

2018 EXECUTIVE DIRECTOR'S ANNUAL REPORT

Thank You Board Members

The Board of Directors of the Bald Head Island Conservancy is a special group of volunteers who take considerable time from their busy lives to strengthen our ability to pursue community-based barrier island conservation, education, and preservation. Collectively, the Board provides expertise in finance and budgeting, governance, fundraising, education, and human resources, as well as countless hours of volunteering for activities such as Turtle Trots and raffle ticket sales. It would be hard to find a Board more committed to the success of their organization.

In 2018, Nanette Watjen served as Board President and oversaw some very important issues that put the Conservancy on stronger footing for the future including an update to the organization's By-Laws, a silent fundraising campaign where some very generous supporters paid off the mortgage on the Barrier Island Study Center, and a renewed relationship with the Smith Island Land Trust. Martha Anderson served as Vice President and always brought energy, enthusiasm, and positive reinforcement to sometimes arduous governing processes. One of our new 2018 Board members was Treasurer Slaughter Fitz-Hugh who brought a level of financial and budgeting wisdom that has been critical in helping map the organization's current and future financial baseline. Geri Monty served as Board Secretary while also chairing the much-appreciated Human Capital Committee which has been invaluable in helping us wade through insurance options and employee manual updates.

In addition to the Board officers named above, the other members of the Executive Committee that helped our organization tackle some challenging issues over the past year were Howard Walker, John Cathcart, Dick Johnston, Ted Richman, Shawn Smith, and Sheila May. Howard and John put in an enormous amount of time leading the Governance Committee's efforts on By-Laws, BHIC-SILT relations, and updating the Policies and Procedures Manual. Dick put his heart and soul into leading the Development Committee and has positioned us to be very successful in a major upcoming fundraising campaign that should change the organization's financial baseline. We also value the abundance of

ideas that our Conservation/Education Committee Chair Ted Richman has for expanding the reach of our programming. As noted above, the BHIC-SILT relationship has never been better thanks in good measure to SILT Board President Shawn Smith. Last, but not least, the presence of Sheila May on the Executive Committee as Past-President reminded everyone of what it means to give everything you have in every way you can to help the Bald Head Island Conservancy.

Of course, the success of the Board requires a commitment from all Board members not just its executive leadership and there were many ways that these folks helped us in 2018. Marianna Fitz-Hugh, along with Slaughter Fitz-Hugh, led an incredibly successful Annual Fund Campaign that positioned us well financially heading into 2019. Katie Chatas served in numerous ways including as lead organizer for our profitable Silent Auction at our July 4th Picnic/Festival at the BHI Club. Jim Wisner was a key member of the Development Committee and assisted in hiring our new Director of Development as well as creating the platform for a new Campaign. Speaking of the upcoming Campaign, new 2018 Board Member Paul Rice also served on the Development Committee and used his fundraising experience and technical skills to create a stunning promotional video that will be used extensively in the coming years.

Although parsing every single word in our By-Laws and PPM may not be as glamorous as raising money for shiny new toys, the infrastructure of the Conservancy would crumble if we did not have those willing to work in the governance trenches. David Fischer and new 2018 Board member (and fervent TC volunteer) Donna Patterson rolled up their legal sleeves to help the Governance Committee solidify the organization's foundational oversight. Among our Board, I am not sure anyone loves the organization more than Susan Baker who served on our Human Capital and Con/Ed Committees and worked in Turtle Central whenever she was on the island. Another Con/Ed Committee member with a bountiful passion for the Conservancy is Kathy Ketels who also volunteers at Trots, TC, and helps our interns feel graciously welcome (even those who aren't from PA or BC fans). Another key role of our Board is helping staff grow its network of science and education partners across the state. Paul Mugge's connections with NCSU will no doubt help continue to strengthen and grow our partnerships with the state's largest university. Kelly Witter's passion for and

connections to K-12 education in North Carolina are important in broadening the reach of our education activities. Lastly, Ron Hutton and Vivian de Rivero Barreto left the Board during 2018 and we appreciate their service over the years. However, I expect we will still see Vivian around TC as long as she remains on BHI – working in the store is too much in her blood!

Whew! That is quite a list of talent, wisdom, and blood and sweat provided by the Board to the Conservancy in support of our mission!

Thank You Staff

The past year provided considerable challenges to the small but dedicated Conservancy staff. In addition to the normal rate of comings and goings of interns and seasonal staff, four full-time staff members departed the team in 2018. Brooke Milligan (Director of Conservation) moved to Virginia when her husband received an excellent surgical fellowship opportunity at a hospital in the Tidewater region closer to family. Mike Thomasen (Campus Manager) decided to retire after more than a decade on the island, although he still helped us out occasionally once softball season ended. Caroline Shepherd (CFO) also retired after a decade of work for the Conservancy and moved closer to family in South Carolina. Caroline continues to fight the good fight against her illness, and our thoughts and prayers continue to be with her. Lastly, early in fall 2018, Amy Eldredge (Director of Education) received a job offer in Maui that she couldn't refuse, and who could blame her! Heather Thornton worked at TC in part-time and full-time roles in 2018 and was helpful and getting our e-commerce off the ground but has finally decided to pursue her own business venture in 2019. Fortunately, we were able to add some very talented new staff in 2018. Hannah Newcombe has joined Pam's TC staff as Assistant Manager and is a testament to our intern training program having spent summer 2018 as retail intern. Dr. Beth Darrow was hired as our Senior Scientist and brings considerable expertise in coastal ecology along with connections to a network of academic partners that has been very helpful. Darice Voight is our new Finance Manager and has brought fresh financial insight into our operations as well as staff leadership on the Board's Human Capital Committee. A glaring hole in the Conservancy's staff over the past couple of years has been the absence of a development leader.

In late fall 2018, we were finally able to address this issue by welcoming Melissa Blackmon as our new Director of Development. Melissa brings abundant energy and commitment to this position and we are excited about the potential to improve our financial resources in the years to come.

In addition to staff turnover, Hurricane Florence provided another challenge to the team in 2018. Along with the rest of BHI residents and businesses, we were sent packing for nearly 3 weeks in mid-September. When staff returned, it initially appeared as if golf cart struggles may have been the only major impact to our operations as we did not experience flooding on campus nor incursion of rainfall into our buildings. However, by mid-October, team members began experiencing respiratory issues not attributable to humidity-driven issues the Barrier Island Study Center normally exhibited. Professional air quality testing was performed with results showing allergen levels exceeding safe contact standards, likely the product of the power outage (AC off and no air circulation) and a build-up of allergens in our heating/cooling units. The Barrier Island Study Center had to be closed immediately resulting in a second staff diaspora in fall 2018 as the building awaited thorough air quality mitigation. Thankfully, as the calendar turned to 2019, we are back at full speed and all are excited to be back in their offices!

Despite staff turnover and Hurricane Florence, the team achieved some remarkable things in 2018, and let's start with Turtle Central. Pam Smith continues to serve as the store's manager and a bright beacon for the 'gateway' to the Conservancy. For example, Pam struck a partnership with Simply Southern Tees which netted more than \$20K to Conservancy coffers in 2018! However, not only is TC doing very well financially, but Pam once again organized the wonderful Volunteer Shrimp Boil in November with husband Mike as our chef = best ever this year! Along with Sharon Eisele and Carol O'Donnell, TC provides institutional support and customer service at a superior level and we are lucky to have them.

As mentioned earlier, the 2018 Annual Fund and Silent Auction fundraisers were both very successful, and an integral part of these efforts was the communications/IT assistance provided by our Communications and Marketing Manager (not to mention media center guru, Trot leader, social media director, Conservancy Corner publisher...) Amber Walters. She also manages all aspects of the Conservancy's webpage and ensures consistency in the branding of our

organization. Despite not being directly tasked with development responsibilities, our finance team of Pam Cunningham and Darice Voigt secured some unexpected large gifts through phone conversations with potential donors. Simple things like being courteous and respectful to callers can pay huge dividends! Darice and Pam also managed to put up with many short turnaround time email requests from the Executive Director during their post-Florence exile, and it was very much appreciated! Speaking of Florence, I felt very bad for our Assistant Director Poul Lindegaard once we returned to BHI after the storm. Not only did his island properties suffer water damage, he was given the unenviable tasks of handling the Conservancy's air quality issues and an endless stream of golf cart problems, not to mention trying to find available contractors to handle the repairs. Despite the daily headaches, Poul never wavered in his willingness to make sure the organization's transportation and facilities concerns were being addressed as fast as could be for BHI.

Our conservation science team is now led by Dr. Beth Darrow who was thrown directly into the fire as she began her stint as Senior Scientist just as our summer interns joined us in May 2018. Despite the insanity of summer sea turtle and tourist season, managing interns, overseeing all of the research projects associated with our Village Environmental Service contract, and strategizing for a new Village Contract, Beth handled her transition with aplomb. It is also very nice to see how well Village management and island residents have begun to recognize Beth's scientific acumen. Joining Beth on the science team was Emily Goetz who became our Coastal Scientist in summer 2018 after previous stints as an intern and as our AmeriCorps partner. Emily was also very gracious in accepting the role of Sea Turtle Program Coordinator over the summer when the hiring process in spring 2018 came up empty. Of course, Emily handled the challenging position like a true veteran. Although Micah Walker isn't a full-time staff member, it sure feels as if he is. Micah has handled the deer program since 2017 and has become a valued member of the team in many ways including serving as our resident birding expert and instructor for summer kids fishing programs.

A few other seasonal staff that helped us in 2018 include Catherina Kotarba who handled education programming after Amy departed including a very successful Boy Scout merit badge weekend at the Conservancy, Natalie Monnier who helped organize the early stages of our summer 2018 sea turtle program, and

the other members of our record-setting deer team which included Seth Rankins, Ed McDonald, and Hayden Wolf. Although not officially a staff member of the BHIC, Emilee Winter is our current AmeriCorps member who has worked hard to coordinate outreach and stewardship activities on BHI and across the region.

Thank You Volunteers

The cadre of non-Board volunteers that help the Conservancy throughout the year is massive, and we would struggle to deliver on our mission without them. Some volunteers serve on formal committees including Dixon and F.A. McLeod, Kathryn Bowers, Al Buzzard, Barbara Adams, Shannon Thatcher, Alice Horton, Anne Cathcart, and Mary Murrill Oakes. Numerous folks assist regularly in Turtle Central including Elyse Armitage, Pat Johnston, Gianca Helgesen, Mark Auerlik, Susan Shaylor, Tyler Cass, Ronnie Willis, and Judy Porter among many others.

The army of sea turtle nest monitors is large and too big to list here, but Suzi Buzzard and Hollie Hart are the 5-star generals of this dedicated crew. Turtle Trot volunteers are led by Al Buzzard who always displays a welcoming smile as our runners arrive on campus. Although we get many Trot volunteers throughout the season, Sandra and Keith Hall, Scott and Maryann Ingersoll and John May are among our important water station stalwarts throughout the hot summer. To help our summer 2018 interns feel welcomed on BHI, numerous volunteers offered friendly advice, provided home cooking, or hosted a friendly social gathering including Betsi Stephen, Sherri Cass, Tom and Nanette Watjen, Bob and Kathy Ketels, Elizabeth Kinney, Lois Cassidy, Kit Adcock, Ted Richman, and Thompson Wyatt.

Macky Miller continued to serve as the unofficial Barrier Island Study Center greeter and tour guide, as well as our outstanding pastry chef! For the summer 2018 Picnic/Festival at the BHI Club, the organization extends very special thanks to Nanette Watjen and Katie Chatas for their tireless leadership, as well as many others who took time to sell raffle tickets at The Market including non-Board members Karen Armstrong, F.A. McLeod, Betty Robinson, Ginnie White, Mary Jo Walker, Elyse Armitage, Linda Locke, and John May = we set an all-time ticket sales record!

Thank You Donors and Members

With annual memberships exceeding 500 and >200 Life Members, the Conservancy's support base extends far beyond its staff, Board, and volunteers. Memberships, Adopt-A programs, Annual Fund giving, and our July 4th Picnic provide critical revenue for our operations and we could not fulfill our mission without the financial support of all who give under any of these categories. We also have numerous business sponsors including our two Platinum Sponsors BHI Limited Real Estate Sales and Atlantic Realty Professionals that continue to provide important operational support.

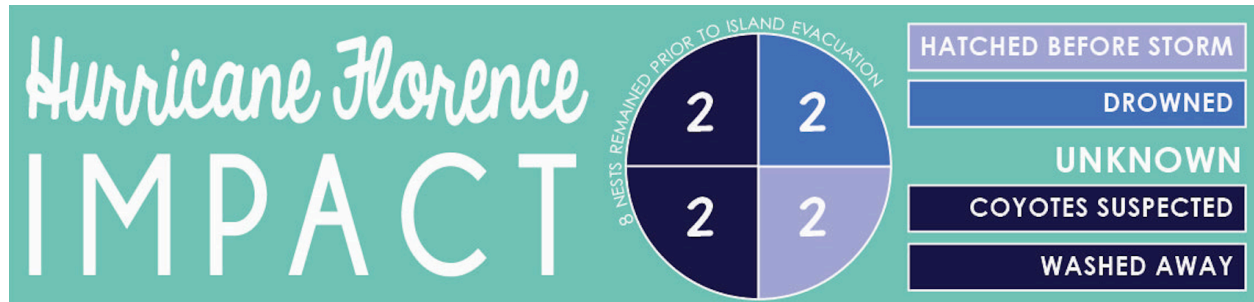
Further, it is always wonderful to receive unexpected and unsolicited grants from supporters, and in 2018, this list included the Saxer Family Foundation, Barstow Foundation, Element Hope Foundation, and participants in the Badwater ultramarathon race. We extend a very special thank you to everyone who financially supported us in 2018, especially those who supported our Annual Fund Campaign following Hurricane Florence where gifts were up more than 25% from 2017! Lastly, while we appreciate every single gift that we receive, there is something special about the commitment to our future made by those who become Life Members. For 2018, we welcome the following to this group: Jeff Farris of Cary, Matthew and Kristin Wilson of Chapel Hill, and the Spivey family of Raleigh.

Other Tidbits and New Initiatives

Sea Turtles

As noted above, Emily Goetz served as the primary leader of our Sea Turtle Protection Program in summer 2018, but it should be noted that Natalie Monnier led the program in May and early June before departing for the Virgin Islands and a sea turtle gig in the tropics. In addition to running the STPP, the Conservancy entered into a valuable partnership with the UNCW Data Science graduate program whereby our 35+ years of nesting data has been carefully cleaned and organized into a format that will allow us to fully analyze population dynamics of turtles that have nested on BHI beaches over the past few decades. It is very exciting to think what stories may lie within the dataset that have yet to be told!

Additionally, we continue to work with UNC researchers Drs. Ken and Cathy Lohmann on their investigation of if/how the Earth's magnetic field influences sea turtle navigation. In summer 2018, their PhD student Kayla Goforth conducted an examination of in vivo hatchling directional orientation by candling eggs in several nests along South and East Beaches. Luckily, only a few nests remained once Florence hit so 90% of our 2018 nests hatched successfully.



Environmental Services Contract with Village of BHI

In addition to the Conservancy's work on sea turtles, our science team continues to investigate the health of the tidal creek/salt marsh, maritime forest, dunes, and aquifer as part of our Environmental Services Contract with the Village of BHI. Through the scientific knowledge we gain in these studies, we are better able to provide the Village with sound advice about how to minimize human impacts on our vibrant habitats and species, and importantly for 2018, assess the impacts of storms on BHI's environment. Only because we have several years of water quality data in the creek as well as aquifer gauge measurements were we able to distinguish very specific impacts of Florence on our environment.

Growing Network of Academic Partners

The Conservancy was able to strengthen and expand its academic partnership network in 2018, including both scientific research and education partners. Among the active research partnerships in 2018 were Drs. Chris Osburn and Ryan Paerl (NCSU) examining salt marsh geochemistry and ecology, Dr. Dylan McNamara (UNCW) using drone technology for more efficient invasive species detection on dunes and accretion/erosion of the dune structure, Dr. Chris Deperno (NCSU) serving as thesis advisor for Micah Walker's investigation of deer population dynamics on BHI, and Dr. Peter Zamora (UNCW) who is examining the influence of freshwater discharge on Bald Head Creek water quality and how

BHI's surficial flowing aquifer may influence sea turtle nesting temperatures from below. Further, we established a Science Advisory Board comprised of academic researchers that can help guide current and future staff research endeavors.

While a good bit of our academic networking has been with scientists, we are also working to grow our education partners. In 2018, we worked with the The Science House at NCSU (grant from Cathy Sigal) to develop a pilot teacher workshop where teachers spent a week at the Conservancy and learned about how to get their students more actively engaged in science via hands-on investigations. Additionally, we collaborated on a grant submitted to the National Science Foundation by UNCW Education and Computer Science faculty to develop Virtual Reality technology with our sea turtle program as the centerpiece of the experience. The proposal's lead was Dr. Jim Stocker who is very enthusiastic about working with the Conservancy on this initiative and very optimistic about funding based on initial review feedback from NSF. There are so many cool partnerships being built at the Conservancy and so many more to come!

Note on Hurricane Florence

While we are trying to move past Florence and the pain and suffering it caused so many on BHI and across the state, I wanted to provide an additional note about the storm's impact on SE NC and the Conservancy. One of the wonderful things about living along the coast, is the daily presence of the ocean. However, with the wondrous energy and spectacular beauty comes the potential for immense damage from nature's fury. The Conservancy was more fortunate than many and we count our Blessings that damage to our buildings and infrastructure wasn't significant. While we suffered financial losses and had a few months of program interruption, we rebounded due to the generosity of our supporters and tireless efforts of staff and volunteers. However, many in Brunswick County were not so fortunate including the children for whom we developed the Barrier Island Botanists program which was cancelled in 2018. As we look to 2019, Conservancy programs including Barrier Island Botanists will resume, but we will not forget the challenges that the storm delivered to our supporters and those we serve in SE NC.

Special Thanks

On a personal note, I would like to send my special thanks to Sheila May and Dick Johnston whose Board tenures are expiring. These special individuals were instrumental in my decision to leave my faculty position at the University of Texas and join the team of the Bald Head Island Conservancy in 2016. Dick and Sheila, along with John May, couldn't have been more gracious when I first came to BHI to learn more about the island and the Conservancy. Their passion for our special organization was clear and overwhelming when I met them, and 2.5 years later, I have seen firsthand just how much they have done for BHI and the Conservancy = simply incredible! THANK YOU & I will miss y'all very much!

The Bald Head Island Conservancy, Inc.

Bald Head Island, North Carolina

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANT

For the Year Ended December 31, 2018

The Bald Head Island Conservancy, Inc.

CONTENTS

For the Year Ended December 31, 2018

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	4
STATEMENT OF ACTIVITIES	5
STATEMENT OF FUNCTIONAL EXPENSES	6
STATEMENT OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8 - 15



INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Bald Head Island Conservancy, Inc.
Bald Head Island, North Carolina

We have audited the accompanying financial statements of Bald Head Island Conservancy, Inc. (a North Carolina non-profit corporation) which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Bald Head Island Conservancy, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Jason C. Keller, CPA, PLLC
Wilmington, NC
September 27, 2019

The Bald Head Island Conservancy, Inc.
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 228,085
Investments:	
Endowment investments - Board designated	850,996
Pledges receivable - current maturities:	
Project 20/20, net of \$21,638 allowance	46,362
Other receivables	52,851
Inventories	156,071
Prepaid expenses	29,528
TOTAL CURRENT ASSETS	1,363,893
PROPERTY AND EQUIPMENT	
Buildings and equipment	5,270,667
Accumulated depreciation	(1,469,540)
	3,801,127
Land - BHIC (21.33 acres Middle Island)	1,750,000
Land - BHIC (campus location)	186,760
Total land	1,936,760
Net property and equipment	5,737,887
TOTAL ASSETS	\$ 7,101,780
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 5,947
Notes payable - current maturities	38,968
Leases payable - current maturities	2,355
Accrued sales tax	2,409
Accrued payroll taxes and liabilities	6,983
Accrued UBIT taxes	9,240
TOTAL CURRENT LIABILITIES	65,902
NOTE PAYABLE - (less current maturities)	204,445
LEASES PAYABLE - (less current maturities)	4,020
TOTAL LIABILITIES	274,367
NET ASSETS	
Without donor restrictions	
Undesignated	109,179
Investment in fixed assets	3,801,127
Board Designated Quasi-Endowment	850,996
Total without donor restrictions	4,761,302
With donor restrictions	
Restricted use grants/donations	129,351
Restricted (BHIC Land)	1,936,760
Total with donor restrictions	2,066,111
TOTAL NET ASSETS	6,827,413
TOTAL LIABILITIES AND NET ASSETS	\$ 7,101,780

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

Bald Head Island Conservancy, Inc.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Sales – gift shop	\$ 636,315	\$ -	\$ 636,315
Less cost of sales	(340,584)	-	(340,584)
Gross profit	295,731	-	295,731
Membership revenues	133,583	-	133,583
Contributions, grants and pledges	242,244	324,483	566,727
Special events	165,122	-	165,122
Camps, school and program income	122,574	-	122,574
Research income	234,720	-	234,720
Directory & calendar income	5,048	-	5,048
Rental income	2,500	-	2,500
Net assets released from restrictions	217,554	(217,554)	-
TOTAL PUBLIC SUPPORT AND REVENUES	1,419,076	106,929	1,526,005
EXPENSES			
Program services:			
Education and research	311,742	-	311,742
Conservation and preservation	369,870	-	369,870
Conservation related product sales	192,651	-	192,651
Total program services	874,263	-	874,263
Supporting activities:			
Management and general	449,276	-	449,276
Marketing & development	88,232	-	88,232
Total supporting activities	537,508	-	537,508
TOTAL EXPENSES	1,411,771	-	1,411,771
INCOME/(LOSS) FROM OPERATIONS	7,305	106,929	114,234
OTHER INCOME/(EXPENSES)			
Gains(losses) on investments	(86,089)	-	(86,089)
Interest and dividend income	23,620	-	23,620
Gain/(Loss) on disposal of assets	-	-	-
Total other income/(expenses)	(62,469)	-	(62,469)
INCREASE (DECREASE) IN NET ASSETS	(55,164)	106,929	51,765
Net assets at beginning of year	4,816,466	1,959,182	6,775,648
Net assets at end of year	<u>\$ 4,761,302</u>	<u>\$ 2,066,111</u>	<u>\$ 6,827,413</u>

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

The Bald Head Island Conservancy, Inc.
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	<u>Program Services</u>					<u>Total</u>
	<u>Education and research expense</u>	<u>Conservation and preservation</u>	<u>Conservation related product sales</u>	<u>General and Administrative</u>	<u>Fundraising and Marketing & Development</u>	
Salaries and wages	\$ 119,117	\$ 165,642	\$ 88,935	\$ 214,874	\$ 5,085	\$ 593,653
Payroll taxes	8,926	12,413	6,664	16,102	381	44,486
Health Insurance	5,955	6,419	3,019	19,052	-	34,445
Pension expense	4,602	6,542	3,603	12,044	-	26,791
Travel and transportation	1,955	1,718	12,261	53,089	761	69,784
UBIT tax on employee commuting	-	-	-	9,240	-	9,240
Environmental study contract costs	-	86,461	-	-	-	86,461
Outreach and educational programs	39,211	-	-	-	-	39,211
Depreciation	69,350	36,330	26,387	17,043	-	149,110
Insurance	36,312	24,404	10,596	7,065	-	78,377
Utilities	10,180	9,012	12,215	10,151	-	41,558
Housekeeping & cleaning	3,650	3,194	4,410	3,954	-	15,208
Repairs and maintenance	6,395	5,596	7,727	6,928	-	26,646
Supplies	4,313	12,139	15,792	4,656	-	36,900
Computer and software	-	-	1,042	8,275	9,174	18,491
Banking and brokerage fees	-	-	-	18,022	-	18,022
Equipment rental	-	-	-	4,637	-	4,637
Accounting and legal	-	-	-	11,900	-	11,900
Training and development	-	-	-	6,962	-	6,962
Interest expense	-	-	-	20,122	-	20,122
Special events	-	-	-	-	25,167	25,167
Fundraising campaign exp.	-	-	-	-	6,259	6,259
Professional fundraising svc.	-	-	-	-	41,349	41,349
Printing & marketing	1,776	-	-	2,134	56	3,966
Subscriptions & dues	-	-	-	2,106	-	2,106
Licenses & fees	-	-	-	920	-	920
	<u>\$ 311,742</u>	<u>\$ 369,870</u>	<u>\$ 192,651</u>	<u>\$ 449,276</u>	<u>\$ 88,232</u>	<u>\$ 1,411,771</u>

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

The Bald Head Island Conservancy, Inc.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

Increase (decrease) in cash flows	
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 51,765
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	149,110
(Gain)/loss on investments	86,089
(Increase) decrease in operating assets:	
Receivables	(10,470)
Inventories	(25,697)
Prepaid expenses	29,016
Increase (decrease) in operating liabilities:	
Accounts payable	(1,024)
Accrued sales tax	(43)
Accrued payroll taxes	(7,207)
Accrued UBIT taxes	9,240
Other liabilities	(16,130)
Net cash provided by operating activities	264,649
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(20,845)
Proceeds from the sale of fixed assets	-
Purchase of investments	(470,817)
Proceeds from the sale of investments	674,265
Net cash used in investing activities	182,603
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from borrowings - line of credit	90,000
Principal payments on line of credit	(190,000)
Proceeds from capital lease agreements	-
Principal payments on capital leases	(2,221)
Principal payments on long-term debt	(250,625)
Net cash provided by financing activities	(352,846)
Net increase in cash and cash equivalents	94,406
Cash and cash equivalents at beginning of year	133,679
Cash and cash equivalents at end of year	\$ 228,085

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

The Bald Head Island Conservancy, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Nature of Activities

BHIC was established as a non-profit entity, which was incorporated in 1983. Its primary purpose is to conserve the natural resources of Bald Head Island, lying in Brunswick County, North Carolina, including its surrounding marshes, creeks and streams. BHIC also administers various programs educating participants on the conservation of the aforementioned environmental areas. In addition, BHIC operates a gift shop selling items designed to promote conservation awareness.

Accounting Method

The Organization records its transactions using the accrual basis method of accounting, whereby revenue and the related assets are recognized when earned and expenses are recognized when the obligation is incurred.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and any highly liquid debt instruments with maturities of less than 3 months.

Contributions

All contributions are considered to be available for use at the discretion of the Organization unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as donor-restricted support that increases the net assets with donor restrictions class.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. The Organization capitalizes all fixed asset purchases over \$500. All assets are depreciated using the straight-line method with depreciable lives of five (5) years for equipment and vehicles, seven (7) years for furniture and fixtures, fifteen (15) years for certain building improvements and forty (40) years for the buildings.

Donated Assets

All donated assets are recorded on the Organization's books at the fair market value at the date of the contribution. The Organization does not imply time restrictions on contributions of long-lived assets.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the average cost method.

Income Taxes

The Organization qualifies as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. Additionally, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. Form 990 informational returns filed with the IRS remain subject to examination by taxing authorities for a period of 3 years. At December 31, 2018 returns for fiscal years ending in 2015, 2016 and 2017 remain "open" to possible examination.

The Organization pays for employee parking and ferry costs. Beginning January 1, 2018 these payments are subject to Unrelated Business Income Tax (UBIT) under Internal Revenue Code 512(a)(7). The Organization has accrued a tax liability of \$9,240 as of December 31, 2018 in order to account for UBIT tax.

The Bald Head Island Conservancy, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses

The Statement of Activities presents expenses by functional classification (program, management & general, and fundraising). The Statement of Functional Expenses presents these same expenses by functional and natural classification (salaries, travel, utilities, etc.). Certain costs have been allocated among functional categories using an objective basis (such as staff members' time).

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts. Accordingly, actual results could differ from those estimates.

NOTE 2: PLEDGES RECEIVABLE

In 2003, the Organization initiated a fundraising campaign named "Project 20/20" designed to raise funds for significant capital improvements to current facilities, as well as construction of a learning center and storage facility. The construction of the storage facility was completed in 2007, the learning center was completed in 2012 and renovations to existing facilities were completed in 2013. However, due to the long-term nature of one particular pledge, there are pledges still outstanding at December 31, 2018.

The amount of "Project 20/20" pledges due at December 31, 2018 is as follows:

Pledges due in less than one year	\$ 68,000
Less allowance for uncollectible pledges	<u>(21,638)</u>
Net "Project 20/20" pledge receivable	<u>\$ 46,362</u>

Management of the Organization considers remaining "Project 20/20" pledges to be fully collectible; however, an allowance for doubtful accounts of \$21,638 is recorded to account for the possibility of non-collection.

The outstanding 20/20 pledges are receivable from a single donor. The high value of pledges receivable from a single donor represents a concentration of risk associated with pledges receivable.

NOTE 3: INVENTORIES

Inventories totaling \$156,071 at December 31, 2018 consist of apparel and other retail items designed to promote conservation awareness.

The Bald Head Island Conservancy, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 4: INVESTMENTS & FAIR VALUE MEASUREMENTS

The Organization applies a framework for measuring fair values under generally accepted accounting principles which applies to all financial instruments that are measured and reported at fair value.

The framework for measuring fair value of financial assets and liabilities includes a hierarchy of three levels for observable independent market inputs and unobservable market assumptions. A description of the inputs used in the valuation of assets and liabilities under this hierarchy is as follows:

- Level 1 - Quoted prices in active markets for identical assets
- Level 2 - Significant other observable inputs.
- Level 3 - Significant unobservable inputs

Assets and liabilities that are measured at fair value on a recurring basis are as follows at December 31, 2018:

	Cost	Fair Value (Level 1)	Unrealized Gain (loss)
Publicly traded stocks and mutual funds	\$ 835,239	\$ 850,996	\$ 15,757

Investments internally restricted by the board of directors totaled \$850,996 at December 31, 2018 (see Note 5).

The Organization's investment return for the year ended December 31, 2018 is summarized as follows:

Interest and dividend income	\$ 23,620
Net realized and unrealized gains	(86,089)
Total investment return	\$ (62,469)

NOTE 5: BOARD DESIGNATED QUASI-ENDOWMENT FUND

The Organization's endowment consists of one fund established to provide a permanent reservoir of assets that will provide regular income for the needs of The Bald Head Island Conservancy, Inc. The endowment fund only includes assets designated by the Board of Directors to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act of 2007 (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the *donor-restricted* endowment funds absent explicit donor stipulations to the contrary. However, the Organization does not maintain any donor-restricted endowment funds as of December 31, 2018.

Endowment Net Assets Composition by Type of Fund

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment Funds	\$ 850,996	\$ -	\$ 850,996

The Bald Head Island Conservancy, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 5: BOARD DESIGNATED QUASI-ENDOWMENT FUND (continued)

Changes in Endowment Net Assets

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,140,533	\$ -	\$ 1,140,533
Investment return:			
Investment income	23,620	-	23,620
Net appreciation (loss) – realized & unrealized	(86,089)	-	(86,089)
Total Investment return	(62,469)	-	(62,469)
Other changes:			
Contributions	5,000	-	5,000
Withdrawals	(225,000)	-	(225,000)
Advisor fees	(7,068)	-	(7,068)
Endowment net assets, end of year	\$ 850,996	\$ -	\$ 850,996

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the Organization while seeking to maintain the purchasing power of the endowment assets. As of December 31, 2018 endowment assets only include board-designated funds. Risk should be similar to or lower than the return volatility of the blended index of the Portfolio. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the return of a broad market index or an index blended in proportions similar to the long-term general asset allocation for the portfolio.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization 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). The Organization 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.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization may annually budget for distribution an amount not to exceed 4% of the average year end balance in the endowment fund over the previous 3 years. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow by achieving a rate-of-return in excess of the 4% planned payouts.

During 2018 the Board of Directors authorized a one-time payout of \$225,000 from Endowment earnings and used the funds to pay down debt and better align future debt financing payments with current operations.

The Bald Head Island Conservancy, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 6: CONTRIBUTED SERVICES

A number of unpaid volunteers have made contributions of their time to work in the gift shop and various other areas of the organization's operations. The value of this contributed time is not reflected in the statement of activities because the criterion for recognition has not been satisfied under FASB ASC 958-605-50-1.

NOTE 7: PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

Buildings	\$ 5,087,325
Furniture, equipment and software	125,952
Transportation equipment	57,390
	<u>\$ 5,270,667</u>

The Organization recorded depreciation expense in the amount of \$149,110 for the year ended December 31, 2018. Total accumulated depreciation is \$1,469,540 at December 31, 2018.

NOTE 8: LINE OF CREDIT

The Organization maintains an unsecured line of credit with First-Citizens Bank & Trust Company in the amount of \$250,000. The line bears interest at 0.5% over the latest Prime Rate as published in the Money Rates table of the Wall Street Journal. Interest is payable monthly and any outstanding interest and principal is due August 15, 2019. There is \$0 outstanding on the line of credit at December 31, 2018.

NOTE 9: NOTES PAYABLE

Notes payable consists of the following at December 31, 2018:

OPERATIONS LOAN:

Term loan from First-Citizens Bank & Trust Company secured by real estate. The loan bears a fixed interest rate of 4.00%. The loan terms require a monthly payment of \$4,009 including interest, through July 2024 and one final payment of all unpaid principal and interest due August 2024.

\$ 243,413

Maturities of the notes payable are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 38,968
2020	40,556
2021	42,254
2022	44,000
2023	45,818
2024	31,817
	<u>\$ 243,413</u>

The Bald Head Island Conservancy, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 10: CAPITAL LEASE COMMITMENTS

At December 31, 2018 the Organization has an outstanding capital lease commitment of \$6,375 for a motorized vehicle with a gross asset value of \$9,530 and associated accumulated amortization of \$2,859. The Organization elects to include amortization expense with depreciation expense for financial statement reporting. The lease terms require monthly payments of \$222 through July 2021 and assumes an implicit interest rate of 5.836%. The lease contains a bargain purchase option of \$1 for the asset at the completion of the lease.

Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>		
2019	\$	2,355
2020		2,495
2021		1,525
		6,375
	\$	6,375

NOTE 11: OPERATING LEASE COMMITMENTS

The Organization leases certain equipment under operating leases with terms of one year or less. Rental expense related to these leases is \$4,637 for the year ended December 31, 2018.

NOTE 12: PENSION PLAN

The Organization sponsors a SEP pension plan covering substantially all full-time employees. The Board of Directors has determined the employer contribution to be 7.00% of all eligible salaries. Contributions to the plan for the year ended December 31, 2018 amounted to \$26,791.

NOTE 13: NET ASSEST WITH DONOR RESTRICTIONS

During the year ended December 31, 2018, assets with donor restrictions totaling \$217,554 were reclassified to assets without donor restrictions upon satisfaction of the restriction.

Assets with donor restrictions consist of the following at December 31, 2018:

Cash: restricted for educational purposes	\$	128,351
Cash: restricted for conservation purposes		1,000
		129,351
Land: restricted permanently for operations and conservation purposes		1,936,760
Total net assets with donor restrictions	\$	2,066,111

The Bald Head Island Conservancy, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 14: CONCENTRATION OF CREDIT RISK

The Organization maintains several bank accounts at two financial institutions. Accounts and certificates of deposits at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2018 there was no uninsured balance.

Marketable equity securities, mutual funds and cash equivalents are held by an investment firm. The investment firm is a member of the Securities Investor Protection Corporation (SIPC). Securities held by the custodian are protected by the SIPC for up to \$500,000 of coverage, including \$250,000 in claims for cash. The remaining coverage on securities and cash is provided by the custodian through a commercial insurer. The account protection applies to the physical loss or destruction of the assets, but it does not apply to any decline in the market value of the securities. At December 31, 2018 there is an uninsured balance of \$350,996 held by investment firms.

NOTE 15: SUPPLEMENTAL CASH FLOW INFORMATION

Interest charged to expense	\$ <u>20,122</u>
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NOTE 16: RELATED PARTY DISCLOSURE

The Organization shares various resources with Smith Island Land Trust (SILT), a related party through economic interest. The entities maintain separate boards of directors however some individuals serve on both boards. An operating agreement was signed October 25, 2018 outlining the understanding between the entities. Per Financial Accounting Standards Board *ASC 958-810-25-4* when economic interest and control by other means than majority voting interest exists then consolidation is permitted but not required. Consolidated audited financial statements for 2018 were issued May 31, 2019. However, management determined that unconsolidated statements for Bald Head Island Conservancy, Inc. should also be prepared.

As of December 31, 2018 accounts receivable totaling \$1,625 related to SILT expenses paid by the Bald Head Island Conservancy are recorded in the financial statements.

NOTE 17: LIQUIDITY DISCLOSURE

The below reflects the Organizations financial assets as of December 31, 2018, reduced by amounts that are not available for general use due to contractual or donor-imposed restrictions within one year. Amounts that are not available also include board designated amounts that could be utilized if the Board of Directors approved the use.

Financial assets, at December 31, 2018	\$ 1,178,294
Less those unavailable for general expenditures within one year, due to:	
Restricted by donor with time or purpose restrictions	(129,351)
Quasi-endowment fund, primarily for long-term investing	<u>(850,996)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>197,947</u>

The Bald Head Island Conservancy, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 17: LIQUIDITY DISCLOSURE (continued)

The Organization is funded through a variety of sources including retail sales, membership revenues, contributions, grants, program and research income. Some of the income contains restrictions that the resources be used in a certain manner or in a future period. Therefore the Organization must maintain adequate resources to meet those responsibilities to its donors and certain financial assets may not be available for general expenditure within one year. As part of its liquidity management, the Organization has a policy to structure its financial assets to be available as general expenditures, liabilities and other obligations become due. The Board of Directors may also authorize utilization of the quasi-endowment fund in the event of an unanticipated liquidity need. The Organization could also draw upon a \$250,000 available line of credit (as discussed in Note 8).

NOTE 18: SUBSEQUENT EVENTS

The Organization did not have any subsequent events through September 27, 2019 requiring recording or disclosure in the financial statements for the year ended December 31, 2018. September 27, 2019 is approximately the date the financial statements were available to be issued.