



FRIENDS OF ACADIA

FINANCIAL STATEMENTS

December 31, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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 12, 2017

FRIENDS OF ACADIA
Statements of Financial Position
December 31, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Cash	\$ 367,891	\$ 212,801
Contributions receivable, net	10,471,387	12,407,729
Other receivables, prepaid expenses, and deposits	243,221	221,108
Book inventory	13,611	-
Land	-	276,730
Equipment, net of accumulated depreciation of \$147,499 in 2016 and \$133,271 in 2015	32,438	35,032
Assets whose use is limited	251,845	250,714
Investments	<u>38,214,865</u>	<u>30,929,061</u>
Total assets	<u>\$ 49,595,258</u>	<u>\$ 44,333,175</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accrued expenses	\$ 96,671	\$ 94,675
Deferred revenue	<u>6,100</u>	<u>16,000</u>
Total liabilities	<u>102,771</u>	<u>110,675</u>
Net assets		
Unrestricted	2,630,567	2,637,113
Temporarily restricted	27,187,565	26,250,956
Permanently restricted	<u>19,674,355</u>	<u>15,334,431</u>
Total net assets	<u>49,492,487</u>	<u>44,222,500</u>
Total liabilities and net assets	<u>\$ 49,595,258</u>	<u>\$ 44,333,175</u>

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

FRIENDS OF ACADIA

Statement of Activities

Year Ended December 31, 2016

	<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	\$ 1,067,745	\$ 3,825,939	\$ -	\$ 4,893,684
Events, less costs of direct benefit to donors of \$315,564	570,491	279,500	-	849,991
Other revenues	-	5,830	-	5,830
Net assets released from restrictions	2,377,109	(2,377,109)	-	-
Second Century Campaign interim allocation	<u>-</u>	<u>(2,446,302)</u>	<u>2,446,302</u>	<u>-</u>
Total operating revenues, gains, and other support	<u>4,015,345</u>	<u>(712,142)</u>	<u>2,446,302</u>	<u>5,749,505</u>
Operating expenses				
Program services				
Preservation and protection	2,481,766	-	-	2,481,766
Education and outreach	<u>699,418</u>	<u>-</u>	<u>-</u>	<u>699,418</u>
Total program services	<u>3,181,184</u>	<u>-</u>	<u>-</u>	<u>3,181,184</u>
Supporting services				
Development, fundraising, and membership	631,583	-	-	631,583
Management and general	<u>291,884</u>	<u>-</u>	<u>-</u>	<u>291,884</u>
Total supporting services	<u>923,467</u>	<u>-</u>	<u>-</u>	<u>923,467</u>
Total operating expenses	<u>4,104,651</u>	<u>-</u>	<u>-</u>	<u>4,104,651</u>
Change in net assets from operations	<u>(89,306)</u>	<u>(712,142)</u>	<u>2,446,302</u>	<u>1,644,854</u>
Non-operating gain (loss)				
Contributions	-	-	1,893,622	1,893,622
Loss on sale of land	(15,812)	-	-	(15,812)
Loss on stock sale	(2,276)	-	-	(2,276)
Net investment income	<u>100,848</u>	<u>1,648,751</u>	<u>-</u>	<u>1,749,599</u>
Net non-operating gain	<u>82,760</u>	<u>1,648,751</u>	<u>1,893,622</u>	<u>3,625,133</u>
Total change in net assets	<u>(6,546)</u>	<u>936,609</u>	<u>4,339,924</u>	<u>5,269,987</u>
Net assets, beginning of year	<u>2,637,113</u>	<u>26,250,956</u>	<u>15,334,431</u>	<u>44,222,500</u>
Net assets, end of year	<u>\$ 2,630,567</u>	<u>\$ 27,187,565</u>	<u>\$ 19,674,355</u>	<u>\$ 49,492,487</u>

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

FRIENDS OF ACADIA

Statement of Activities

Year Ended December 31, 2015

	<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	\$ 1,127,438	\$ 15,054,928	\$ -	\$ 16,182,366
Events, less costs of direct benefit to donors of \$228,875	446,971	221,059	-	668,030
Other (expenses) revenues	(730)	10,816	-	10,086
Net assets released from restrictions	<u>2,672,719</u>	<u>(2,672,719)</u>	<u>-</u>	<u>-</u>
Total operating revenues, gains, and other support	<u>4,246,398</u>	<u>12,614,084</u>	<u>-</u>	<u>16,860,482</u>
Operating expenses				
Program services				
Preservation and protection	2,596,378	-	-	2,596,378
Education and outreach	<u>532,528</u>	<u>-</u>	<u>-</u>	<u>532,528</u>
Total program services	<u>3,128,906</u>	<u>-</u>	<u>-</u>	<u>3,128,906</u>
Supporting services				
Development, fundraising, and membership	709,596	-	-	709,596
Management and general	<u>296,084</u>	<u>-</u>	<u>-</u>	<u>296,084</u>
Total supporting services	<u>1,005,680</u>	<u>-</u>	<u>-</u>	<u>1,005,680</u>
Total operating expenses	<u>4,134,586</u>	<u>-</u>	<u>-</u>	<u>4,134,586</u>
Change in net assets from operations	<u>111,812</u>	<u>12,614,084</u>	<u>-</u>	<u>12,725,896</u>
Non-operating gain (loss)				
Contributions	-	-	4,277,096	4,277,096
Net investment loss	<u>(36,630)</u>	<u>(575,560)</u>	<u>-</u>	<u>(612,190)</u>
Net non-operating gain (loss)	<u>(36,630)</u>	<u>(575,560)</u>	<u>4,277,096</u>	<u>3,664,906</u>
Total change in net assets	75,182	12,038,524	4,277,096	16,390,802
Net assets, beginning of year	<u>2,561,931</u>	<u>14,212,432</u>	<u>11,057,335</u>	<u>27,831,698</u>
Net assets, end of year	<u>\$ 2,637,113</u>	<u>\$ 26,250,956</u>	<u>\$ 15,334,431</u>	<u>\$ 44,222,500</u>

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

FRIENDS OF ACADIA

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 5,269,987	\$ 16,390,802
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	14,228	11,767
Loss on sale of land	15,812	-
Net realized and unrealized (gains) losses on investments	(1,251,115)	1,140,116
Contributions restricted for long-term investment	(1,893,622)	(4,277,096)
Decrease (increase) in		
Contributions receivable	1,562,222	(10,004,906)
Other receivables and prepaid expenses	(22,113)	10,055
Book inventory	(13,611)	-
Increase (decrease) in		
Deferred revenue	(9,900)	(10,000)
Accrued expenses	<u>1,996</u>	<u>58,582</u>
Net cash provided by operating activities	<u>3,673,884</u>	<u>3,319,320</u>
Cash flows from investing activities		
Purchase of equipment	(11,634)	(13,131)
Purchase of investments	(11,552,134)	(17,762,704)
Proceeds from sale of land	260,917	-
Proceeds from sale of investments	5,517,445	11,324,138
Net (increase) decrease in assets whose use is limited	<u>(1,131)</u>	<u>164,546</u>
Net cash used by investing activities	<u>(5,786,537)</u>	<u>(6,287,151)</u>
Cash flows from financing activities		
Contributions received restricted for long-term investment	<u>2,267,743</u>	<u>3,052,165</u>
Net increase in cash	155,090	84,334
Cash, beginning of year	<u>212,801</u>	<u>128,467</u>
Cash, end of year	<u>\$ 367,891</u>	<u>\$ 212,801</u>

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

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2016 and 2015

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, organizes and supports volunteer involvement in the park, 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 2016 and 2015, Friends received approximately 37% of contributions from two donors, and 17% of contributions from one donor, respectively. Many individuals volunteer their time performing a variety of tasks that assist Friends. During 2016, 710 hours were contributed to trail work on the Village Connector Trails and 790 hours were contributed towards office work, the membership table, and silent auction monitoring. During 2015, 260 hours were contributed to trail work on the Village Connector Trails and 1,031 hours were contributed towards office work, the membership table, and silent auction monitoring. These contributed services were not recognized in the financial statements as they did not meet the criteria for recognition under U.S. generally accepted accounting principles.

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 (GAAP) 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, 2016 and 2015

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 include fundraising. 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, 2016 and 2015

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

Investments in marketable securities are stated at fair value. Investments of the endowment and similar funds are pooled on a market value basis. Due to the level of risk associated with investment securities, and the level of uncertainty related to the changes in the value of these investment securities, there is a reasonable possibility that changes in value in the near term could materially impact the amounts reported as the fair value of investments at December 31, 2016.

Inventory

Inventories are priced at cost and consist of books for resale or donation give-aways for education and fundraising. Cost of inventory consumed is charged against income.

Subsequent Events

Management has considered subsequent events occurring through May 12, 2017, 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.

Compensated Absences

The costs of compensated absences have been accrued at December 31, 2016 and 2015. The amount of vacation pay that has been earned and will be paid in the future totaled \$16,872 at December 31, 2016 and \$9,821 at December 31, 2015.

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, 2016 and 2015

3. Contributions Receivable

Friends is raising contributions for a number of programmatic priorities at ANP and surrounding communities as part of a capital campaign that coincided with the Park Centennial in 2016. Focus areas include: 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>2016</u>	<u>2015</u>
Amounts due in:		
One year or less	\$ 4,208,463	\$ 4,071,530
One to five years	<u>6,531,981</u>	<u>8,760,130</u>
Total unconditional promises to give	10,740,444	12,831,660
Less discounts to net present value at 0.61% to 1.10%	54,248	167,298
Less allowance for uncollectible promises to give	<u>214,809</u>	<u>256,633</u>
Net unconditional promises to give	<u>\$ 10,471,387</u>	<u>\$ 12,407,729</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 \$81,400 at December 31, 2016 and \$77,788 at December 31, 2015. 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 certificates of deposit for the following temporarily restricted purposes:

	<u>2016</u>	<u>2015</u>
Certificates of deposit		
Island Explorer bus system	\$ 196,322	\$ 197,427
Other projects	<u>55,523</u>	<u>53,287</u>
	<u>\$ 251,845</u>	<u>\$ 250,714</u>

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2016 and 2015

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 70% MSCI World NRT Daily Rebalance Index in USD and 30% Barclays Capital US Aggregate TR. 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 Finance Committee and Investment Subcommittee 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.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires Friends to retain as a fund of perpetual duration. In accordance with GAAP, a deficiency of this nature was reported in unrestricted net assets and was \$9,706 as of December 31, 2015. This deficiency resulted from unfavorable market fluctuations that occurred shortly after the investment of one new permanently restricted contribution. No appropriations were made from the fund. The market has since recovered and the deficiency was repaid in 2016.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2016 and 2015

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, 2016 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	\$10,503,461	\$17,826,880	\$28,330,341	\$ -	\$ -	\$ 28,330,341
Board-directed invested funds	-	-	-	2,736,317	-	2,736,317
Project funds	-	-	-	-	7,148,207	7,148,207
	<u>\$10,503,461</u>	<u>\$17,826,880</u>	<u>\$28,330,341</u>	<u>\$ 2,736,317</u>	<u>\$ 7,148,207</u>	<u>\$38,214,865</u>

Changes in investment net assets for the year ended December 31, 2016 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>\$ 9,667,243</u>	<u>\$13,103,320</u>	<u>\$22,770,563</u>	<u>\$ 2,072,333</u>	<u>\$ 6,086,165</u>	<u>\$30,929,061</u>
Investment return						
Investment income	407,049	-	407,049	27,627	61,531	496,207
Realized loss on investments	(237,693)	-	(237,693)	(16,133)	(35,931)	(289,757)
Net appreciation of investments	<u>1,262,535</u>	<u>-</u>	<u>1,262,535</u>	<u>85,691</u>	<u>190,850</u>	<u>1,539,076</u>
Total investment return	<u>1,431,891</u>	<u>-</u>	<u>1,431,891</u>	<u>97,185</u>	<u>216,450</u>	<u>1,745,526</u>
Contributions and other deposits	-	2,257,258	2,257,258	995,154	4,329,311	7,581,723
Transfer between funds	-	2,466,302	2,466,302	-	(2,466,302)	-
Appropriation of investment assets for expenditure	<u>(595,673)</u>	<u>-</u>	<u>(595,673)</u>	<u>(428,355)</u>	<u>(1,017,417)</u>	<u>(2,041,445)</u>
Investment net assets, end of year	<u>\$ 10,503,461</u>	<u>\$17,826,880</u>	<u>\$28,330,341</u>	<u>\$ 2,736,317</u>	<u>\$ 7,148,207</u>	<u>\$38,214,865</u>

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2016 and 2015

The investment net asset composition by type of fund as of December 31, 2015 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	\$ 9,667,243	\$13,103,320	\$22,770,563	\$ -	\$ -	\$ 22,770,563
Board-directed invested funds	-	-	-	2,072,333	-	2,072,333
Project funds	-	-	-	-	6,086,165	6,086,165
	<u>\$ 9,667,243</u>	<u>\$13,103,320</u>	<u>\$22,770,563</u>	<u>\$ 2,072,333</u>	<u>\$ 6,086,165</u>	<u>\$ 30,929,061</u>

Changes in investment net assets for the year ended December 31, 2015 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>\$ 10,544,174</u>	<u>\$11,038,395</u>	<u>\$21,582,569</u>	<u>\$ 1,354,536</u>	<u>\$ 2,693,506</u>	<u>\$25,630,611</u>
Investment return (loss)						
Investment income	442,966	-	442,966	19,555	71,594	534,115
Realized gain on investments	1,166,271	-	1,166,271	51,486	188,498	1,406,255
Net depreciation of investments	<u>(2,111,820)</u>	<u>-</u>	<u>(2,111,820)</u>	<u>(93,229)</u>	<u>(341,322)</u>	<u>(2,546,371)</u>
Total investment loss	<u>(502,583)</u>	<u>-</u>	<u>(502,583)</u>	<u>(22,188)</u>	<u>(81,230)</u>	<u>(606,001)</u>
Contributions and other deposits	-	2,064,925	2,064,925	905,561	4,578,007	7,548,493
Appropriation of investment assets for expenditure	<u>(374,348)</u>	<u>-</u>	<u>(374,348)</u>	<u>(165,576)</u>	<u>(1,104,118)</u>	<u>(1,644,042)</u>
Investment net assets, end of year	<u>\$ 9,667,243</u>	<u>\$13,103,320</u>	<u>\$22,770,563</u>	<u>\$ 2,072,333</u>	<u>\$ 6,086,165</u>	<u>\$30,929,061</u>

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2016 and 2015

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	
		2016	2015	2016	2015
Cash and Cash Equivalents					
	Money Market	\$ 6,351,216	\$ 3,537,533	\$ 6,351,216	\$ 3,538,591
Non U.S. Equity	International Equity	8,073,935	8,991,992	7,666,915	8,426,758
U.S. Equity	All Cap Value	1,622,294	1,623,437	2,024,256	1,857,373
	Dynamic Equity	5,668,981	5,348,553	5,808,691	4,974,175
	Small Cap Core	834,858	840,882	976,136	843,004
	SPDR S&P 500 Index	4,713,156	3,812,427	6,649,823	5,144,972
Fixed Income	Govt. & Corp. FI Notes	3,516,925	3,082,867	3,570,401	3,063,461
	Strategic Income Fund	1,165,629	1,141,679	1,074,412	1,047,781
	High Yield Inst. Mutual Fund	1,215,267	1,154,071	1,147,365	1,008,226
	High Yield Floating Rate	1,131,278	1,085,058	1,109,801	1,024,720
Other Investments					
	Asset Allocation	1,801,669	-	1,704,385	-
Alternative Investments					
	Private Equity	131,464	-	131,464	-
	Total investments	<u>\$36,226,672</u>	<u>\$30,618,499</u>	<u>\$38,214,865</u>	<u>\$30,929,061</u>

Investment fees are based on the value of the portfolio, and totaled \$169,868 for 2016 and \$156,499 for 2015.

7. Spending Policy

Unrestricted Investment Income

Friends' published investment income policy is to appropriate investment income up to 4½% of unrestricted and temporarily restricted invested funds; ½% 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). The amount allocated for operations is included in change in net assets from operations.

Temporarily Restricted Investment Income

The published investment spending policy appropriates investment income up to 4½% of permanently restricted invested funds annually; ½% for operational purposes. All investment income earned on the permanently restricted funds in excess of 4½% is reinvested to maintain the purchasing power of the corpus.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2016 and 2015

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 UPMIFA 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 UPMIFA, 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>2016</u>	<u>2015</u>
Unrestricted		
Interest and dividend income, net of expense	\$ 33,819	\$ 15,356
Realized (loss) gain on long-term investments	(16,702)	67,441
Unrealized gain (loss) on long-term investments	<u>83,731</u>	<u>(119,427)</u>
Total unrestricted	<u>100,848</u>	<u>(36,630)</u>
Temporarily restricted		
Interest and dividend income, net of expense	466,461	512,570
Realized (loss) gain on long-term investments	(273,055)	1,338,814
Unrealized gain (loss) on long-term investments	<u>1,455,345</u>	<u>(2,426,944)</u>
Total temporarily restricted	<u>1,648,751</u>	<u>(575,560)</u>
Investment income (loss)	<u>\$ 1,749,599</u>	<u>\$ (612,190)</u>

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2016 and 2015

8. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
ANP Carriage Road Maintenance Fund	\$ 1,952,839	\$ 1,802,374
The Dorrence B. Tibbetts Fund for Carriage Roads & Bridges	360,793	343,672
Carriage Road – Vista Clearing	183,001	225,714
Other temporarily restricted projects	251,918	306,631
Acadia Teacher Fellows	82,943	91,682
Acadia Youth Technology Team	-	3,835
Diana Davis Spencer Youth Endowment Earnings	17,230	-
Diana Davis Spencer Youth Expendable Fund	626,631	743,154
Wild Gardens of Acadia Founders' Fund	32,506	26,237
Invasive Plant Eradication & Water Quality	102,752	121,639
Operations – restricted as to time	86,832	78,160
Wheelchair Accessible Carriage Maintenance Fund	139,507	128,424
Wild Acadia Endowment Earnings	43,835	-
2016 Centennial	33,414	82,517
Second Century Campaign – Wild Acadia, including Cromwell Brook Restoration	1,287,593	269,603
Second Century Campaign – Unallocated	9,514,391	11,820,480
Second Century Campaign – The Acadia Experience	1,061,581	50,077
Second Century Campaign – Tomorrow's Stewards	1,719,937	1,494,054
Second Century Campaign – Youth Endowment	42,810	-
Second Century Campaign – Trails and Carriage Roads	473,982	12,262
Second Century Campaign – Friends of Acadia Operational Endowment Earnings	48,743	-
Jerome Levy Acadia Resource Endowment Earnings	10,834	-
Island Explorer Bus System	196,322	197,423
Schoodic Woods Project Funds	197,711	257,901
Schoodic Woods Endowment Earnings	101,418	-
Lower Hadlock Pond	10,609	10,609
Isle au Haut Ferry Service	-	51,450
Ridge Runner Program Fund	308,638	294,225
Acadia Winter Trails	123,036	109,995
Acadia Land Legacy – Unrestricted	565,256	583,383
Acadia Trails Forever & Capital Projects	5,910,735	5,764,286
Seal Harbor Seaside Path Restoration	269,691	-
Acadia Trails Forever Abandoned Trails Reconstruction Projects	677,964	672,867
Acadia Youth Conservation Corps	669,129	626,430
J. Peter Grace Trails Fund in Memory of the Long Walk	82,984	81,512
	<u>\$ 27,187,565</u>	<u>\$ 26,250,596</u>

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2016 and 2015

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, Schoodic Woods, Youth, Resource Protection, Wild Acadia, and ANP Trails and is reported as temporarily restricted.

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

	<u>2016</u>	<u>2015</u>
Elizabeth R. Bright Endowment - Acadia Winter Trails	\$ 200,000	\$ 200,000
ANP Carriage Road Endowment	4,694,473	4,487,433
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	6,115,525	5,898,472
Jerome Levy Endowment for Acadia Resource Protection	1,000,000	1,000,000
Schoodic Woods Endowment	3,000,000	1,500,000
Diana Davis Spencer Youth Endowment	937,500	-
Youth Endowment	1,077,525	1,238,590
Wild Acadia Endowment	795,034	-
Operational Endowment	1,349,809	516,536
Wild Gardens of Acadia Founders' Fund	<u>274,790</u>	<u>263,701</u>
	<u>\$19,674,355</u>	<u>\$15,334,431</u>

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2016 and 2015

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 2016 and 2015:

	<u>2016</u>	<u>2015</u>
ANP Carriage Road Maintenance Fund	\$ 232,760	\$ 243,800
Vista Clearing Fund	50,085	-
Other temporarily restricted projects	307,188	210,928
Operations restricted as to time	5,000	5,000
Acadia Teacher Fellows	15,906	16,944
Island Explorer bus system	201,126	201,172
Ridge Runner Program Fund	31,141	25,841
Acadia Winter Trails	5,018	29,982
Acadia Land Legacy Land Bank	268,022	1,800
Cadillac Mountain Restoration Project	-	133,312
Isle au Haut Ferry Service	57,780	131,800
Second Century Campaign - Wild Acadia & Cromwell Brook Restoration	123,632	134,543
Trenton Community Trail	2,250	184
Acadia Trails Forever	269,410	47,000
Acadia Trails Forever Capital Projects	164,165	402,619
Acadia Youth Conservation Corps	58,088	19,556
Dorrence B. Tibbetts Carriage Roads & Bridges Fund	635	29,475
Invasive Plant Eradication & Water Quality Projects	136,699	112,774
2016 Centennial Funds	69,558	38,141
L.L. Bean Kids In Acadia	11,966	25,000
Second Century Campaign - Unallocated	127,448	489,522
Second Century Campaign - The Acadia Experience	42,418	-
Schoodic Woods Project Funds	60,190	334,569
Acadia Youth Technology Team	9,201	38,757
Diana Davis Spencer Youth Expendable Fund	<u>127,423</u>	<u>-</u>
	<u>\$ 2,377,109</u>	<u>\$ 2,672,719</u>

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2016 and 2015

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>2016</u>	<u>2015</u>
Programs	55%	54%
Management and general	19	19
Development, fundraising, and membership	26	27

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 \$57,229 in 2016 and \$33,441 in 2015.

12. Non-Cash Transactions

Friends received non-cash gifts from donors valued at \$203,967 in 2016 and \$264,043 in 2015, 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 2016, 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 received 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 NPS whereby Friends, on the written request of ANP, granted funds from the L.L. Bean sponsorship payments to support the Island Explorer bus system. Friends received 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 NPS to support the Island Explorer bus system totaled \$199,126 in 2016 and \$199,172 in 2015.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2016 and 2015

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 \$29,051 for 2016 and \$42,050 for 2015.

15. Agreement with Maine Coast Heritage Trust (MCHT)

In 2005, Friends entered into an agreement to work jointly with MCHT and ANP to establish a Fund whose proceeds would 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. The Acadia Land Legacy Fund held by Friends has helped make possible the addition of several significant land parcels within ANP's boundary since 2005.

Terms of the agreement hold Friends responsible to solicit contributions for and establish the Fund whose proceeds will be used for this purpose. 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 can choose to 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 original agreement term was 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.

From 2009 to 2012, Friends and MCHT used the Fund to partner on successful acquisitions at Northeast Creek, Bass Harbor Marsh, Schoodic Woods, and Hadlock Pond. Also in 2011, Friends and MCHT purchased 5 acres on Round Pond. Friends paid \$276,730 for 49% ownership, with the intent that the land be sold to ANP when federal funding becomes available. In 2014, Friends donated \$37,500 from the Fund to MCHT to assist in the purchase of 9.27 acres of the old Gilbert Farm on Northeast Creek in Bar Harbor, with the property to be held for future transfer to ANP.

In 2016, ANP received a federal appropriation of land acquisition funds that made possible the re-sale of both the Round Pond and Gilbert Farm tracts to the NPS. MCHT and Friends sold the Round Pond tract in December 2016 to the NPS for \$555,000, of which \$260,892 represented

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2016 and 2015

Friends share that revolved back into the Acadia Land Legacy Fund. Also in December, MCHT sold the Gilbert Farm parcel to NPS for \$90,000, of which \$43,200 was returned to Friends as a contribution back to the Acadia Land Legacy Fund.

Also in 2016, Friends made a contribution of \$250,000 from the Fund to support MCHT's purchase of 62 acres at Sawyers Point, Seal Cove Pond, in the Town of Tremont for future conveyance to ANP. The above referenced federal appropriation of land acquisition funds to ANP in 2016 that supported the Round Pond and Gilbert Farm projects also allowed MCHT to re-sell the Sawyers Point parcel to the NPS in December 2016 for \$1,167,610, of which \$193,000 was granted back to Friends to help replenish the Acadia Land Legacy Fund.

16. 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 principal 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.

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.

	<u>Fair Value Measurements at December 31, 2016</u>	
	<u>Total</u>	<u>Level 1</u>
Investments		
Cash and cash equivalents	\$ 6,351,216	\$ 6,351,216
Non U.S. equity	7,666,915	7,666,915
U.S. equity	15,458,906	15,458,906
Fixed income	6,901,979	6,901,979
Other investments (GS Tactical)	<u>1,704,385</u>	<u>1,704,385</u>
	38,083,401	<u>\$ 38,083,401</u>
Assets measured at net asset value	<u>131,464</u>	
Total investments	<u>\$ 38,214,865</u>	

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2016 and 2015

	<u>Fair Value Measurements at December 31, 2015</u>	
	<u>Total</u>	<u>Level 1</u>
Investments		
Cash and cash equivalents	\$ 3,538,591	\$ 3,538,591
Non U.S. equity	8,426,758	8,426,758
U.S. equity	12,819,524	12,819,524
Fixed income	<u>6,144,188</u>	<u>6,144,188</u>
Total investments	<u>\$ 30,929,061</u>	<u>\$ 30,929,061</u>

Investments in general are exposed to various risks, such as interest rates, credit, and overall market volatility. As such, it is reasonably possible that changes could materially affect the amounts reported in the statements of financial position and statements of activities.

The following includes a summary of fair values and redemption features related to investments for which assets are measured at net asset value (NAV) as of December 31, 2016:

	<u>NAV</u>	<u>Unfunded Commitments</u>
Limited partnership	\$ 121,557	\$ 875,998
Limited partnership	<u>9,907</u>	<u>990,000</u>
Total	<u>\$ 131,464</u>	<u>\$ 1,865,998</u>

Generally, investments in these limited partnerships will be held until the partnership terminates, unless at the general partners discretion, written consent is given to allow an investor to withdraw.

17. Leasing Arrangements

Friends leases office space in Bar Harbor, expanding its space in 2016 under an operating lease expiring in 2021. The following is a schedule of future minimum lease payments required under the lease:

2017	\$ 72,681
2018	74,135
2019	75,493
2020	77,109
2021	<u>19,370</u>
	<u>\$318,788</u>

Total rent expense under the previous and current lease and other immaterial operating lease agreements total approximately \$68,158 for 2016 and \$48,674 for 2015.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2016 and 2015

18. Transfers Between Funds Due to Interim Campaign Allocation

In 2016, Friends announced the Second Century Capital Campaign to raise funds to benefit programs important to ANP and Friends. The campaign identified needs in specific areas, including: \$6M Acadia Experience; \$6M Tomorrow's Stewards; \$6M Wild Acadia; \$4M Trails & Carriage Roads; and \$3M Operational Capacity. Many of Friends' campaign donations were solicited as "unallocated" so the funds could be immediately applied to where they were most needed among these five priority areas and then the balance distributed among them once the campaign was complete. Since campaign materials included both spend-down funds and endowments, donors had an expectation that their "unallocated" donation would go into all of the buckets described in the campaign literature.

Since many of these donations are coming in over time, only cash and not future pledges can be allocated. At the end of 2015, Friends' total unallocated fund balance was \$3,706,518. Friends campaign literature indicated that 34% of our campaign would be spend-down funds and 66% would be for endowments. Applying these percentages to the \$3,706,518 allocation of \$1,260,216 to spend-down categories and \$2,446,302 to endowments has been reflected in the December 31, 2016 statement of activities.