



FRIENDS OF ACADIA

FINANCIAL STATEMENTS

December 31, 2014 and 2013

With Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Friends of Acadia

We have audited the accompanying financial statements of Friends of Acadia (Friends) which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends of Acadia as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
May 8, 2015

FRIENDS OF ACADIA
Statements of Financial Position
December 31, 2014 and 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Cash	\$ 128,467	\$ 163,923
Contributions receivable, net	1,177,892	697,387
Other receivables, prepaid expenses and deposits	231,163	532,919
Land	276,730	396,196
Equipment, net of accumulated depreciation of \$121,504 in 2014 and \$112,674 in 2013	33,668	24,665
Assets whose use is limited	415,260	306,843
Investments	<u>25,630,611</u>	<u>23,424,615</u>
Total assets	<u>\$27,893,791</u>	<u>\$25,546,548</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accrued expenses	\$ <u>62,093</u>	\$ 41,117
Total liabilities	<u>62,093</u>	<u>41,117</u>
Net assets		
Unrestricted	2,561,931	2,089,039
Temporarily restricted	14,212,432	12,376,854
Permanently restricted	<u>11,057,335</u>	<u>11,039,538</u>
Total net assets	<u>27,831,698</u>	<u>25,505,431</u>
Total liabilities and net assets	<u>\$27,893,791</u>	<u>\$25,546,548</u>

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

FRIENDS OF ACADIA

Statement of Activities

Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues, gains and other support				
Contributions, grants and memberships received	\$ 1,159,463	\$ 2,366,849	\$ -	\$ 3,526,312
Events, less costs of direct benefit to donors of \$375,951	795,220	140,014	-	935,234
Other revenues	1,868	2,654	-	4,522
Net assets released from restrictions	<u>1,500,593</u>	<u>(1,500,593)</u>	-	-
Total operating revenues, gains and other support	<u>3,457,144</u>	<u>1,008,924</u>	-	<u>4,466,068</u>
Operating expenses				
Program services				
Preservation and protection	1,795,885	-	-	1,795,885
Education and outreach	<u>466,241</u>	-	-	<u>466,241</u>
Total program services	<u>2,262,126</u>	-	-	<u>2,262,126</u>
Supporting services				
Development, fund raising and membership	536,465	-	-	536,465
Management and general	<u>215,334</u>	-	-	<u>215,334</u>
Total supporting services	<u>751,799</u>	-	-	<u>751,799</u>
Total operating expenses	<u>3,013,925</u>	-	-	<u>3,013,925</u>
Change in net assets from operations	<u>443,219</u>	<u>1,008,924</u>	-	<u>1,452,143</u>
Non-operating gain				
Contributions	-	-	17,797	17,797
Net investment income	<u>29,673</u>	<u>826,654</u>	-	<u>856,327</u>
Net non-operating gain	<u>29,673</u>	<u>826,654</u>	<u>17,797</u>	<u>874,124</u>
Total change in net assets	472,892	1,835,578	17,797	2,326,267
Net assets, beginning of year	<u>2,089,039</u>	<u>12,376,854</u>	<u>11,039,538</u>	<u>25,505,431</u>
Net assets, end of year	<u>\$ 2,561,931</u>	<u>\$14,212,432</u>	<u>\$11,057,335</u>	<u>\$27,831,698</u>

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

FRIENDS OF ACADIA

Statement of Activities

Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues, gains and other support				
Contributions, grants and memberships received	\$ 1,001,427	\$ 1,016,203	\$ -	\$ 2,017,630
Events, less costs of direct benefit to donors of \$228,743	402,922	133,602	-	536,524
Other revenues	5,649	7,632	-	13,281
Net assets released from restrictions	<u>1,391,268</u>	<u>(1,391,268)</u>	<u>-</u>	<u>-</u>
Total operating revenues, gains and other support	<u>2,801,266</u>	<u>(233,831)</u>	<u>-</u>	<u>2,567,435</u>
Operating expenses				
Program services				
Preservation and protection	1,858,525	-	-	1,858,525
Education and outreach	<u>421,552</u>	<u>-</u>	<u>-</u>	<u>421,552</u>
Total program services	<u>2,280,077</u>	<u>-</u>	<u>-</u>	<u>2,280,077</u>
Supporting services				
Development, fund raising and membership	298,281	-	-	298,281
Management and general	<u>200,135</u>	<u>-</u>	<u>-</u>	<u>200,135</u>
Total supporting services	<u>498,416</u>	<u>-</u>	<u>-</u>	<u>498,416</u>
Total operating expenses	<u>2,778,493</u>	<u>-</u>	<u>-</u>	<u>2,778,493</u>
Change in net assets from operations	<u>22,773</u>	<u>(233,831)</u>	<u>-</u>	<u>(211,058)</u>
Non-operating gain				
Contributions	-	-	1,076,347	1,076,347
Net investment income	<u>177,008</u>	<u>3,736,570</u>	<u>-</u>	<u>3,913,578</u>
Net non-operating gain	<u>177,008</u>	<u>3,736,570</u>	<u>1,076,347</u>	<u>4,989,925</u>
Total change in net assets	199,781	3,502,739	1,076,347	4,778,867
Net assets, beginning of year	<u>1,889,258</u>	<u>8,874,115</u>	<u>9,963,191</u>	<u>20,726,564</u>
Net assets, end of year	<u>\$ 2,089,039</u>	<u>\$ 12,376,854</u>	<u>\$ 11,039,538</u>	<u>\$ 25,505,431</u>

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

FRIENDS OF ACADIA

Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets	\$ 2,326,267	\$ 4,778,867
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	8,830	8,965
Transfer of conservation easement and land to other organizations	119,467	130,000
Net realized and unrealized gains on investments	(400,156)	(3,483,293)
Contributions restricted for long-term investment	(17,797)	(1,076,347)
Decrease (increase) in		
Contributions receivable	(992,414)	73,658
Other receivables and prepaid expenses	301,756	(434,301)
Increase (decrease) in		
Grant payable	-	(170,000)
Accrued expenses	20,975	10,158
Net cash provided (used) by operating activities	<u>1,366,928</u>	<u>(162,293)</u>
Cash flows from investing activities		
Purchase of land and equipment	(17,834)	(14,016)
Purchase of investments	(10,296,994)	(10,073,975)
Proceeds from sale of investments	8,491,155	9,768,994
Net (increase) decrease in assets whose use is limited	<u>(108,417)</u>	<u>12,984</u>
Net cash used by investing activities	<u>(1,932,090)</u>	<u>(306,013)</u>
Cash flows from financing activities		
Contributions received restricted for long-term investment	<u>529,706</u>	<u>586,862</u>
Net (decrease) increase in cash	<u>(35,456)</u>	118,556
Cash, beginning of year	<u>163,923</u>	<u>45,367</u>
Cash, end of year	<u>\$ 128,467</u>	<u>\$ 163,923</u>

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

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2014 and 2013

Nature of Activities

The mission of Friends of Acadia (Friends) is to preserve, protect, and promote stewardship of the outstanding natural beauty, ecological vitality, and distinctive cultural resources of Acadia National Park (ANP) and surrounding communities for the inspiration and enjoyment of current and future generations. To accomplish its mission, Friends raises funds for park and community conservation projects, advocates before Congress, defends ANP against threats, and represents users in the betterment of park operations.

Friends conducted capital campaign drives to establish permanent endowment funds to provide for permanent maintenance of ANP Carriage Roads and Trails. Investment earnings are applied to Carriage Roads and Trails projects according to the guidelines established by an agreement between Friends' Board of Directors and the National Park Service (NPS).

During 2014 and 2013, Friends received approximately 18% and 36% of contributions from one and two donors, respectively.

1. Summary of Significant Accounting Policies

Promises to Give

Contributions are recognized when the donor makes a promise to give to Friends that is, in substance, unconditional. Contributions that are not restricted by the donor are reported as increases in unrestricted net assets. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a purpose or time restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Promises to give are reported at the present value of the estimated future cash flows using a discount rate commensurate with the risks involved.

Friends uses the allowance method to estimate uncollectible, unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2014 and 2013

Land and Equipment

Purchased land and equipment is recorded at cost. Donations of equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Friends reports expirations of donor restrictions when the donated or acquired assets are placed in service. Friends reclassifies temporarily restricted net assets to unrestricted net assets at that time. Friends capitalizes equipment with a useful life greater than one year and a cost of \$1,000 or more. Equipment is depreciated using the straight-line method over the estimated useful lives of the respective assets.

Income Taxes

The Internal Revenue Service has determined that Friends is exempt from taxation under Internal Revenue Code Section 501(c)(3) and, accordingly, no provision for income taxes has been reflected in these financial statements.

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as indicated below:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of Friends and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to a donor-imposed stipulation that contributed resources be maintained permanently but permits Friends to use up or expend part or all of the income or other economic benefits derived from the donated asset.

Allocation of Joint Costs

Friends has adopted Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 958-720-45, *Other Presentation Matters*, with regard to accounting for costs of activities that included fund raising. Friends conducts a variety of activities that include requests for contributions as well as program and management and general components. Those activities include direct mail campaigns, special events, and other activities. Payroll costs, postage, printing, advertising, and supplies have been allocated to fund raising based upon timecards, estimated time spent or usage.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2014 and 2013

Operating Income

The statements of activities include a measure of change in net assets from operations. Changes in net assets which are excluded from change in net assets from operations include investment income, contributions which are permanently restricted by the donor or which are donor restricted to be used for the purposes of acquiring long-term assets, and the release thereof when Friends has complied with the donative restrictions.

Investments

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in value in the near term would materially affect the amounts reported in the statements of financial position and activities.

Compensated Absences

The costs of compensated absences have been accrued at December 31, 2014 and 2013. The amount of vacation pay that has been earned and will be paid in the future totaled \$10,963 at December 31, 2014 and \$11,068 at December 31, 2013.

Subsequent Events

Management has considered subsequent events occurring through May 8, 2015, the date the financial statements were available to be issued, and determined that no additional adjustments or disclosures are required for the financial statements to be fairly stated.

2. Cash on Deposit

Friends maintains its cash and assets whose use is limited in bank deposit accounts which, for short periods of time, may exceed federally insured limits. Friends has not experienced any losses in such accounts and believes it is not exposed to any significant risk with respect to these accounts.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2014 and 2013

3. Contributions Receivable

Friends is raising contributions for a number of programmatic priorities at ANP and surrounding communities, including natural resource protection, transportation enhancements, youth in parks, and trails and carriage roads restoration. Contributions receivable, which are restricted toward the above priorities and other restricted projects for operating purposes (restricted as to time), consist of the following:

	<u>2014</u>	<u>2013</u>
Amounts due in:		
One year or less	\$ 444,978	\$ 674,537
One to five years	<u>778,310</u>	<u>43,683</u>
 Total unconditional promises to give	 1,223,288	 718,220
 Less discounts to net present value at 0.6 to 0.7%	 13,930	 833
Less allowance for uncollectible promises to give	<u>31,466</u>	<u>20,000</u>
 Net unconditional promises to give	 \$ <u>1,177,892</u>	 \$ <u>697,387</u>

4. Gifts of Future Interests

Friends holds interests in a few small remainder trusts, or unitrusts and is also the beneficiary of a Maine Community Foundation Fund. The combined value was approximately \$76,500 at December 31, 2014 and \$73,800 at December 31, 2013. These totals are included in other receivables, prepaid expenses and deposits in the statements of financial position.

5. Assets Whose Use is Limited

Assets whose use is limited consists of cash and certificates of deposit for the following temporarily restricted purposes:

	<u>2014</u>	<u>2013</u>
Cash		
Night Sky Initiatives	\$ 3,176	\$ 33,600
Youth Initiatives	13,048	17,996
2016 Centennial Projects	149,801	-
Other temporarily restricted projects	51,966	47,638
 Certificates of deposit		
Island Explorer bus system	<u>197,269</u>	<u>207,609</u>
	 \$ <u>415,260</u>	 \$ <u>306,843</u>

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2014 and 2013

6. Investments

Return Objectives and Risk Parameters

Friends has adopted investment and spending policies for all its investments, including endowment assets, that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Friends must hold in perpetuity or for a donor-specified period(s) as well any board-designated funds. Under this policy, as approved by the Board of Directors, the funds are managed on a total return basis. Friends' long-term investment goal (net of investment, custody and investment management fees) is to achieve on average an annual return that equals or exceeds the blended index being used at the time. The index is currently defined as 30% of Barclays Capital U.S. Aggregate index and 70% of the S&P 500 index. Friends' investment time horizon is five to ten years. Decisions regarding manager and individual investment manager evaluation and selection, as well as portfolio asset allocation, will be made with an eye toward moderating investment volatility, especially in down markets.

The investments aim to provide appropriate stewardship of Friends' financial assets and secure long-term financial stability and income to support Friends' commitments to ANP and Friends' operations and programs as budgeted annually by the Investment and Finance Committee and approved by Friends' Board of Directors.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Friends relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Friends targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2014 and 2013

Project Funds

Friends also invests cash received from temporarily restricted contributions for projects that will not be immediately spent. These funds are presented separately from endowment funds in the following schedules of investment activity and investment composition by type of fund.

The investment net asset composition by type of fund as of December 31, 2014 is as follows:

	Temporarily Restricted Endowment Funds	Permanently Restricted Endowment Funds	Total Endowment Funds	Unrestricted Invested Funds	Project and Unallocated Funds	Total Investments
Donor-restricted endowment funds	\$10,274,546	\$11,038,395	\$21,312,941	\$ -	\$ -	\$21,312,941
Board-directed invested funds	-	-	-	1,563,248	-	1,563,248
Project funds	-	-	-	-	2,754,422	2,754,422
	<u>\$10,274,546</u>	<u>\$11,038,395</u>	<u>\$21,312,941</u>	<u>\$ 1,563,248</u>	<u>\$ 2,754,422</u>	<u>\$25,630,611</u>

Changes in investment net assets for the year ended December 31, 2014 are as follows:

	Temporarily Restricted Endowment Funds	Permanently Restricted Endowment Funds	Total Endowment Funds	Unrestricted Invested Funds	Project and Unallocated Funds	Total Investments
Investment net assets, beginning of year	<u>\$ 9,951,631</u>	<u>\$10,508,961</u>	<u>\$20,460,592</u>	<u>\$ 938,996</u>	<u>\$ 2,025,027</u>	<u>\$23,424,615</u>
Investment return						
Investment income	395,217	-	395,217	19,712	39,546	454,475
Realized gain on investments	950,872	-	950,872	46,306	95,145	1,092,323
Net depreciation of investments	<u>(595,658)</u>	<u>-</u>	<u>(595,658)</u>	<u>(36,906)</u>	<u>(59,603)</u>	<u>(692,167)</u>
Total investment return	<u>750,431</u>	<u>-</u>	<u>750,431</u>	<u>29,112</u>	<u>75,088</u>	<u>854,631</u>
Contributions and other deposits	-	529,434	529,434	838,977	1,208,051	2,576,462
Appropriation of investment assets for expenditure	<u>(427,516)</u>	<u>-</u>	<u>(427,516)</u>	<u>(243,837)</u>	<u>(553,744)</u>	<u>(1,225,097)</u>
Investment net assets, end of year	<u>\$ 10,274,546</u>	<u>\$11,038,395</u>	<u>\$21,312,941</u>	<u>\$ 1,563,248</u>	<u>\$ 2,754,422</u>	<u>\$25,630,611</u>

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2014 and 2013

The investment net asset composition by type of fund as of December 31, 2013 is as follows:

	Temporarily Restricted Endowment Funds	Permanently Restricted Endowment Funds	Total Endowment Funds	Unrestricted Invested Funds	Project and Unallocated Funds	Total Investments
Donor-restricted endowment funds	\$ 9,951,631	\$ 10,508,961	\$ 20,460,592	\$ -	\$ -	\$ 20,460,592
Board-directed invested funds	-	-	-	938,996	-	938,996
Project funds	-	-	-	-	2,025,027	2,025,027
	<u>\$ 9,951,631</u>	<u>\$ 10,508,961</u>	<u>\$ 20,460,592</u>	<u>\$ 938,996</u>	<u>\$ 2,025,027</u>	<u>\$ 23,424,615</u>

Changes in investment net assets for the year ended December 31, 2013 are as follows:

	Temporarily Restricted Endowment Funds	Permanently Restricted Endowment Funds	Total Endowment Funds	Unrestricted Invested Funds	Project and Unallocated Funds	Total Investments
Investment net assets, beginning of year	<u>\$ 7,135,414</u>	<u>\$ 9,922,099</u>	<u>\$ 17,057,513</u>	<u>\$ 930,112</u>	<u>\$ 1,648,716</u>	<u>\$ 19,636,341</u>
Investment return						
Investment income	366,469	-	366,469	22,452	39,660	428,581
Realized gain on investments	1,575,567	-	1,575,567	87,465	191,885	1,854,917
Net appreciation of investments	<u>1,395,381</u>	<u>-</u>	<u>1,395,381</u>	<u>66,626</u>	<u>166,369</u>	<u>1,628,376</u>
Total investment return	<u>3,337,417</u>	<u>-</u>	<u>3,337,417</u>	<u>176,543</u>	<u>397,914</u>	<u>3,911,874</u>
Contributions and other deposits	-	586,862	586,862	248,578	440,910	1,276,350
Appropriation of investment assets for expenditure	<u>(521,200)</u>	<u>-</u>	<u>(521,200)</u>	<u>(416,237)</u>	<u>(462,513)</u>	<u>(1,399,950)</u>
Investment net assets, end of year	<u>\$ 9,951,631</u>	<u>\$ 10,508,961</u>	<u>\$ 20,460,592</u>	<u>\$ 938,996</u>	<u>\$ 2,025,027</u>	<u>\$ 23,424,615</u>

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2014 and 2013

Investments are recorded at fair value. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

The historical cost and fair value of investments are as follows:

Asset Class	Strategy	Cost		Fair Value	
		2014	2013	2014	2013
Cash	Money Market	\$ 2,359,872	\$ 1,156,881	\$ 2,359,872	\$ 1,156,881
Non U.S. Equity	International Equity	6,008,766	5,064,802	5,969,153	5,817,763
	EuroStoxx50 Index Fund	-	707,556	-	868,619
U.S. Equity	All Cap Value	1,342,280	1,149,489	1,957,702	1,677,171
	All Cap Growth	1,277,863	1,073,272	1,844,541	1,691,409
	SPDR S&P Tech Sector	-	197,158	-	225,162
	SPDR S&P Bank Sector	158,570	448,700	189,222	530,720
	Dynamic Equity	2,315,866	1,509,781	2,579,683	1,717,371
	Small Cap Core	882,386	694,390	1,034,311	1,051,175
	SPDR S&P 500 Index	3,080,903	3,136,963	4,448,678	4,159,942
Fixed Income	Govt. & Corp. FI Notes	2,592,709	2,455,074	2,605,685	2,499,620
	Strategic Income Fund	1,040,619	516,171	1,013,667	523,881
	High Yield Inst. Mutual Fund	849,744	1,502,940	800,951	1,504,901
	High Yield Floating Rate	845,223	-	827,146	-
Total investments		<u>\$22,754,801</u>	<u>\$19,613,177</u>	<u>\$25,630,611</u>	<u>\$23,424,615</u>

Investment fees are based on the value of the portfolio, and totaled \$150,659 for 2014 and \$139,031 for 2013.

7. Spending Policy

Unrestricted Investment Income

Friends' published investment income policy is to appropriate investment income up to 5% of unrestricted and temporarily restricted invested funds; 1% is designated for operational purposes and 4% for board-designated purposes (which is generally the same as the intended purpose for the temporarily restricted funds). Subsequent to year-end, Friends' Board voted to reduce the overall appropriation from 5% to 4.5% and the percentage designated for operational purposes from 1% to ½%.

Temporarily Restricted Investment Income

The published investment spending policy appropriates investment income up to 5% of permanently restricted invested funds annually; 1% for operational purposes (changing to ½% in 2015) and 4% for their intended purpose. All investment income earned on the permanently restricted funds in excess of 5% is reinvested to maintain the purchasing power of the corpus.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2014 and 2013

Maine legislation requires that appreciation on investments of permanently restricted net assets be considered a donor-restricted asset until appropriated pursuant to proper governing board action. The appreciation on the permanently restricted investments is released from restrictions upon appropriation by the Board of Directors in accordance with the spending policy as described above.

Interpretation of Relevant Law

The Board of Directors of Friends has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the contributed value of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Friends classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, and the original value of subsequent gifts to the permanent endowment. In accordance with the Act, Friends considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

Friends uses the average investments for the most recent 12 quarter-end balances for this calculation.

The investment income is reflected in the statements of activities as follows:

	<u>2014</u>	<u>2013</u>
Unrestricted		
Interest and dividend income, net of expense	\$ 20,273	\$ 22,917
Realized gains on long-term investments	46,306	87,465
Unrealized gain (loss) on long-term investments	<u>(36,906)</u>	<u>66,626</u>
Total unrestricted	<u>29,673</u>	<u>177,008</u>
Temporarily restricted		
Interest and dividend income, net of expense	435,898	407,368
Realized gains on long-term investments	1,046,017	1,767,452
Unrealized gain (loss) on long-term investments	<u>(655,261)</u>	<u>1,561,750</u>
Total temporarily restricted	<u>826,654</u>	<u>3,736,570</u>
Investment income	<u>\$ 856,327</u>	<u>\$ 3,913,578</u>

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8. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
ANP Carriage Road Maintenance Fund	\$ 2,205,071	\$ 2,567,041
The Dorrence B. Tibbetts Fund for Carriage Roads & Bridges	355,971	-
Other temporarily restricted projects	289,317	146,643
Teacher Ranger Teacher Program Fund	111,362	132,815
Acadia Youth Technology Team	28,915	17,996
Wild Gardens of Acadia Founders' Fund	43,744	39,096
Invasive Plant Eradication & Water Quality	114,771	147,440
Operations – restricted as to time	81,824	99,331
Wheelchair Accessible Carriage Maintenance Fund	135,431	128,706
Wild Acadia – Cromwell Brook Restoration	38,936	-
Cadillac Mountain Restoration	125,627	-
Second Century Campaign	1,547,054	-
Island Explorer Bus System	197,269	207,336
Lower Hadlock Pond	10,609	10,636
Ridge Runner Program Fund	340,457	328,451
Acadia Winter Trails	133,495	125,867
Acadia Land Legacy – Unrestricted	597,255	623,700
Acadia Trails Forever & Capital Projects	6,379,335	6,341,582
Acadia Trails Forever Abandoned Trails Reconstruction Projects	693,227	697,076
Acadia Youth Conservation Corps	688,219	667,293
J. Peter Grace Trails Fund in Memory of the Long Walk	<u>94,543</u>	<u>95,845</u>
	<u>\$ 14,212,432</u>	<u>\$ 12,376,854</u>

Permanently restricted net assets are restricted to investments in perpetuity. The income from the investments is expendable to support maintenance of ANP Carriage Roads, Wheelchair Accessible Carriages, Winter Trails, Acadian Ridge Trail, Wild Gardens of Acadia and ANP Trails and is reported as temporarily restricted.

Permanently restricted net assets consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
Elizabeth R. Bright Endowment - Acadia Winter Trails	\$ 200,000	\$ 200,000
ANP Carriage Road Endowment	4,486,933	4,481,933
Wheelchair Accessible Carriages Endowment	100,000	100,000
Acadian Ridge Trail Endowment	29,699	29,699
J. Peter Grace Trails Fund in Memory of the Long Walk	100,000	100,000
Acadia Trails Forever Endowments	5,897,972	5,897,972
Wild Gardens of Acadia Founders' Fund	<u>242,731</u>	<u>229,934</u>
	<u>\$ 11,057,335</u>	<u>\$ 11,039,538</u>

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9. Net Assets Released From Restrictions

Net assets were released from donor or grantor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors or grantors as follows in 2014 and 2013:

	<u>2014</u>	<u>2013</u>
ANP Carriage Road Maintenance Fund	\$ 243,918	\$ 179,900
Other temporarily restricted projects	198,829	69,677
Operations restricted as to time	20,161	38,781
Teacher Ranger Teacher Program Fund	28,372	23,954
Island Explorer Bus System	211,239	222,338
Ridge Runner Program Fund	26,725	28,501
Acadia Winter Trails	8,074	3,544
Acadia Land Legacy Land Bank	41,085	3,300
Cadillac Mountain Restoration Project	16,621	-
Wild Acadia & Cromwell Brook Restoration	11,064	-
Trenton Community Trail	5,609	25,905
Acadia Trails Forever	84,878	77,000
Acadia Trails Forever Capital Projects	335,976	405,352
Acadia Youth Conservation Corps	62,917	57,203
Vascular Plant Guide	1,902	1,936
Invasive Plant Eradication & Water Quality Projects	141,598	145,404
L.L. Bean Kids In Acadia	25,000	25,000
Acadia Youth Technology Team	<u>36,625</u>	<u>83,473</u>
	<u>\$ 1,500,593</u>	<u>\$ 1,391,268</u>

10. Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting activities. Salaries and benefits are allocated as follows:

	<u>2014</u>	<u>2013</u>
Programs	60%	63%
Management and general	18	18
Development, fund raising and membership	22	19

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11. Retirement Plan

Friends has a defined contribution plan available to any employee who meets certain eligibility requirements. The plan contains a salary reduction feature through which participants may elect to defer a percentage of their annual compensation. Friends' contributions to the plan consist of a matching contribution of up to 5% of compensation. Contributions to the plan were \$29,079 in 2014 and \$26,659 in 2013.

12. Non-Cash Transactions

Friends received non-cash gifts from donors valued at \$488,539 in 2014 and \$249,433 in 2013, primarily from auction items and professional services, which are included in operating revenues in the statements of activities. Events revenue includes the total auction proceeds received for the sale of non-cash gifts donated for the auction as well as proceeds received for the sale of items purchased by Friends for sale at the auction.

13. Commitments

During 2011, Friends entered into a renewed qualified sponsorship agreement with L.L. Bean whereby L.L. Bean indicated its intent to contribute \$1 million to Friends in support of the Island Explorer propane-powered shuttle bus system, in yearly installments of \$200,000 over five years. In acknowledgement of its qualified sponsorship contribution, L.L. Bean is to receive sponsorship logo identification inside and outside of the buses as well as in other designated areas. Through a stipulation in the agreement with L.L. Bean, Friends entered into an agreement with the NPS whereby Friends, on the written request of ANP, will grant funds from the L.L. Bean sponsorship payments to support the Island Explorer bus system. Friends is to receive 1% of the contributions as a management fee. The remaining funds, including earnings on the funds, are to be used in support of the Island Explorer bus system. Grants made to Downeast Transportation, Inc. per approval of the NPS to support the Island Explorer bus system totaled \$209,239 in 2014 and \$221,838 in 2013. Friends has entered into an agreement with a \$100,000 commitment remaining through April 2015 for professional fundraising services.

14. Related Party Transactions

Friends provides donor restricted grant support to Schoodic Institute, a nonprofit organization that employs a member of Friends' Board of Directors. Grants paid to Schoodic Institute which are included in preservation and protection expense in the statements of activities were \$24,750 for 2014 and 2013.

Friends maintains investments with Bar Harbor Bankshares whose parent company is Bar Harbor Bank and Trust (BHBT). The former president of BHBT is a member of Friends' Investment & Finance Committee. He retired from the bank in 2013, but remains on the BHBT Board of Directors. Investments maintained at BHBT were approximately 2.9% and 1.9% of total investments at December 31, 2014 and 2013, respectively.

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15. Agreement with Maine Coast Heritage Trust (MCHT)

During 2005, Friends entered into an agreement to work jointly with MCHT and ANP to establish a Fund whose proceeds will be used to acquire ownership and/or conservation easements on land adjacent to or within the boundaries of ANP for the benefit of ANP, as mutually agreed upon by all three parties.

Terms of the agreement hold Friends responsible to solicit contributions for and establish the Fund whose proceeds will be used for this purpose. Under the agreement, Friends will conduct a capital campaign in an amount to be determined by the involved parties and will use its administrative resources to conduct the campaign and identify donors. Friends is required to make Fund money available to ANP, MCHT or other qualified conservation entities for such acquisitions pursuant to this agreement. MCHT or other qualified conservation entities are responsible for facilitating such acquisitions and providing administrative support for such acquisitions. MCHT will assume a greater than one-half ownership in land purchased by the two organizations through the Fund and all rights of ownership and sole holdership of conservation easements. Friends will assume a less than one-half ownership in land purchased by the two organizations through the Fund.

Both Friends and MCHT are required to return to the Fund proceeds resulting from the sale of land or easements acquired by the Fund, net of reasonable costs of the sale.

The agreement term is for five years with five year automatic renewals until the three parties agree that all target properties identified in their land acquisition plan have been acquired and transferred to ANP. At the end of the agreement, the monies remaining in the Fund will belong solely to Friends for reuse for a purpose determined by the Board of Directors. Any remaining interests in land held by Friends and refused or not acquired by ANP will be released to MCHT for disposition as determined by its Board of Directors and without further contribution to the Fund. The agreement can be terminated by either Friends or MCHT at any time, for any reason, subject to certain conditions contained within the agreement.

In 2009, Friends and MCHT purchased approximately thirty-five acres of marsh land on Northeast Creek for the sum of \$28,406. MCHT held 51% ownership and Friends held 49% ownership. In 2011, the partners sold this property to the NPS with \$28,393 revolving back into Friends' land conservation fund. Friends also granted \$21,730 to MCHT to purchase five acres of wetlands on Bass Harbor Marsh. This property was sold to the NPS, with \$19,951 revolving back into Friends' land conservation fund.

In 2009, Friends donated \$50,000 to MCHT to purchase an option on thirty-nine acres on Lower Hadlock Pond. The closing on this property occurred in two stages; in 2010 MCHT and Friends acquired a portion of the land with Friends contributing \$150,711. In 2011, the partners sold a conservation easement on the acquired parcel to the NPS, and Friends was reimbursed \$200,711 that revolved back into Friends' land conservation fund. In 2011, Friends raised funds for the purchase of the second half of the Lower Hadlock Pond property through its benefit auction and other conservation-minded donors. The funds were sent to the Pew Charitable Trusts in support of the Northeast Land Trust Consortium, which is able to provide up to a 50% match on grants made for this initiative. The consortium supports the MDI Conservation Opportunities Initiative II, an effort

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to support the acquisition and protection of substantially undeveloped parcels on or in the proximity of Mount Desert Island in Maine. In April 2014, MCHT and Friends donated the remaining parcels on Lower Hadlock Pond to ANP.

Also in 2011, Friends and MCHT purchased 5 acres on Round Pond (Round Pond II). Friends paid \$276,730 for 49% ownership, with the intent that the land be sold to ANP when funding becomes available. Finally, Friends pledged a \$170,000 grant toward the purchase of approximately twenty-three additional acres on Round Pond (Round Pond I) which was paid in 2013. This property will be donated to ANP in 2016 to celebrate the park's centennial.

In 2012, Friends and MCHT raised funds to purchase a conservation easement on 3,200 acres adjacent to the Schoodic section of ANP. The funds were donated to the Pew Charitable Trusts who provided a match for this project.

In 2014, Friends donated \$37,500 to MCHT to purchase 9.27 acres of the old Gilbert Farm in Bar Harbor. MCHT intends to hold the land until it is sold to ANP and the Friends' Land Bank will be reimbursed.

16. Other Disclosures

In December 2013, Friends donated a conservation easement to MCHT on 152 acres Friends owned in Trenton. Immediately afterward, Friends donated the underlying fee title to the same acreage to the Town of Trenton. These conveyances represent the last steps in Friends' planned divestiture of all land in Trenton that was originally part of a larger tract purchased for the adjacent Acadia Gateway Center project. As referenced above, in 2014, MCHT and Friends donated the remaining parcels on Lower Hadlock Pond to ANP. The conveyances are also reflected on the statements of cash flows and together represent the values of \$119,467 in 2014 and \$130,000 in 2013 as stated therein.

17. Assets at Fair Value

ASC Topic 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principle or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

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Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

All Friends' investments, as disclosed in Note 6, are Level 1 assets and are measured at fair value on a recurring basis.

18. Leasing Arrangements

Friends leases office space in Bar Harbor under an operating lease expiring in 2015. Future minimum lease payments required under the lease are \$11,300, to be paid in 2015.

Total rent expense under this lease and other immaterial operating lease agreements totaled approximately \$47,324 for 2014 and \$46,014 for 2013.

Subsequent to year-end, Friends negotiated a lease renewal. The following is a schedule of future minimum lease payments required under the renewed lease:

2015	\$42,416
2016	47,607
2017	49,035
2018	16,505