



FRIENDS OF ACADIA

FINANCIAL STATEMENTS

December 31, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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.

BerryDunn McNeil & Parker, LLC

Bangor, Maine
May 9, 2018

FRIENDS OF ACADIA
Statements of Financial Position
December 31, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Cash	\$ 395,157	\$ 367,891
Contributions receivable, net	7,427,252	10,471,387
Other receivables, prepaid expenses and deposits	332,164	243,221
Book inventory	21,109	13,611
Equipment, net of accumulated depreciation of \$160,354 in 2017 and \$147,499 in 2016	30,450	32,438
Assets whose use is limited	252,981	251,845
Investments	<u>49,643,805</u>	<u>38,214,865</u>
Total assets	<u>\$ 58,102,918</u>	<u>\$ 49,595,258</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accrued expenses	\$ 69,242	\$ 96,671
Deferred revenue	<u>6,100</u>	<u>6,100</u>
Total liabilities	<u>75,342</u>	<u>102,771</u>
Net assets		
Unrestricted	3,341,492	2,630,567
Temporarily restricted	32,985,805	27,187,565
Permanently restricted	<u>21,700,279</u>	<u>19,674,355</u>
Total net assets	<u>58,027,576</u>	<u>49,492,487</u>
Total liabilities and net assets	<u>\$ 58,102,918</u>	<u>\$ 49,595,258</u>

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

FRIENDS OF ACADIA

Statement of Activities

Year Ended December 31, 2017

	<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	\$ 1,215,400	\$ 3,771,876	\$ -	\$ 4,987,276
Events, less costs of direct benefit to donors of \$268,745	779,419	230,161	-	1,009,580
Net assets released from restrictions	2,013,313	(2,013,313)	-	-
Second Century Campaign interim allocation	<u>-</u>	<u>(1,963,617)</u>	<u>1,963,617</u>	<u>-</u>
Total operating revenues, gains, and other support	<u>4,008,132</u>	<u>25,107</u>	<u>1,963,617</u>	<u>5,996,856</u>
Operating expenses				
Program services				
Preservation and protection	2,346,878	-	-	2,346,878
Education and outreach	467,398	-	-	467,398
Total program services	<u>2,814,276</u>	<u>-</u>	<u>-</u>	<u>2,814,276</u>
Supporting services				
Development, fundraising, and membership	618,922	-	-	618,922
Management and general	302,230	-	-	302,230
Total supporting services	<u>921,152</u>	<u>-</u>	<u>-</u>	<u>921,152</u>
Total operating expenses	<u>3,735,428</u>	<u>-</u>	<u>-</u>	<u>3,735,428</u>
Change in net assets from operations	<u>272,704</u>	<u>25,107</u>	<u>1,963,617</u>	<u>2,261,428</u>
Non-operating gain				
Contributions	-	-	62,307	62,307
Net investment income	438,221	5,773,133	-	6,211,354
Net non-operating gain	<u>438,221</u>	<u>5,773,133</u>	<u>62,307</u>	<u>6,273,661</u>
Total change in net assets	710,925	5,798,240	2,025,924	8,535,089
Net assets, beginning of year	<u>2,630,567</u>	<u>27,187,565</u>	<u>19,674,355</u>	<u>49,492,487</u>
Net assets, end of year	<u>\$ 3,341,492</u>	<u>\$ 32,985,805</u>	<u>\$ 21,700,279</u>	<u>\$ 58,027,576</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	(6,546)	936,609	4,339,924	5,269,987
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

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 8,535,089	\$ 5,269,987
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	12,855	14,228
Loss on sale of land	-	15,812
Net realized and unrealized gains on investments	(5,509,111)	(1,251,115)
Contributions restricted for long-term investment	(62,307)	(1,893,622)
Interim allocation restricted for long-term investment	(1,963,617)	(2,446,302)
Decrease (increase) in		
Contributions receivable	2,642,057	1,562,222
Other receivables and prepaid expenses	(88,943)	(22,113)
Book inventory	(7,498)	(13,611)
Increase (decrease) in		
Deferred revenue	-	(9,900)
Accrued expenses	(27,429)	1,996
	<u>3,531,096</u>	<u>1,227,582</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of equipment	(10,867)	(11,634)
Purchase of investments	(13,666,010)	(11,552,134)
Proceeds from sale of land	-	260,917
Proceeds from sale of investments	7,746,181	5,517,445
	<u>(5,930,696)</u>	<u>(5,785,406)</u>
Net cash used by investing activities		
Cash flows from financing activities		
Contributions received restricted for long-term investment	464,403	2,267,743
Interim allocation restricted for long-term investments	1,963,617	2,446,302
Net cash provided by financing activities	<u>2,428,020</u>	<u>4,714,045</u>
Net increase in cash	28,420	156,221
Cash, beginning of year	<u>619,736</u>	<u>463,515</u>
Cash, end of year	\$ <u>648,138</u>	\$ <u>619,736</u>
Additional disclosure:		
Cash	\$ 395,157	\$ 367,891
Assets whose use is limited	<u>252,981</u>	<u>251,845</u>
	\$ <u>648,138</u>	\$ <u>619,736</u>

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

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2017 and 2016

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 2017 and 2016, Friends received approximately 31% of contributions from one donor and 37% of contributions from two donors, respectively. Many individuals volunteer their time performing a variety of tasks that assist Friends. During 2017, 851 hours were contributed to trail work on the Village Connector Trails and 289 hours were contributed towards recruitment and organizational support. During 2016, 710 hours were contributed to trail work and 790 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.

Friends has elected the fair value option for valuing contributions receivable. The election was made because Friends believes reporting contributions at fair value on an ongoing basis provides a better measure of the contributions receivable to be collected over time. Promises to give are reported at the present value of the estimated future cash flows using a discount rate commensurate with the risks involved. The discount rates used to calculate net present value are based on short to mid-term United States Treasury Bill rates as published on the last business day of the calendar year. The changes in fair value of contributions receivable are recorded with contributions, grants, and memberships received in the statement of activities.

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.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2017 and 2016

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.

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.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2017 and 2016

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 fundraising based upon timecards, estimated time spent, or usage.

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.

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 9, 2018, 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. However, in late 2017, a new Investment Policy was adopted to reduce the percentage drawn from endowments to 4%, to be implemented in 2018.

Compensated Absences

The costs of compensated absences have been accrued at December 31, 2017 and 2016. The amount of vacation pay that has been earned and will be paid in the future totaled \$14,366 at December 31, 2017 and \$16,872 at December 31, 2016.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2017 and 2016

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.

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>2017</u>	<u>2016</u>
Amounts due in:		
One year or less	\$ 3,797,566	\$ 4,208,463
One to five years	<u>3,880,223</u>	<u>6,531,981</u>
Total unconditional promises to give	7,677,789	10,740,444
Less discounts to net present value at 1.9% to 2.2%	96,981	54,248
Less allowance for uncollectible promises to give	<u>153,556</u>	<u>214,809</u>
Net unconditional promises to give	<u>\$ 7,427,252</u>	<u>\$ 10,471,387</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 \$87,161 at December 31, 2017 and \$81,400 at December 31, 2016. 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>2017</u>	<u>2016</u>
Certificates of deposit		
Island Explorer bus system	\$ 191,941	\$ 196,322
Other projects	<u>61,040</u>	<u>55,523</u>
	<u>\$ 252,981</u>	<u>\$ 251,845</u>

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2017 and 2016

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 85% MSCI World NRT Daily Rebalance Index in USD and 15% 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 endowments 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. There were no such deficiencies in 2017 or 2016.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2017 and 2016

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, 2017 is as follows:

	<u>Temporarily Restricted Endowment Funds</u>	<u>Permanently Restricted Endowment Funds</u>	<u>Total Endowment Funds</u>	<u>Unrestricted Invested Funds</u>	<u>Project and Unallocated Funds</u>	<u>Total Investments</u>
Donor-restricted endowment funds	\$14,423,499	\$20,240,102	\$34,663,601	\$ -	\$ -	\$ 34,663,601
Board-directed invested funds	-	-	-	3,770,992	-	3,770,992
Project funds	-	-	-	-	11,209,212	11,209,212
	<u>\$14,423,499</u>	<u>\$20,240,102</u>	<u>\$34,663,601</u>	<u>\$ 3,770,992</u>	<u>\$11,209,212</u>	<u>\$49,643,805</u>

Changes in investment net assets for the year ended December 31, 2017 are as follows:

	<u>Temporarily Restricted Endowment Funds</u>	<u>Permanently Restricted Endowment Funds</u>	<u>Total Endowment Funds</u>	<u>Unrestricted Invested Funds</u>	<u>Project and Unallocated Funds</u>	<u>Total Investments</u>
Investment net assets, beginning 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>
Investment return						
Investment income	527,434	-	527,434	51,890	123,238	702,562
Realized gain on investments	234,795	-	234,795	23,100	54,861	312,756
Net appreciation of investments	<u>3,916,546</u>	<u>-</u>	<u>3,916,546</u>	<u>385,319</u>	<u>915,122</u>	<u>5,216,987</u>
Total investment return	<u>4,678,775</u>	<u>-</u>	<u>4,678,775</u>	<u>460,309</u>	<u>1,093,221</u>	<u>6,232,305</u>
Contributions and other deposits	-	449,605	449,605	705,063	5,470,978	6,625,646
Transfer between funds	-	1,963,617	1,963,617	-	(1,963,617)	-
Appropriation of investment assets for expenditure	<u>(758,737)</u>	<u>-</u>	<u>(758,737)</u>	<u>(130,697)</u>	<u>(539,577)</u>	<u>(1,429,011)</u>
Investment net assets, end of year	<u>\$ 14,423,499</u>	<u>\$20,240,102</u>	<u>\$34,663,601</u>	<u>\$ 3,770,992</u>	<u>\$11,209,212</u>	<u>\$49,643,805</u>

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2017 and 2016

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	\$ 9,667,243	\$13,103,320	\$22,770,563	\$ 2,072,333	\$ 6,086,165	\$30,929,061
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, 2017 and 2016

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	
		2017	2016	2017	2016
Cash and Cash Equivalents					
	Money Market	\$ 5,488,049	\$ 6,351,216	\$ 5,488,049	\$ 6,351,216
Non U.S. Equity	International Equity	10,420,494	8,073,935	12,114,672	7,666,915
U.S. Equity	All Cap Value	1,821,577	1,622,294	2,483,211	2,024,256
	Dynamic Equity	4,069,587	5,668,981	5,023,306	5,808,691
	Small Cap Core	894,940	834,858	1,151,640	976,136
	SPDR S&P 500 Index	9,597,964	4,713,156	13,386,159	6,649,823
Fixed Income	Govt. & Corp. FI Notes	3,618,168	3,516,925	3,656,217	3,570,401
	Strategic Income Fund	1,180,730	1,165,629	1,072,586	1,074,412
	High Yield Inst. Mutual Fund	1,276,225	1,215,267	1,218,024	1,147,365
	High Yield Floating Rate	1,177,282	1,131,278	1,148,766	1,109,801
Other Investments					
	Asset Allocation	2,448,549	1,801,669	2,347,427	1,704,385
Alternative Investments					
	Private Equity	542,794	131,464	553,748	131,464
	Total investments	<u>\$42,536,359</u>	<u>\$36,226,672</u>	<u>\$49,643,805</u>	<u>\$38,214,865</u>

Investment fees are based on the value of the portfolio, and totaled \$196,466 for 2017 and \$169,868 for 2016.

7. Spending Policy

Unrestricted Investment Income

Friends' published investment income policy for 2017 was to appropriate investment income up to 4.5% of unrestricted and temporarily restricted invested funds; 0.5% is designated for operational purposes and 4% for board-designated purposes (which are generally the same as the intended purposes 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 4.5% of permanently restricted invested funds annually; 0.5% for operational purposes. All investment income earned on the permanently restricted funds in excess of 4.5% is reinvested to maintain the purchasing power of the corpus.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2017 and 2016

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.

Investments of the endowment and similar funds are pooled on a market value basis. The investment income is reflected in the statements of activities as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted		
Interest and dividend income, net of expense	\$ 50,804	\$ 33,819
Realized gains (loss) on long-term investments	2,027	(16,702)
Unrealized gains on long-term investments	<u>385,390</u>	<u>83,731</u>
Total unrestricted	<u>438,221</u>	<u>100,848</u>
Temporarily restricted		
Interest and dividend income, net of expense	651,439	466,461
Realized gains (loss) on long-term investments	290,432	(273,055)
Unrealized gains on long-term investments	<u>4,831,262</u>	<u>1,455,345</u>
Total gains temporarily restricted	<u>5,773,133</u>	<u>1,648,751</u>
Investment income	<u>\$ 6,211,354</u>	<u>\$ 1,749,599</u>

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2017 and 2016

8. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
ANP Carriage Road Maintenance Fund	\$ 2,799,867	\$ 1,952,839
The Dorrence B. Tibbetts Fund for Carriage Roads & Bridges	413,738	360,793
Carriage Road – Vista Clearing	211,466	183,001
Other temporarily restricted projects	288,887	251,918
Acadia Teacher Fellows	118,511	82,943
Diana Davis Spencer Youth Endowment Earnings	118,503	17,230
Diana Davis Spencer Youth Expendable Fund	420,012	626,631
Wild Gardens of Acadia Founders' Fund	75,104	32,506
Invasive Plant Eradication & Water Quality	94,921	102,752
Operations – restricted as to time	87,593	86,832
Wheelchair Accessible Carriage Maintenance Fund	176,817	139,507
Wild Acadia, Cromwell Brook Restoration & Endowment	1,761,439	1,331,428
2016 Centennial	48,754	33,414
Every Kid in the Park and School Engagement	100,000	-
Second Century Campaign – Unallocated	9,235,729	9,514,391
Second Century Campaign – The Acadia Experience	2,350,358	1,061,581
Second Century Campaign – Youth Expendable Fund	1,816,878	1,719,937
Second Century Campaign – Youth Endowment Earnings	234,431	42,810
Second Century Campaign – Trails and Carriage Roads	714,005	473,982
Second Century Campaign – Friends of Acadia Operational Endowment	247,761	48,743
Jerome Levy Acadia Resource Endowment Earnings	65,345	10,834
Island Explorer Bus System	193,077	196,322
Schoodic Woods Project Funds	14,766	197,711
Schoodic Woods Endowment Earnings	592,008	101,418
Lower Hadlock Pond	10,609	10,609
Historic Structures Rehabilitation	238,236	-
Ridge Runner Program Fund	403,779	308,638
Acadia Winter Trails	168,968	123,036
Acadia Land Legacy	644,256	565,256
Acadia Trails Forever & Capital Projects	7,297,010	5,910,735
Seal Harbor Seaside Path Restoration	296,331	269,691
Acadia Trails Forever Abandoned Trails Reconstruction Projects	742,875	677,964
Acadia Youth Conservation Corps	899,474	669,129
J. Peter Grace Trails Fund in Memory of the Long Walk	104,297	82,984
	<u>\$ 32,985,805</u>	<u>\$ 27,187,565</u>

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2017 and 2016

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>2017</u>	<u>2016</u>
Elizabeth R. Bright Endowment - Acadia Winter Trails	\$ 201,000	\$ 200,000
ANP Carriage Road Endowment	4,873,814	4,694,473
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	6,294,866	6,115,525
Jerome Levy Endowment for Acadia Resource Protection	1,000,000	1,000,000
Schoodic Woods Endowment	3,000,000	3,000,000
Diana Davis Spencer Youth Endowment	1,250,000	937,500
Youth Endowment	1,366,645	1,077,525
Wild Acadia Endowment	1,452,469	795,034
Operational Endowment	1,736,834	1,349,809
Wild Gardens of Acadia Founders' Fund	<u>294,952</u>	<u>274,790</u>
	<u>\$ 21,700,279</u>	<u>\$ 19,674,355</u>

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 2017 and 2016:

	<u>2017</u>	<u>2016</u>
ANP Carriage Road Maintenance Fund	\$ 251,131	\$ 232,760
Vista Clearing Fund	85	50,085
Other temporarily restricted projects	221,673	307,188
Operations restricted as to time	5,000	5,000
Acadia Teacher Fellows	2,790	15,906
Island Explorer Bus System	211,131	201,126
Ridge Runner Program Fund	37,351	31,141
Acadia Winter Trails	8,089	5,018
Acadia Land Legacy Land Bank	2,185	268,022
Isle au Haut Ferry Service	-	57,780
Second Century Campaign - Wild Acadia & Stream Restoration	119,914	123,632
Trenton Community Trail	62	2,250
Acadia Trails Forever	346,310	269,410
Acadia Trails Forever Capital Projects	16,315	164,165
Acadia Trails Forever – Seaside Path	73,360	-
Acadia Youth Conservation Corps	67,768	58,088

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2017 and 2016

Dorrence B. Tibbetts Carriage Roads & Bridges Fund	635	635
Invasive Plant Eradication & Water Quality Projects	116,688	136,699
2016 Centennial Funds	4,762	69,558
Schoodic Education Adventure	26,636	11,966
Second Century Campaign - Unallocated	16,343	127,448
Second Century Campaign - The Acadia Experience	64,338	42,418
Schoodic Woods Project Funds	182,945	60,190
Acadia Youth Technology Team	-	9,201
Diana Davis Spencer Youth Expendable Fund	237,802	127,423
	<u>\$ 2,013,313</u>	<u>\$ 2,377,109</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>2017</u>	<u>2016</u>
Programs	53%	55%
Management and general	20	19
Development, fund raising, and membership	27	26

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 \$42,041 in 2017 and \$57,229 in 2016.

12. Non-Cash Transactions

Friends received non-cash gifts from donors valued at \$296,932 in 2017 and \$203,967 in 2016, 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

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2017 and 2016

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 \$209,131 in 2017 and \$199,126 in 2016.

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 \$51,136 for 2017 and \$29,051 for 2016.

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 it possible for ANP to add several significant land parcels within its boundary since then.

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 holdship 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.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2017 and 2016

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' 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.

FRIENDS OF ACADIA
Notes to Financial Statements
December 31, 2017 and 2016

Fair Value Measurements at December 31, 2017

	<u>Total</u>	<u>Level 1</u>
Investments		
Cash and cash equivalents	\$ 5,488,049	\$ 5,488,049
Non U.S. equity	12,114,672	12,114,672
U.S. equity	22,044,316	22,044,316
Fixed income	7,095,593	7,095,593
Other investments (GS Tactical)	<u>2,347,427</u>	<u>2,347,427</u>
	49,090,057	<u>\$ 49,090,057</u>
Assets measured at net asset value	<u>553,748</u>	
Total investments		<u>\$49,643,805</u>

	<u>Total</u>	<u>Level 2</u>
Contributions Receivable, net	<u>\$ 7,427,252</u>	<u>\$ 7,427,252</u>

Fair Value Measurements at December 31, 2016

	<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, 2017 and 2016

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 positions 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:

	<u>NAV</u>	<u>2017 Unfunded Commitments</u>	<u>NAV</u>	<u>2016 Unfunded Commitments</u>
Limited partnership	\$ 264,606	\$ 715,327	\$ 121,557	\$ 875,998
Limited partnership	239,954	724,544	9,907	990,000
Limited partnership	<u>49,188</u>	<u>943,615</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 553,748</u>	<u>\$2,383,486</u>	<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 partner's 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:

2018	\$ 74,135
2019	75,493
2020	77,109
2021	<u>19,370</u>
	<u>\$ 246,107</u>

Total rent expense under the previous and current lease and other immaterial operating lease agreements totals approximately \$74,826 for 2017 and \$68,158 for 2016.

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.

FRIENDS OF ACADIA

Notes to Financial Statements

December 31, 2017 and 2016

Since many of these donations are coming in over time, only cash and not future pledges can be allocated. At the end of 2016, Friends' total unallocated fund balance was \$2,975,178. Friends' campaign literature indicated that 34% of our campaign would be spend-down funds and 66% would be for endowments. Applying the above percentages to the \$2,975,178 results in an allocation of \$1,011,561 to spend-down categories and \$1,963,617 to endowments has been reflected in the December 31, 2017 statement of activities, and in Note 6, pages 11 and 12, Project Funds, that shows a transfer from project and unallocated funds to permanently restricted endowment funds.