety of private contractors.

The Traihead serves as a visitor center and gateway to exploring the natural wonders of Catalina Island's wildlands. From this facility we provide valuable information to hundreds of thousands of visitors annually about things to do while visiting Catalina Island, including how to access the interior and information about the island' s ecology, rich natural and cultural history. The Trailhead also serves as a launching point for the Conservancy's Eco Tours and Airport transportation service. The Airport in the Sky also serves as a vital access point to the island for mail, freight, emergency services, as well as visitors who value the scenic beauty and area trails.

The Conservancy's financial statements that follow reflect the impacts of these projects across several areas. In the area of Revenue and Other Support, total contributions were $8.4 million in 2019, 70% higher than 2018. Of this, approximately $4.1 million was for the two projects noted above and nearly all the Conservancy's $4 million in capital spending in 2019 was as well. Perhaps the largest impact of the operations of the Trailhead is in retail sales which increased from $92,000 in 2018 to $542,000 in 2019 with just eight full months of operations. Activities at the Airport in the Sky were also strong in 2019, increasing from $550,000 in 2018 to $584,000 in 2019 despite the runway being closed for the first four months of the year.

Operating Revenues, excluding Contributions, increased 5% from 2018 with broad-based growth across nearly all revenue categories. Spending on Program Services accelerated significantly in 2019 as well, growing by 17%, or $1.3 million vs 2018 reflecting, in part, operating costs associated with the Trailhead Visitor Center. Meanwhile Supporting Services expenses (administration and Development/fundraising) decreased by 12% reflecting an enhanced organizational focus on the operation of these two important facilities, as well as improved operational efficiency. Supporting Services expenses accounted for 21% of Total Expenses vs. 26% in 2018.

Finally, investment market conditions had a significantly favorable impact on the Conservancy in 2019 particularly when compared to the prior year. Overall net income from investment activities was $10.1 million in 2019 vs a net loss of $2.7 million the year prior. In both years, the primary drivers of the respective results were unrealized gains/(losses) in our investment portfolio. These portfolio gains were largely responsible for the growth in total net assets from $84.5 million in 2018 to $98.9 million in 2019.

SUMMARY

We hope this overview and financial analysis helps to provide you with some additional insight as to the Conservancy's financial performance during 2019 and 2018. Should you have additional questions, please contact the Chief Financial Officer at 562-437-8555 x1240.

Tony Budrovich,
Chief Executive Officer

Larry L. Lloyd
Chief Finance and Business Development Officer

CLA (CliftonLarsonAllen LLP)
2875 Michelle Drive
Suite 300
Irvine, CA 92606
714-978-1300 | fax 714-978-7893
CLAconnect.com

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Santa Catalina Island Conservancy

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, 2019, 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, 2019, 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*

The consolidated financial statements as of December 31, 2018, were audited by White Nelson Diehl Evans LLP, whose partners and professional staff joined CliftonLarsonAllen LLP as of November 1, 2020, and has subsequently ceased operations. White Nelson Diehl Evans LLP's report dated May 23, 2019, expressed an unmodified opinion on those statements. The summarized comparative information presented herein as of and for the year ended December 31, 2018, 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.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Irvine, California
November 23, 2020

# SANTA CATALINA ISLAND CONSERVANCY
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## DECEMBER 31, 2019
## (WITH SUMMARIZED TOTALS FOR 2018)

| | Without Donor Restrictions | With Donor Restrictions | Total 2019 | Total 2018 |
|---|---|---|---|---|
| Assets: | | | | |
| Cash and cash equivalents | $ 5,321,777 | $ - | $ 5,321,777 | $ 4,278,642 |
| Investments | 55,398,148 | 1,193,814 | 56,591,962 | 49,130,199 |
| Receivables, net | 963,869 | 59,198 | 1,023,067 | 640,648 |
| Pledges receivable | - | 1,531,418 | 1,531,418 | 2,364,670 |
| Interest receivable | 84,119 | - | 84,119 | 88,252 |
| Inventory | 319,142 | - | 319,142 | 206,428 |
| Prepaid expenses and other assets | 41,163 | - | 41,163 | 205,250 |
| Deferred rent receivable | 534,542 | - | 534,542 | - |
| Property and equipment, net | 33,953,807 | 3,285,029 | 37,238,836 | 31,875,851 |
| Total Assets | $ 96,616,567 | $ 6,069,459 | $ 102,686,026 | $ 88,789,940 |
| Liabilities: | | | | |
| Accounts payable | $ 455,877 | $ - | $ 455,877 | $ 1,587,074 |
| Accrued liabilities | 2,212,854 | - | 2,212,854 | 1,687,800 |
| Deferred revenue | 68,784 | - | 68,784 | 74,856 |
| Notes payable | 1,086,345 | - | 1,086,345 | 1,313,001 |
| Total liabilities | 3,823,860 | - | 3,823,860 | 4,662,731 |
| Commitments and Contingencies | - | - | - | - |
| Net Assets | 92,792,707 | 6,069,459 | 98,862,166 | 84,127,209 |
| Total Liabilities and Net Assets | $ 96,616,567 | $ 6,069,459 | $ 102,686,026 | $ 88,789,940 |

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

## SANTA CATALINA ISLAND CONSERVANCY
## CONSOLIDATED STATEMENT OF ACTIVITIES
## YEAR ENDED DECEMBER 31, 2019
## (WITH SUMMARIZED TOTALS FOR 2018)

| | Without Donor Restrictions | With Donor Restrictions | Total 2019 | Total 2018 |
|---|---|---|---|---|
| **Revenues and Other Support:** | | | | |
| Operating: | | | | |
| Airport/bus | $ 584,439 | $ - | $ 584,439 | $ 549,511 |
| Contributions | 3,481,816 | 4,922,173 | 8,403,989 | 4,935,539 |
| Interior access | 863,366 | - | 863,366 | 898,209 |
| Jeep ECO tours | 883,473 | - | 883,473 | 881,591 |
| Leases | 4,325,333 | - | 4,325,333 | 3,485,468 |
| Memberships | 262,490 | - | 262,490 | 226,092 |
| Special events, net | 470,993 | - | 470,993 | 388,182 |
| Wrigley Memorial and Botanic Garden | 361,729 | - | 361,729 | 366,592 |
| Unrealized pension change | (402,278) | - | (402,278) | 231,078 |
| Other | 664,763 | (2,000) | 662,763 | 144,598 |
| Total operating | 11,496,124 | 4,920,173 | 16,416,297 | 12,106,860 |
| Investment Revenues, Net: | | | | |
| Dividends and interest | 1,049,527 | 60,056 | 1,109,583 | 1,169,398 |
| Net realized and unrealized gains (losses) on securities | 9,262,731 | 23,266 | 9,285,997 | (3,607,436) |
| Investment expenses | (259,590) | (5,106) | (264,696) | (292,514) |
| Total investment revenues, net | 10,052,668 | 78,216 | 10,130,884 | (2,730,552) |
| Total revenues | 21,548,792 | 4,998,389 | 26,547,181 | 9,376,308 |
| Net Assets Released from Restrictions | 8,087,998 | (8,087,998) | - | - |
| Total Revenues and Other Support | 29,636,790 | (3,089,609) | 26,547,181 | 9,376,308 |
| **Expenses:** | | | | |
| Program Services: | | | | |
| Recreation services and activities | 3,089,985 | - | 3,089,985 | 2,267,105 |
| Conservation | 1,317,989 | - | 1,317,989 | 1,147,518 |
| Educational outreach | 1,279,963 | - | 1,279,963 | 1,188,305 |
| Interior access/maintenance/management | 3,642,213 | - | 3,642,213 | 3,393,260 |
| Total program services | 9,330,150 | - | 9,330,150 | 7,996,188 |
| Supporting services: | | | | |
| Administrative | 1,537,566 | - | 1,537,566 | 1,929,481 |
| Development/fundraising | 944,508 | - | 944,508 | 897,523 |
| Total supporting services | 2,482,074 | - | 2,482,074 | 2,827,004 |
| Total expenses | 11,812,224 | - | 11,812,224 | 10,823,192 |
| Increase (Decrease) in Net Assets | 17,824,566 | (3,089,609) | 14,734,957 | (1,446,884) |
| Net Assets, Beginning of Year | 74,968,141 | 9,159,068 | 84,127,209 | 85,574,093 |
| Net Assets, End of Year | $ 92,792,707 | $ 6,069,459 | $ 98,862,166 | $ 84,127,209 |

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, 2019**
**(WITH SUMMARIZED TOTALS FOR 2018)**

| | 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 2019 | Total 2018 |
| Accounting | $ - | $ 304 | $ - | $ - | $ 304 | $ 111,857 | $ - | $ 111,857 | $ 112,161 | $ 94,824 |
| Computer/IT | 36,765 | 76,546 | 29,704 | 19,175 | 162,190 | 25,162 | 24,606 | 49,768 | 211,958 | 210,288 |
| Depreciation | 687,004 | 49,641 | 17,253 | 483,616 | 1,237,514 | 104,289 | 3,494 | 107,783 | 1,345,297 | 786,995 |
| Insurance | 81,588 | 21,560 | 31,622 | 126,918 | 261,688 | 25,221 | 15,280 | 40,501 | 302,189 | 270,118 |
| Interest | - | - | - | 62,997 | 62,997 | - | - | - | 62,997 | 74,400 |
| Legal | 20,740 | - | 1,168 | 109,981 | 131,889 | 68,045 | - | 68,045 | 199,934 | 199,890 |
| Other | 239,950 | 40,013 | 42,013 | 6,635 | 328,611 | (20,630) | 19,719 | (911) | 327,700 | 421,513 |
| Professional development | 5,230 | 5,323 | 3,559 | 2,170 | 16,282 | 2,358 | 1,829 | 4,187 | 20,469 | 28,714 |
| Professional | 10,112 | 126,872 | 26,532 | 188,654 | 352,170 | 49,406 | - | 49,406 | 401,576 | 228,045 |
| Promotion | 17,000 | 27,220 | 71,716 | 6,500 | 122,436 | 20,860 | 61,562 | 82,422 | 204,858 | 189,342 |
| Property taxes | 28,447 | 25 | 7,340 | 33,976 | 69,788 | 22,992 | 94 | 23,086 | 92,874 | 344,230 |
| Recruiting | 1,788 | 15,402 | 379 | 1,554 | 19,123 | 848 | 163 | 1,011 | 20,134 | 30,877 |
| Rent | 8,170 | 13,633 | 40,899 | 95,110 | 157,812 | 19,223 | 50,441 | 69,664 | 227,476 | 218,151 |
| Repairs/maintenance | 549,083 | 542,496 | 328,353 | 1,151,014 | 2,570,946 | 31,275 | 99,128 | 130,403 | 2,701,349 | 2,474,330 |
| Salaries/benefits | 1,006,227 | 138,459 | 543,193 | 1,062,148 | 2,750,027 | 975,552 | 577,859 | 1,553,411 | 4,303,438 | 4,269,193 |
| Supplies/operating | 302,690 | 235,542 | 90,834 | 220,891 | 849,957 | 71,471 | 83,188 | 154,659 | 1,004,616 | 820,688 |
| Telephone/utilities | 95,191 | 24,953 | 45,398 | 70,874 | 236,416 | 29,637 | 7,145 | 36,782 | 273,198 | 161,594 |
| Total Expenses | $ 3,089,985 | $ 1,317,989 | $ 1,279,963 | $ 3,642,213 | $ 9,330,150 | $ 1,537,566 | $ 944,508 | $ 2,482,074 | $ 11,812,224 | $ 10,823,192 |

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, 2019**
**(WITH SUMMARIZED TOTALS FOR 2018)**

| | 2019 | 2018 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Increase (decrease) in net assets | $ 14,734,957 | $ (1,446,884) |
| Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents provided by operating activities: | | |
| Depreciation | 1,345,297 | 786,995 |
| Gain on sale of property and equipment | 127,535 | (8,092) |
| Realized gains on investments, net | (1,343,834) | (1,699,250) |
| Unrealized gains (losses) on investments, net | (7,938,235) | 5,306,686 |
| Dividends and interest, net | (844,887) | (876,884) |
| Unrealized pension change | 428,251 | (161,442) |
| Contribution of marketable securities | (111,365) | (65,072) |
| Contribution of property and equipment | (2,917,590) | (150,000) |
| Pledges received | (285,000) | (1,427,000) |
| Discount on pledges | 84 | 719 |
| Allowance for doubtful accounts | - | 138,247 |
| Deferred rental income | (534,542) | - |
| Changes in operating assets and liabilities: | | |
| (Increases) decreases in: | | |
| Accounts receivable | (382,419) | 620,267 |
| Interest receivable | 4,133 | 6,293 |
| Inventory | (112,714) | (116,606) |
| Prepaid expenses and other assets | 164,087 | 4,585 |
| Increases (decreases) in: | | |
| Accounts payable | (1,131,197) | 320,588 |
| Accrued liabilities | 96,803 | (58,525) |
| Deferred revenue | (6,072) | 6,487 |
| Total adjustments | (13,441,665) | 2,627,996 |
| Net cash and cash equivalents provided by operating activities | 1,293,292 | 1,181,112 |
| **Cash Flows from Investing Activities:** | | |
| Purchases of investments | (20,241,923) | (26,024,881) |
| Sales and maturities of investments | 23,018,481 | 31,474,200 |
| Purchases of property and equipment | (3,984,227) | (7,902,437) |
| Proceeds from sales of property and equipment | 66,000 | 2,849 |
| Net cash and cash equivalents used in investing activities | (1,141,669) | (2,450,269) |

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, 2019
# (WITH SUMMARIZED TOTALS FOR 2018)

| | 2019 | 2018 |
|---|---|---|
| **Cash Flows from Financing Activities:** | | |
| Proceeds from pledges | $ 1,118,168 | $ 718,825 |
| Principal payments on notes payable | (226,656) | (214,890) |
| Net cash and cash equivalents provided by financing activities | 891,512 | 503,935 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,043,135 | (765,222) |
| Cash and Cash Equivalents, Beginning of Year | 4,278,642 | 5,043,864 |
| Cash and Cash Equivalents, End of Year | $ 5,321,777 | $ 4,278,642 |
| **Supplemental Disclosures of Cash Flow Information:** | | |
| Cash paid during the year for: | | |
| Interest | $ 62,997 | $ 74,400 |
| Noncash financing and investing activities: | | |
| Purchase of automobile with trade-in | | $ 38,000 |
| Donated equipment | $ 117,590 | |
| Donated labor for runway restoration | $ 2,800,000 | |

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% 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. This new flagship facility called Trailhead opened in 2019. The 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 without donor restrictions and net assets with donor restrictions.

Descriptions of the two net asset categories are as follows:

- 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.

- 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).

**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 that 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, which included $35,795 related to pledges receivable, as of both December 31, 2019 and 2018.

**Inventory**

Inventory consists of merchandise held for resale, primarily at the Trailhead visitor center, which opened to the public in April 2019. The inventory is stated at the lower of cost or net realizable value and is valued using the first-in, first-out method.

**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. A 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, 2019 and 2018, the amount of uninsured cash balances at this institution totaled approximately $2,612,000 and $1,222,000, 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 of purchase or at estimated fair value at the date of donation. 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 | 40 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 property and equipment accounts, and the related accumulated depreciation is removed from 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 without or with 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 $3,040,000 and $260,000 for the years ended December 31, 2019 and 2018, 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. Costs are principally charged to their functional area based on the underlying activities that those costs support. Departments are established in accordance with their functional activities, and costs within those departments are generally reported in those functional areas. Since most employees provide support to a single activity throughout the year, including the oversight of third-party vendors, those cost remain reported in that functional activity. There are some exceptions to this rule in regard to a small number of employees and centralized costs, the benefits of which span multiple functions. Accordingly, these 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. 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, operation of the new Trailhead visitor center, 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, which are 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 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 met the requirements of IRC Section 509(a)(1). The Conservancy was classified as a public charity effective January 1, 2010.

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

### Income Taxes (Continued)

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 2016 to 2019 are open to review for federal tax purposes, and tax years from 2015 to 2019 are open to review for state tax purposes.

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 the 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.

### Related-Party Transactions

During 2019 and 2018, the Conservancy purchased goods and services, primarily fuel for vehicle use and catering-related services, from businesses controlled by certain board members. Additionally, the Conservancy received fees for services rendered, primarily for the use of roads on Conservancy property, from the same businesses. All such transactions are reviewed quarterly by a committee of the Board of Directors responsible for governance matters to verify no excess economic benefit is transmitted to the related party via those transactions. Affected board members are required to recuse themselves from discussions of such transactions.

The following were totals of these transactions in 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Purchase of Goods and Services | $ 310,213 | $ 314,606 |
| Fees Received for Services | $ 545,376 | $ 458,000 |

Amounts owed to and from these businesses at December 31, 2019, were $7,841 and $104,902, respectively.

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

**Recent Accounting Pronouncements – Adopted**

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. This update assists 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. There was no material impact to the consolidated financial statements as a result of adoption. Accordingly, no adjustment to opening net assets was recorded.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10)*, with subsequent corrections issued on ASU 2018-13. One of the main provisions of ASU 2016-01 is that it requires investments in equity securities with readily determinable fair values to be measured at fair value, with changes in the fair value recognized in earnings. An entity's equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this ASU. For equity investments that do not have readily determinable fair values, ASU 2016-01 allows them to be remeasured at fair value, either upon the occurrence of an observable price change or upon identification of an impairment, and requires an assessment for impairment qualitatively at each reporting period. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018. The adoption of ASU 2016-01 did not have a significant impact on the Conservancy's consolidated financial statements.

**Recent Accounting Pronouncements – Not Yet Adopted**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 establishes new revenue recognition guidance ("ASC 606"), which replaces the current revenue recognition guidance. ASC 606 is a comprehensive revenue recognition standard for virtually all industries, including those that previously followed industry-specific guidance, such as the real estate, construction, and software industries. The core principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. ASC 606 is effective for nonpublic companies for annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020; however, early adoption is permitted. The Conservancy is currently evaluating the impact of the provisions of ASC 606 on the presentation of its consolidated financial statements.

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

**Recent Accounting Pronouncements – Not Yet Adopted (Continued)**

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, 2021; 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 statement of financial position date comprise the following:

| | |
|---|---|
| Cash and cash equivalents | $ 3,204,200 |
| Receivables (net of allowance for doubtful accounts) | 1,023,067 |
| Pledges receivable | 923,445 |
| Board-approved endowment distributions | 1,993,483 |
| Total | $ 7,144,195 |

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 $54,000,000 is subject to annual spending rates of between 3.0% and 4.0% 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 $1,009,000 as of December 31, 2019. 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 2019, the Conservancy received written pledges for contributions totaling $285,000. All pledges, which are expected to be received over a three-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 1.1%. Total discounts on all pledges receivable after 2019 were approximately $13,000 as of December 31, 2019. The total amount of pledges receivable due to the Conservancy as of December 31, 2019, is as follows:

| | 2019 | 2018 |
|---|---|---|
| Pledges receivable, net of discounts, beginning of year | $ 2,364,670 | $ 1,657,214 |
| Total pledges received during the year | 285,000 | 1,727,000 |
| Total collected | (1,118,168) | (1,018,825) |
| Discount on new pledges | (84) | (719) |
| Net Pledges Receivable, End of Year | $ 1,531,418 | $ 2,364,670 |

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

| | |
|---|---|
| 2020 | $ 923,445 |
| 2021 | 310,312 |
| 2022 | 297,661 |
| Total | $ 1,531,418 |

## Note 4: Investments

Investments held by the Conservancy at December 31, 2019 and 2018, are as follows:

| | 2019 | |
|---|---|---|
| | Cost | Fair Value |
| Marketable Securities: | | |
| Equities | $ 11,054,814 | $ 20,286,602 |
| Mutual funds | 14,279,465 | 19,197,758 |
| Fixed income: | | |
| Government securities | 10,432,330 | 10,600,903 |
| Asset- and mortgage-backed securities | 2,680,614 | 2,717,020 |
| Corporate bonds | 3,647,249 | 3,789,679 |
| Total Investments | $ 42,094,472 | $ 56,591,962 |

**Note 4: Investments (Continued)**

| | 2018 | |
|---|---|---|
| | Cost | Fair Value |
| Marketable Securities: | | |
| Equities | $ 11,275,358 | $ 16,292,201 |
| Mutual funds | 14,774,279 | 16,452,984 |
| Fixed income: | | |
| 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 |

**Note 5: Property and Equipment**

The Conservancy's property and equipment consist of the following at December 31, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Land | $ 6,355,855 | $ 6,355,855 |
| Buildings and improvements | 28,258,522 | 12,664,038 |
| Machinery and equipment | 6,518,404 | 5,976,589 |
| Automobiles and trucks | 3,040,981 | 2,866,035 |
| Furniture and fixtures | 288,962 | 182,090 |
| Educational art collection | 159,700 | 152,940 |
| Airport runway | 6,443,875 | 440,913 |
| Work in progress | 420,700 | 16,187,511 |
| Other | - | 30,000 |
| Total property and equipment | 51,486,999 | 44,855,971 |
| Less: Accumulated depreciation | (14,248,163) | (12,980,120) |
| Property and Equipment, Net | $ 37,238,836 | $ 31,875,851 |

Depreciation expense was approximately $1,345,000 and $787,000 for the years ended December 31, 2019 and 2018, respectively.

**Note 6: Notes Payable**

Details for notes payable at December 31, 2019 and 2018, are as follows:

| | 2019 | 2018 |
|---|---|---|
| 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. | $ 132,627 | $ 194,563 |
| 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. | 120,491 | 168,324 |
| 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. | 362,438 | 443,074 |
| 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. | 470,789 | 507,040 |
| Total notes payable | 1,086,345 | 1,313,001 |
| Less: Current portion | (239,912) | (226,597) |
| Long-Term Notes Payable | $ 846,433 | $ 1,086,404 |

In March 2020, the outstanding principal balances plus all accrued but unpaid interest on all the Conservancy's notes payable were repaid.

**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, 2019 and 2018:

| | Year Ended December 31, 2019 | | |
|---|---|---|---|
| | Conservancy Ball | Other Special Events | Total |
| Gross revenues, including pledges | $ 819,533 | $ 86,491 | $ 906,024 |
| Direct costs, including in-kind donations | (374,758) | (60,273) | (435,031) |
| Net Revenue | $ 444,775 | $ 26,218 | $ 470,993 |

| | 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 |

**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, 2019 and 2018. 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, 2019 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Investments: | | | | |
| Equities | $ 20,286,602 | $ 20,286,602 | $ - | $ - |
| Mutual funds | 19,197,758 | 19,197,758 | - | - |
| Fixed income | 17,107,602 | - | 17,107,602 | - |
| | $ 56,591,962 | $ 39,484,360 | $ 17,107,602 | $ - |

| | Fair Value at December 31, 2018 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Investments: | | | | |
| Equities | $ 16,292,201 | $ 16,292,201 | $ - | $ - |
| Mutual funds | 16,452,984 | 16,452,984 | - | - |
| Fixed income | 16,385,014 | - | 16,385,014 | - |
| | $ 49,130,199 | $ 32,745,185 | $ 16,385,014 | $ - |

Investments composed of equity securities are classified within Level 1 and 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 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 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.

Certain of the leases include escalating rental amounts over the term of the lease. Rental income is recognized on a straight-line basis over the term of each lease. The Conservancy recognizes a deferred rent receivable when rental income is in excess of the rent payments received. At December 31, 2019, the total deferred rent receivable amounted to $534,542.

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

| | |
|---|---|
| 2020 | $ 2,495,375 |
| 2021 | 2,234,539 |
| 2022 | 1,812,082 |
| 2023 | 1,629,428 |
| 2024 | 1,436,898 |
| Thereafter | 2,940,191 |
| Total | $ 12,548,513 |

Management expects all significant operating leases to be renewed upon expiration. Total lease revenue for the years ended December 31, 2019 and 2018, for land, facilities, and communication sites totaled approximately $3,920,000 and $3,591,000, respectively.

**Note 10: Rentals under Operating Leases (Continued)**

**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, 2019 and 2018, totaled approximately $227,000 and $218,000, respectively.

At December 31, 2019, minimum noncancelable annual rental commitments are as follows:

| | |
|---|---|
| 2020 | $ 217,985 |
| 2021 | 176,448 |
| 2022 | 52,667 |
| 2023 | 54,053 |
| 2024 | 40,417 |
| Thereafter | 77,898 |
| Total | $ 619,468 |

**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% of the participant's highest three years' average earnings minus 74% 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% of the participant's highest three years' average earnings plus 0.65% 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.

**Note 11: Employee Retirement Plans (Continued)**

**Defined Benefit Plan (Continued)**

FASB 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 $937,000 and $628,000 at December 31, 2019 and 2018, respectively, in the accompanying consolidated financial statements. Total amount contributed to meet the funding requirement was $120,000 and $135,000 for the years ended December 31, 2019 and 2018, respectively.

The following table sets forth the funded status and amounts recognized in accrued liabilities in the consolidated statement of financial position at December 31, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Projected benefit obligation, end of year | $ (3,186,808) | $ (2,504,809) |
| Fair value of assets, end of year | 2,250,215 | 1,876,467 |
| Unfunded Status | $ (936,593) | $ (628,342) |
| Accrued Benefit Cost Recognized in the Consolidated Statement of Financial Position (Deficit) | $ (936,593) | $ (628,342) |
| Accumulated Benefit Obligation | $ 3,186,808 | $ 2,504,809 |
| Net Periodic Benefit Cost (Income) | $ 25,973 | $ 69,636 |
| Employer Contributions | $ 120,000 | $ 135,000 |
| Benefits Paid | $ 16,503 | $ 16,503 |
| 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 2.70% for 2019. The expected long-term rate of return on assets was 5.50%.

Net actuarial gain (loss) of $(432,650) and $144,752 and the amortization of actuarial gain of $30,372 and $86,326 were netted for the years ended December 31, 2019 and 2018, respectively, and recognized as a gain (loss) of $(402,278) and $231,078 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.

**Note 11: Employee Retirement Plans (Continued)**

**Defined Benefit Plan (Continued)**

Net pension cost for the Plan for the years ended December 31, 2019 and 2018, included the following components:

| | 2019 | 2018 |
|---|---|---|
| Interest cost | $ 85,005 | $ 88,047 |
| Expected return on Plan assets | (89,404) | (104,737) |
| Amortization of net gain | 30,372 | 45,342 |
| Settlement/curtailment expense | - | 40,984 |
| Net Pension Cost | $ 25,973 | $ 69,636 |

The Conservancy's pension plan weighted-average asset allocations at December 31, 2019 and 2018, by asset categories are as follows:

| | 2019 | 2018 |
|---|---|---|
| Equities securities | 50% | 45% |
| Debt securities | 46% | 52% |
| Other | 4% | 3% |
| Total | 100% | 100% |

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows for years ending December 31:

| | |
|---|---|
| 2020 | $ 1,038,000 |
| 2021 | 172,000 |
| 2022 | 92,000 |
| 2023 | 130,000 |
| 2024 | 428,000 |
| 2025–2029 | 1,176,000 |
| Total | $ 3,036,000 |

The total assumes that an additional contribution of $120,000 will be paid to the Plan in 2020.

**Note 11: Employee Retirement Plans (Continued)**

**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 as follows:

a. 3% nonelective contribution for all employees
b. 100% match of an employee's contribution not to exceed 5% 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% of their earnings will be contributed to their account in the Thrift Plan. Total amounts contributed were $320,719 and $307,211 for the years ended December 31, 2019 and 2018, 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% 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, 2019 and 2018, amounting to $245,844 and $246,863, 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.

### 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

**Note 13: Accounting and Reporting for Endowments (Continued)**

**Endowment Net Asset Composition by Type of Fund**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| December 31, 2019 | | | |
| Donor-restricted endowment funds | $ - | $ 5,150,024 | $ 5,150,024 |
| Board-designated endowment funds | 53,749,896 | - | 53,749,896 |
| | $ 53,749,896 | $ 5,150,024 | $ 58,899,920 |
| December 31, 2018 | | | |
| 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 |

**Change in Endowment Net Assets**

| | December 31, 2019 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Net assets, beginning of year | $ 46,524,326 | $ 5,150,024 | $ 51,674,350 |
| Contributions | 235,365 | - | 235,365 |
| Investment return: | | | |
| Investment income | 859,512 | - | 859,512 |
| Net appreciation (realized and unrealized) | 9,164,761 | - | 9,164,761 |
| Total investment return | 10,024,273 | - | 10,024,273 |
| Appropriation of endowment assets for expenditures | (3,034,068) | - | (3,034,068) |
| Net Endowment Assets | $ 53,749,896 | $ 5,150,024 | $ 58,899,920 |

**Note 13: Accounting and Reporting for Endowments (Continued)**

**Change in Endowment Net Assets (Continued)**

| | 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 | 811,070 | - | 811,070 |
| Net appreciation (realized and unrealized) | (3,540,379) | - | (3,540,379) |
| Total investment return | (2,729,309) | - | (2,729,309) |
| Appropriation of endowment assets for expenditures | (3,879,144) | - | (3,879,144) |
| Net Endowment Assets | $ 46,524,326 | $ 5,150,024 | $ 51,674,350 |

**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, 2019 and 2018.

**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% 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% equities and 35% 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 (Wrigley Fund Endowment and the General Fund Endowment). The payout percentages established for the board-designated endowment funds are 3% and 4%, 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 not exceeding the approved payout percentage (unless prior consent is given). 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 not exceeding the approved payout percentage (unless prior consent is given). In 2019, funds in excess of the respective annual payout percentages were drawn from the board-designated endowment funds subsequent to receiving approval from the Board of Directors in order to allow for the completion of a large capital project prior to the final receipt of pledged future contributions for the same project.

Net investment income from the of $1,864,995 in the donor designated endowment fund are considered unrestricted and the Board of Directors has approved including the earnings in the board-designated endowment funds.

**Note 14: Net Assets**

Net assets without donor restrictions include board designations of approximately $54,000,000 for endowment funds. Net assets with donor restrictions consist of pledges and contributions restricted by time and purpose.

**Note 14: Net Assets (Continued)**

Net assets with donor restrictions as of December 31, 2019, consist of the following:

| | |
|---|---|
| Endowment assets | $ 5,150,024 |
| Projects: | |
| Employee housing fund | 247,439 |
| NatureWorks | 207,044 |
| Given Fund for Ocean Conservation | 189,842 |
| Other | 275,110 |
| | $ 6,069,459 |

During the year ended December 31, 2019, pledges released from donor-imposed time restrictions were approximately $1,090,000. These pledges were also restricted for a specific purpose. Net assets released from donor-imposed purpose restrictions during the year ended December 31, 2019, were approximately $6,997,998.

**Note 15: Reclassifications**

Certain amounts in the prior period 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, 2018, from which the summarized information was derived.

**Note 17: Subsequent Events**

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of an outbreak of a new strain of coronavirus ("COVID-19"). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase of the virus and its global exposure.

The Conservancy's operations are heavily dependent on private donations from individuals, foundations, and corporations. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. The situation may depress donations during fiscal year 2020. As such, this may hinder the Conservancy's ability to advance its mission.

**Note 17: Subsequent Events (Continued)**

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Conservancy's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on the Conservancy's financial condition, liquidity, operations, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the ultimate impact of the COVID-19 outbreak is highly uncertain and subject to change.

Additionally, subsequent to year-end, the Conservancy applied for and received a Paycheck Protection Program loan totaling $1,100,700. These funds are to be used for payroll costs, rent, and utilities. Loan payments will be deferred for six months, and no collateral or personal guarantees are required. Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines or if salaries and wages decrease. This loan has a maturity of two years and an interest rate of 1%. At this time, it is not determinable what amounts may need to be repaid.

The Conservancy has evaluated subsequent events through November 23, 2020, which was the date the consolidated financial statements were available to be issued and has not identified any other events that it deems to be material.