

SAVE THE BAY, INC.
FINANCIAL STATEMENTS

June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Save the Bay, Inc.
Providence, Rhode Island

Report on the Financial Statements

We have audited the accompanying financial statements of Save the Bay, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

INDEPENDENT AUDITORS' REPORT

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Rachelon Frechette,
McCrory, Michael & Co.*

Providence, Rhode Island
October 22, 2018

SAVE THE BAY, INC.

STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

ASSETS	2018	2017
Cash and cash equivalents	\$ 536,836	\$ 529,188
Accounts receivable	36,693	35,100
Grants receivable	145,136	65,618
Unconditional promises to give	902,588	417,488
Prepaid expenses and other	87,538	95,891
Cash held for long-term purposes	652,503	-
Property and equipment, net of accumulated depreciation	6,404,979	6,501,022
Financing fees, net of accumulated amortization	15,221	17,957
Cash held for property improvements and other long-term activities	497,223	533,775
Investments	1,737,522	1,182,274
TOTAL ASSETS	\$ 11,016,239	\$ 9,378,313
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 76,308	\$ 53,172
Accrued expenses	163,978	172,512
Deferred revenue	233,191	200,724
Long-term debt	1,253,503	1,359,350
Total liabilities	1,726,980	1,785,758
NET ASSETS		
Unrestricted:		
Undesignated	(45,834)	(7,164)
Board designated for:		
Long-term investment	547,775	529,225
Property and equipment	5,151,476	5,141,672
Total unrestricted net assets	5,653,417	5,663,733
Temporarily restricted	2,653,383	1,446,363
Permanently restricted	982,459	482,459
Total net assets	9,289,259	7,592,555
TOTAL LIABILITIES AND NET ASSETS	\$ 11,016,239	\$ 9,378,313

See Notes to Financial Statements

SAVE THE BAY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Contributions	\$ 978,461	\$ 297,954	\$ -	\$ 1,276,415
In-kind contributions	377,579	-	-	377,579
Grants	459,804	215,895	-	675,699
Government contracts	379,231	-	-	379,231
Program revenue	538,732	-	-	538,732
Other income, net	430,312	-	-	430,312
Net assets released from restrictions	289,709	(289,709)	-	-
Total revenue and other support	<u>3,453,828</u>	<u>224,140</u>	<u>-</u>	<u>3,677,968</u>
EXPENSES				
Policy/habitat	905,497	-	-	905,497
Education	1,499,899	-	-	1,499,899
Communications	263,657	-	-	263,657
General and administrative	251,704	-	-	251,704
Fundraising	743,676	-	-	743,676
Total expenses	<u>3,664,433</u>	<u>-</u>	<u>-</u>	<u>3,664,433</u>
Changes in net assets from operations	<u>(210,605)</u>	<u>224,140</u>	<u>-</u>	<u>13,535</u>
OTHER INCOME				
Anniversary Campaign:				
Contributions	100,371	318,449	500,000	918,820
Grants	-	662,000	-	662,000
Investment gain	40,795	61,554	-	102,349
Net assets released from restrictions	59,123	(59,123)	-	-
	<u>200,289</u>	<u>982,880</u>	<u>500,000</u>	<u>1,683,169</u>
CHANGE IN NET ASSETS	(10,316)	1,207,020	500,000	1,696,704
NET ASSETS, beginning of the year	5,663,733	1,446,363	482,459	7,592,555
NET ASSETS, end of the year	<u>\$ 5,653,417</u>	<u>\$ 2,653,383</u>	<u>\$ 982,459</u>	<u>\$ 9,289,259</u>

See Notes to Financial Statements

SAVE THE BAY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Contributions	\$ 1,072,477	\$ 173,260	\$ -	\$ 1,245,737
In-kind contributions	334,898	-	-	334,898
Grants	527,339	179,463	-	706,802
Government contracts	165,201	29,252	-	194,453
Program revenue	573,037	-	-	573,037
Other income, net	523,757	-	-	523,757
Net assets released from restrictions	115,996	(115,996)	-	-
Total revenue and other support	<u>3,312,705</u>	<u>265,979</u>	<u>-</u>	<u>3,578,684</u>
EXPENSES				
Policy/habitat	774,779	-	-	774,779
Education	1,425,491	-	-	1,425,491
Communications	254,172	-	-	254,172
General and administrative	272,453	-	-	272,453
Fundraising	764,478	-	-	764,478
Total expenses	<u>3,491,373</u>	<u>-</u>	<u>-</u>	<u>3,491,373</u>
Changes in net assets from operations	<u>(178,668)</u>	<u>265,979</u>	<u>-</u>	<u>87,311</u>
OTHER INCOME				
Anniversary Campaign:				
Contributions	25,000	303,921	-	328,921
Grants	-	188,000	-	188,000
Investment gain	47,476	58,584	-	106,060
Net assets released from restrictions	14,066	(14,066)	-	-
	<u>86,542</u>	<u>536,439</u>	<u>-</u>	<u>622,981</u>
CHANGE IN NET ASSETS	(92,126)	802,418	-	710,292
NET ASSETS, beginning of the year	5,755,859	643,945	482,459	6,882,263
	<u>\$ 5,663,733</u>	<u>\$ 1,446,363</u>	<u>\$ 482,459</u>	<u>\$ 7,592,555</u>

See Notes to Financial Statements

SAVE THE BAY, INC.

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,696,704	\$ 710,292
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Donated property and equipment	(50,371)	-
Depreciation and amortization	218,804	225,578
Interest and dividends restricted for long-term investment	(20,541)	(17,866)
Net unrealized and realized gains on investments	(79,706)	(88,194)
Contributions received restricted for long-term purposes	(1,300,261)	(304,863)
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(1,593)	6,610
Grants receivable	(79,518)	31,805
Unconditional promises to give	(485,100)	(365,988)
Prepaid expenses and other	8,353	(15,695)
Increase (decrease) in:		
Accounts payable	23,136	13,191
Accrued expenses	(8,534)	(12,272)
Deferred revenue	32,467	(4,647)
Net cash (used in) provided by operating activities	(46,160)	177,951
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in cash held for long-term purposes	(652,503)	-
Decrease (increase) in cash held for property improvements and other long-term activities	36,552	(304,863)
Purchases of investments	(639,064)	-
Proceeds from sales of investments	184,063	43,500
Purchase of property and equipment	(69,654)	-
Net cash used in investing activities	(1,140,606)	(261,363)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received restricted for long-term purposes	1,300,261	304,863
Payments on long-term debt	(105,847)	(82,586)
Net cash provided by financing activities	1,194,414	222,277
Net increase in cash and cash equivalents	7,648	138,865
CASH AND CASH EQUIVALENTS		
Beginning	529,188	390,323
Ending	\$ 536,836	\$ 529,188
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	\$ 56,421	\$ 58,513

See Notes to Financial Statements

SAVE THE BAY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of organization: Save the Bay, Inc. (the Organization) is a not-for-profit corporation chartered under the laws of the State of Rhode Island. The Organization was established for the purpose of preserving and protecting the water quality of Narragansett Bay and the ecological integrity of the Narragansett Bay Basin for present users and for posterity. The Organization conducts research, provides public education and engages in public activism to carry out its environmental protection programs. The programs for the Organization are funded primarily from contributions, grants and contracts and program revenue. The Organization has initiated a fundraising campaign in anticipation of its fiftieth anniversary. Donors may direct their contributions to the following funds: endowment, debt retirement, public access (for property improvements), bay defense, capacity investments and general support for the campaign to be allocated to the aforementioned funds.

Basis of presentation: The Organization follows the accrual basis of accounting in accordance with accounting principles general accepted in the United States of America (GAAP). In accordance with GAAP, as a not-for-profit entity, the Organization classifies its activities and net assets into three classes of net assets as follows: unrestricted, temporarily restricted and permanently restricted.

The Organization utilizes the provisions of the accounting standards codification for not-for-profit organizations, Endowments of Not-For-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds. This standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also required disclosures about endowment funds.

The State of Rhode Island adopted its own version of UPMIFA. Under this version, the assets of a donor-restricted endowment fund may be appropriated for expenditure by the Organization in accordance with the standard of prudence prescribed by UPMIFA.

As a result of the law and the accounting standard described above, the Organization has classified its net assets as follows:

- *Unrestricted net assets* - consist of unrestricted amounts that are available for use in carrying out the mission of the Organization as they carry no donor-imposed time or purpose restrictions. Specifically, these include amounts available for the Organization's operations, net investment in property and equipment and Board designated funds set aside for long-term investment purposes.

SAVE THE BAY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation (continued):

- *Temporarily restricted net assets* - consist of those amounts which are restricted for a specific purpose. When a restriction expires, either by the passage of a stipulated time restriction or by the accomplishment of a specific purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Net assets of donor-restricted endowment funds in excess of their historic dollar value are classified as temporarily restricted net assets until appropriated by the Organization and spent in accordance with the Organization's spending policy which is considered by the Organization's Board of Directors to be prudent under UPMIFA.
- *Permanently restricted net assets* - result from contributions from donors who place restrictions on the use of donated funds mandating that the original principal remain invested in perpetuity and only the income be utilized by the Organization. Income may be utilized for unrestricted purposes or temporarily restricted purposes, as stipulated by the donor of such funds.

Cash and cash equivalents: Cash includes all monies contained in checking and money market accounts. For the purpose of reporting cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents, excluding amounts classified as assets whose use is limited, and long-term investments. Cash and cash equivalents are carried at cost, which approximates fair value. Cash in bank deposits, at times may exceed federally insured limits. The Organization believes it is not exposed to any significant credit risk in cash. The Organization had cash balances on deposit with banks that exceeded federal deposit insurance limits by approximately \$754,000 and \$800,000 as of June 30, 2018 and 2017, respectively. In order to mitigate credit risk for funds exceeding federal deposit insurance limits and to increase return on cash balances, the Organization opened an account at a different institution for deposit of funds not required for immediate operations. Of the \$652,503 balance, \$477,874 is invested in US Treasury Bills with maturity dates ranging from July 19, 2018 to September 13, 2018 and \$173,608 was held in cash and money market accounts.

Grants and accounts receivable: The Organization carries its grants and accounts receivable at net realizable value. On a periodic basis, the Organization evaluates its grants and accounts receivable and establishes an allowance for doubtful accounts, based on a history of past bad debt expense and collections and current credit conditions.

The Organization does not accrue interest on grants and accounts receivable. A receivable is considered past due if payment has not been received within stated terms. The Organization will then exhaust all methods in-house to collect the receivable. Once all practical resources to collect the receivable have been utilized without success, the receivable is deemed uncollectible and charged to bad debt expense.

SAVE THE BAY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unconditional promises to give: Unconditional promises to give are recorded at fair value when received, and are recorded as revenue when the donor's written commitment is received. Unconditional pledges of more than one year are recorded after discounting to the present value of expected future cash flows, net of an allowance for unfulfilled pledges.

Property and equipment: Property and equipment are recorded at cost. The Organization capitalizes any such purchases over \$5,000. Depreciation is calculated on the straight-line method over the expected useful lives of the assets as follows:

	<u>Years</u>
Building and improvements	10-50
Boats and dock/breakwater improvements	10-20
Furniture and equipment	3-20

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets 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 temporarily restricted. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the asset is placed in service, at which time the Organization reclassifies temporarily restricted net assets to unrestricted net assets.

Depreciation expense for the years ended June 30, 2018 and 2017 totaled \$216,068 and \$222,842, respectively.

Financing fees: Financing fees of \$27,364 are stated at cost and are being amortized on a straight-line basis over the term of the associated debt. Financing fees are reported net of accumulated amortization of \$12,143 and \$9,407 as of June 30, 2018 and 2017. Amortization expense was \$2,736 both the years ended June 30, 2018 and 2017 and is expected to be \$2,736 for each of the next five fiscal years.

Investments: Investments in marketable equity and all debt securities are carried at fair value. The Organization allocates investment income in accordance with donor restrictions and Rhode Island law, which adopted the provisions of UPMIFA. UPMIFA requires the investment of endowments in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances. It requires prudence in incurring investment costs, authorizing only costs that are appropriate and reasonable. Factors to be considered in investing are expanded to include, for example, the effects of inflation. UPMIFA emphasizes that investment decisions be made in relation to the overall resources of the Organization.

Investment earnings are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or law.

SAVE THE BAY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurements: The Organization follows GAAP which provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GAAP are described below:

Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs are unobservable inputs for the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Corporate stocks and exchange traded funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate and government bonds and notes: Values utilized for these securities are obtained from an observable independent third-party pricing service that derives the prices through recently reported trades for identical or similar securities with adjustments for trading volumes and market observable information through the reporting date.

SAVE THE BAY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurements (continued):

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Grants and contracts: Grants and contracts are generally considered to be exchange transactions in which the grantor or contractor requires the performance of specified activities.

Entitlement to cost reimbursement grants and contracts is based on the expenditure of funds in accordance with grant restrictions and, therefore, revenue is recognized to the extent of grant expenditures. Entitlement to performance based grants and contracts are based on the attainment of specific performance goals and, therefore, revenue is recognized to the extent of performance achieved. Grant and contract receipts in excess of revenues recognized are presented as deferred revenue.

Program revenue and other income: The Organization recognizes program revenue and other income when it is earned. Revenue received but not earned is classified as deferred revenue in the statements of financial position.

Contributions: Contributions are defined as voluntary, nonreciprocal transfers.

Unrestricted and unconditional contributions are recognized as support when received or pledged, if applicable. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of such assets. When a 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. Temporarily restricted contributions that are received and expended within the same period are reported as unrestricted support.

Contributions received whose use is contingent upon the occurrence of a future event are deferred until the condition is substantially met, at which time they are recognized as support.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the years in which the promises are received.

Amortization of the discount is included in contribution revenue. Conditional promises to give are not recognized as support until the conditions are substantially met.

SAVE THE BAY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (continued):

The Organization recognizes donated services at their estimated fair market value if they create or enhance nonfinancial assets or require specialized skills and would typically be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition in the financial statements.

Allocation of expenses: Certain costs of the Organization benefit more than one program and/or support service. Accordingly, these costs have been allocated in a systematic and rational manner among the programs benefitted.

Income taxes: The Organization is exempt from income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code.

The Organization recognizes and measures its unrecognized tax benefits in accordance with GAAP. Under that guidance the Organization assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the financial statements.

Use of estimates: The preparation of financial statements in conformity with 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, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Accounting pronouncements to be adopted:

Financial statement presentation

In August 2016, FASB issued ASU 2016-14, *Presentation of financial statements of Not-for-profit entities*. The ASU aims to improve presentation of financial information, ultimately making nonprofit financial reporting statements more informative, transparent and useful to readers. Key qualitative and quantitative requirements covered in the final ASU include:

- Net asset classes
- Investment return
- Expenses
- Liquidity and availability for resources
- Presentation of operating cash flows

SAVE THE BAY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting pronouncements to be adopted (continued):

Financial statement presentation (continued)

The ASU is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. Management continues to evaluate the potential impact of this update on the financial statements.

Revenue recognition

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements, including industry specific guidance, when it becomes effective. The underlying principle of the update is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This new guidance is effective for years beginning after December 15, 2018. Management continues to evaluate the potential impact of this update on the financial statements and related disclosures.

Leases

In February 2016, FASB issued ASU 2016-02, *Leases*. This update requires all leases with a term greater than 12 months to be recognized on the statement of financial position through a right-of-use asset and a lease liability. This ASU is effective for years beginning after December 15, 2019 and early adoption is permitted. Management continues to evaluate the potential impact of this update on the financial statements and related disclosures.

Reclassifications: Certain amounts in the 2017 financial statements have been reclassified to conform with the presentation in the 2018 financial statements.

Note 2. UNCONDITIONAL PROMISES TO GIVE

The following is a summary of gross unconditional promises to give based on the donors' stipulated purpose as of June 30, 2018 and 2017:

	2018	2017
Ongoing operations	\$ 449,526	\$ 196,760
Anniversary campaign	496,601	234,230
Total unconditional promises to give	<u>\$ 946,127</u>	<u>\$ 430,990</u>

SAVE THE BAY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 2. UNCONDITIONAL PROMISES TO GIVE (CONTINUED)

The following is a summary of unconditional promises to give by due date net of discounts and allowances as of June 30, 2018 and 2017:

	2018	2017
Unconditional promises to give due in:		
Less than one year	\$ 418,550	\$ 199,082
One to five years	527,577	231,908
Total unconditional promises to give	946,127	430,990
Less: Discount for net present values	(40,039)	(10,002)
Less: Allowance for uncollectible promises to give	(3,500)	(3,500)
	<u>\$ 902,588</u>	<u>\$ 417,488</u>

Note 3. INVESTMENTS AND INVESTMENT INCOME

The following schedule summarizes the investment cost and fair value by category for the years ended June 30, 2018 and 2017:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Brokerage cash and cash equivalents	\$ 147,048	\$ 147,048	\$ 53,211	\$ 53,211
Corporate stocks	685,375	1,005,473	500,458	765,404
Mutual funds	78,080	75,913	-	-
Preferred stocks	7,514	7,503	7,514	7,575
Corporate bonds	222,679	215,925	132,028	129,480
Government bonds and U.S. treasury notes	87,685	89,113	68,076	70,935
Exchange traded funds	191,092	196,547	153,405	155,669
	<u>\$ 1,419,473</u>	<u>\$ 1,737,522</u>	<u>\$ 914,692</u>	<u>\$ 1,182,274</u>

The following schedule summarizes the gain on investments, net of management fees, for the years ended June 30, 2018 and 2017:

	2018	2017
Interest and dividends, net	\$ 20,541	\$ 17,866
Net realized and unrealized gain	79,706	88,194
	<u>\$ 100,247</u>	<u>\$ 106,060</u>

Interest and dividends are reported net of investment management fees totaling \$10,591 and \$8,181 for the years ended June 30, 2018 and 2017, respectively.

SAVE THE BAY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2018 and 2017:

	2018	2017
Building and improvements	\$ 4,536,350	\$ 4,536,350
Site improvements	2,264,928	2,264,928
Leasehold improvements	42,685	42,685
Boats	977,010	926,639
Docks	339,839	339,839
Breakwater	581,566	581,566
Equipment	236,149	236,149
Furniture and fixtures	279,663	279,663
Construction in progress	73,155	3,500
	<u>9,331,345</u>	<u>9,211,319</u>
Less accumulated depreciation	(2,926,366)	(2,710,297)
	<u>\$ 6,404,979</u>	<u>\$ 6,501,022</u>

Note 5. FAIR VALUE MEASUREMENT

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Brokerage cash and cash equivalents	\$ 147,048	\$ -	\$ -	\$ 147,048
Corporate stocks:				
Consumer goods	187,605	-	-	187,605
Energy	59,503	-	-	59,503
Financials	163,509	-	-	163,509
Health care	144,726	-	-	144,726
Industrials	112,919	-	-	112,919
Information technology	260,467	-	-	260,467
Materials	15,000	-	-	15,000
Real estate	22,738	-	-	22,738
Telecommunications and utilities	39,006	-	-	39,006
Mutual funds - fixed income	75,913			75,913
Preferred stocks	7,503	-	-	7,503
Corporate bonds	-	215,925	-	215,925
Government bonds and U.S. treasury notes	-	89,113	-	89,113
Exchange traded funds	-	196,547	-	196,547
	<u>\$ 1,235,937</u>	<u>\$ 501,585</u>	<u>\$ -</u>	<u>\$ 1,737,522</u>

SAVE THE BAY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 5. FAIR VALUE MEASUREMENT (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Brokerage cash and cash equivalents	\$ 53,211	\$ -	\$ -	\$ 53,211
Corporate stocks:				
Consumer goods	160,273	-	-	160,273
Energy	38,630	-	-	38,630
Financials	122,871	-	-	122,871
Health care	107,772	-	-	107,772
Industrials	84,237	-	-	84,237
Information technology	164,430	-	-	164,430
Materials	10,417	-	-	10,417
Real estate	35,350	-	-	35,350
Telecommunications and utilities	41,424	-	-	41,424
Preferred stocks	7,575	-	-	7,575
Corporate bonds	-	129,480	-	129,480
Government bonds and U.S. treasury notes	-	70,935	-	70,935
Exchange traded funds	-	155,669	-	155,669
	<u>\$ 826,190</u>	<u>\$ 356,084</u>	<u>\$ -</u>	<u>\$ 1,182,274</u>

Note 6. LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2018 and 2017:

	2018	2017
Note payable bank, due in monthly installments of \$9,675 through December 31, 2017. The interest rate was fixed at 4.1%. Effective January 8, 2018 the bank amended and restated the note payable to allow for monthly payments of principal and interest of \$9,379 through December 2023, at which time all unpaid principal and interest is due. Interest under the amended note is charged at 4.47%. The note is collateralized by substantially all assets of the Organization.	<u>\$ 1,253,503</u>	<u>\$ 1,359,350</u>

The note contains restrictive covenants related to the maintenance of certain liquidity and debt service coverage ratios. The Organization was in compliance with these covenants for the year ended June 30, 2018.

SAVE THE BAY, INC.

**NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

Note 6. LONG-TERM DEBT (CONTINUED)

Aggregate maturities required on long-term debt as of June 30, 2018 are due in future years as follows:

<u>Years ending June 30</u>	
2019	\$ 61,672
2020	59,761
2021	62,665
2022	65,420
2023	68,447
Thereafter	935,538
	<u>\$ 1,253,503</u>

Note 7. LINE OF CREDIT

The Organization has a line of credit agreement with a bank that allows for maximum borrowings of \$300,000. The line is secured by the Organization's assets, and is renewable annually. Interest is payable at a per annum rate equal to 3% above LIBOR (5.09% at June 30, 2018). There were no borrowings outstanding under the line of credit agreement as of June 30, 2018 and 2017.

Note 8. ENDOWMENT NET ASSETS

Endowment funds

The Organization's long-term investments consist of five individual funds established for a variety of purposes. The Organization also includes funds that have been designated by the Board of Directors to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the Organization's spending policy, which the Board of Directors feels is within the standard of prudence prescribed by UPMIFA.

SAVE THE BAY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 8. ENDOWMENT NET ASSETS (CONTINUED)

In accordance with UPMIFA, the Organization 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 fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of the investments
6. Other resources of the Organization
7. The investment policies and strategy of the Organization

Funds with deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to maintain as a fund of perpetual duration. There were no deficiencies of this nature as of June 30, 2018 or 2017.

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 programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through a combination of 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.

Endowment spending policy

The Organization's Board of Directors appropriates an annual amount not to exceed 4% of the average principal balance as of the last day of the past 16 calendar quarters to support current operations. Any appropriations above that 4% threshold require a three fourths vote of approval by the Board.

SAVE THE BAY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 8. ENDOWMENT NET ASSETS (CONTINUED)

Endowment net assets

Endowment net assets consisted of the following at June 30, 2018:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$ -	\$ 207,287	\$ 982,459	\$ 1,189,746
Board designated	547,775	-	-	547,775
	<u>\$ 547,775</u>	<u>\$ 207,287</u>	<u>\$ 982,459</u>	<u>\$ 1,737,521</u>

Endowment net assets consisted of the following at June 30, 2017:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$ -	\$ 170,590	\$ 482,459	\$ 653,049
Board designated	529,225	-	-	529,225
	<u>\$ 529,225</u>	<u>\$ 170,590</u>	<u>\$ 482,459</u>	<u>\$ 1,182,274</u>

Changes in endowment net assets for the year ended June 30, 2018 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning	\$ 529,225	\$ 170,590	\$ 482,459	\$ 1,182,274
Contributions	-	-	500,000	500,000
Investment income	38,693	61,554	-	100,247
Appropriation of endowment net assets for expenditure	(20,143)	(24,857)	-	(45,000)
Endowment net assets, ending	<u>\$ 547,775</u>	<u>\$ 207,287</u>	<u>\$ 982,459</u>	<u>\$ 1,737,521</u>

SAVE THE BAY, INC.

**NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

Note 8. ENDOWMENT NET ASSETS (CONTINUED)

Endowment net assets (continued)

Changes in endowment net assets for the year ended June 30, 2017 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning	\$ 501,221	\$ 136,034	\$ 482,459	\$ 1,119,714
Investment income	47,476	58,584	-	106,060
Appropriation of endowment net assets for expenditure	(19,472)	(24,028)	-	(43,500)
Endowment net assets, ending	<u>\$ 529,225</u>	<u>\$ 170,590</u>	<u>\$ 482,459</u>	<u>\$ 1,182,274</u>

Note 9. TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2018 and 2017, temporarily restricted net assets were available for the following purposes:

	2018	2017
Ongoing operations:		
General operations/restricted as to time	\$ 397,497	\$ 190,538
Environmental policy and habitat restoration	257,416	270,961
Education programs	78,230	57,505
Subtotal, ongoing operations	<u>733,143</u>	<u>519,004</u>
Anniversary campaign:		
General anniversary campaign support	617,372	259,923
Bay defense	519,000	216,000
Public access	430,000	215,000
Strategic initiatives	123,081	39,846
Debt retirement	23,500	26,000
Subtotal, anniversary campaign	<u>1,712,953</u>	<u>756,769</u>
Endowment earnings in excess of amounts expended	<u>207,287</u>	<u>170,590</u>
	<u>\$ 2,653,383</u>	<u>\$ 1,446,363</u>

Note 10. PERMANENTLY RESTRICTED NET ASSETS

The Organization's permanently restricted endowment funds are held and invested by third parties. They consist of funds maintained in a perpetual endowment. In some cases, the donors have restricted the use of income earned on such funds for specific purposes. In other cases, the donors have indicated that the income earned on such funds is available for the general charitable purposes of the Organization.

SAVE THE BAY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 10. PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

At June 30, 2018 and 2017, permanently restricted net assets consisted of the following:

Fund	Purpose	2018	2017
John H. Chafee Memorial Endowment	<i>Explore the Bay</i> educational programs	\$ 197,022	\$ 197,022
Alison Walsh Fund	\$1,000 per year awarded to a recipient for outstanding environmental advocacy	25,000	25,000
Roosa Family Fund for Marine Education	Marine environmental education for school children	100,000	100,000
Leeds Mitchell East Bay Marsh Restoration Endowment	East Bay marsh restoration	5,000	5,000
Julia Sands Chase Endowment Fund	General operating support	155,437	155,437
Marine Operations Fund	Boat maintenance	500,000	-
		\$ 982,459	\$ 482,459

Note 11. OPERATING LEASES

The Organization's administrative and program facility located in Providence, Rhode Island is constructed on land leased from a local university for an annual lease payment of \$1. The term of the lease is through January 2051, with an option to renew for 15 years. The fair value related to the land lease has not been determined; therefore, no revenue and expense have been recorded in the statements of activities and changes in net assets.

The Organization leases office space in Westerly, Rhode Island from which its South County office is operated. The current lease requires monthly payments of \$750 and is a month-to-month lease. For the years ended June 30, 2018 and 2017, the expenses related to this lease were \$9,000.

In December 2017, the Organization entered into a noncancelable operating lease for a certain piece of equipment expiring in December 2022. This lease replaced a copier lease entered into by the Organization in September 2014. Total lease expense incurred under these leases was \$14,305 and \$14,726 for the years ended June 30, 2018 and 2017.

SAVE THE BAY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 11. OPERATING LEASES (CONTINUED)

Future minimum lease payments under the noncancelable operating lease are as follows:

Years ending June 30	
2019	\$ 61,672
2020	59,761
2021	62,665
2022	65,420
2023	68,447
Thereafter	935,538
	<u>\$ 1,253,503</u>

Note 12. IN-KIND CONTRIBUTIONS

In addition to direct financial support, the Organization is supported by the community in many ways. Contributed services of volunteers are an important part of the resources needed to achieve the Organization's mission.

For the years ended June 30, 2018 and 2017, in-kind contributions consisted of the following:

	2018	2017
Volunteer effort	\$ 327,208	\$ 334,898
Property and equipment donations	50,371	-
	<u>\$ 377,579</u>	<u>\$ 334,898</u>

GAAP limits the recognition of certain contributions of services in the financial statements. There were approximately 28,700 and 28,500 volunteer hours contributed during the fiscal years ended June 30, 2018 and 2017, respectively, approximately 13,400 and 14,300 hours of which were not recognized in the statements of activities, respectively.

The City of Newport provides the Organization space to operate a program. In consideration, the Organization provides the City of Newport educational program services. No in-kind services have been recognized in the financial statements, as management believes that the value of such services is not material.

Note 13. RETIREMENT PLAN

The Organization sponsors a 403(b) plan for all employees meeting certain eligibility requirements. Employee contributions are voluntary. The Organization did not make any matching contributions for the years ended, June 30, 2018 and 2019.

SAVE THE BAY, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 22, 2018, the date the financial statements were available to be issued and identified one subsequent event requiring disclosure in the notes to the financial statements.