

Audubon Society of Western Pennsylvania

Financial Statements

Years Ended June 30, 2018 and 2017
with Independent Auditor's Report

MaherDuessel

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AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

YEARS ENDED JUNE 30, 2018 AND 2017

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Independent Auditor's Report

**Board of Trustees
Audubon Society of
Western Pennsylvania**

We have audited the accompanying financial statements of the Audubon Society of Western Pennsylvania (Society), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Society 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.

Mahe Duessel

Pittsburgh, Pennsylvania
November 1, 2018

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 824,139	\$ 2,402,999
Certificate of deposit	1,500,000	-
Accounts receivable	28,047	155,837
Pledges receivable	466,533	832,441
Inventories	90,025	72,693
Prepaid expenses	-	2,396
Investments	1,167,123	1,131,576
Fixed assets, net of accumulated depreciation	5,566,605	4,938,394
Total Assets	\$ 9,642,472	\$ 9,536,336
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 129,175	\$ 132,585
Accrued expenses	8,953	6,933
Deferred revenue	45,232	58,150
Total Liabilities	183,360	197,668
Net Assets:		
Unrestricted - undesignated	4,645,862	4,068,488
Unrestricted - board-designated:		
Land acquisitions	22,878	22,878
Projects	39,308	45,992
Endowment	532,584	497,037
Total unrestricted	5,240,632	4,634,395
Temporarily restricted	3,319,564	3,805,357
Permanently restricted	898,916	898,916
Total Net Assets	9,459,112	9,338,668
Total Liabilities and Net Assets	\$ 9,642,472	\$ 9,536,336

See accompanying notes to financial statements.

**AUDUBON SOCIETY OF
WESTERN PENNSYLVANIA**

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Support:				
Nature store sales	\$ 415,817	\$ -	\$ -	\$ 415,817
Cost of sales	(228,672)	-	-	(228,672)
Gross profit	187,145	-	-	187,145
Fundraising, contributions, and grants - general	367,359	19,500	-	386,859
Fundraising, contributions, and grants - capital campaign	-	689,411	-	689,411
Rental income	324,065	-	-	324,065
Education and support program fees	198,474	-	-	198,474
Investment income	26,152	-	-	26,152
Unrealized gain (loss) on investments	62,858	-	-	62,858
Miscellaneous income	3,089	-	-	3,089
Realized gain from sale of donated asset	-	67,119	-	67,119
Net assets released from restrictions:				
Satisfaction of program restrictions	1,261,823	(1,261,823)	-	-
Total revenues and support	2,430,965	(485,793)	-	1,945,172
Expenses:				
Program expenses:				
Education and support programs	394,953	-	-	394,953
Facilities	591,271	-	-	591,271
Membership	23,765	-	-	23,765
Conservation activities	167,244	-	-	167,244
Merchandising	131,743	-	-	131,743
Rental	159,181	-	-	159,181
Total program expenses	1,468,157	-	-	1,468,157
General and administrative	114,334	-	-	114,334
Fundraising:				
General	77,598	-	-	77,598
Capital campaign	80,520	-	-	80,520
Total fundraising expenses	158,118	-	-	158,118
Total expenses	1,740,609	-	-	1,740,609
Change in net assets before losses	690,356	(485,793)	-	204,563
Loss on disposal of fixed assets	(84,119)	-	-	(84,119)
Change in Net Assets	606,237	(485,793)	-	120,444
Net Assets:				
Beginning of year	4,634,395	3,805,357	898,916	9,338,668
End of year	\$ 5,240,632	\$ 3,319,564	\$ 898,916	\$ 9,459,112

See accompanying notes to financial statements.

**AUDUBON SOCIETY OF
WESTERN PENNSYLVANIA**

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Support:				
Nature store sales	\$ 436,556	\$ -	\$ -	\$ 436,556
Cost of sales	(235,714)	-	-	(235,714)
Gross profit	200,842	-	-	200,842
Fundraising, contributions, and grants - general	466,537	32,520	-	499,057
Fundraising, contributions, and grants - capital campaign	-	1,300,268	50,000	1,350,268
Rental income	324,770	-	-	324,770
Education and support program fees	199,560	-	-	199,560
Investment income	23,233	-	-	23,233
Unrealized gain (loss) on investments	102,069	-	-	102,069
Miscellaneous income	128,430	-	-	128,430
Realized gain from sale of donated asset	-	-	-	-
Net assets released from restrictions:				
Satisfaction of program restrictions	1,199,531	(1,199,531)	-	-
Total revenues and support	2,644,972	133,257	50,000	2,828,229
Expenses:				
Program expenses:				
Education and support programs	536,790	-	-	536,790
Facilities	404,028	-	-	404,028
Membership	30,552	-	-	30,552
Conservation activities	147,303	-	-	147,303
Merchandising	135,780	-	-	135,780
Rental	159,495	-	-	159,495
Total program expenses	1,413,948	-	-	1,413,948
General and administrative	100,678	-	-	100,678
Fundraising:				
General	60,562	-	-	60,562
Capital campaign	125,760	-	-	125,760
Total fundraising expenses	186,322	-	-	186,322
Total expenses	1,700,948	-	-	1,700,948
Change in net assets before losses	944,024	133,257	50,000	1,127,281
Loss on disposal of fixed assets	-	-	-	-
Change in Net Assets	944,024	133,257	50,000	1,127,281
Net Assets:				
Beginning of year	3,690,371	3,672,100	848,916	8,211,387
End of year	\$ 4,634,395	\$ 3,805,357	\$ 898,916	\$ 9,338,668

See accompanying notes to financial statements.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	\$ 120,444	\$ 1,127,281
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	196,396	160,176
Unrealized loss (gain) on investments	(62,858)	(102,069)
Loss on disposal of fixed assets	84,119	-
Contributions restricted for long-term purposes	(689,411)	(1,350,268)
Change in:		
Accounts receivable	127,790	(147,621)
Pledges receivable	35,250	57,510
Inventories	(17,332)	4,310
Prepaid expenses	2,396	(2,021)
Accounts payable and accrued expenses	(1,390)	106,516
Deferred revenue	(12,918)	(4,785)
Total adjustments	(337,958)	(1,278,252)
Net cash provided by (used in) operating activities	(217,514)	(150,971)
Cash Flows From Investing Activities:		
Purchase of fixed assets	(908,726)	(977,432)
Purchase of certificate of deposit	(1,500,000)	-
Investment sale proceeds	401,455	1,191,716
Investment acquisitions	(374,144)	(1,208,360)
Net cash provided by (used in) investing activities	(2,381,415)	(994,076)
Cash Flows From Financing Activities:		
Collections of contributions restricted for long-term purposes:		
Capital campaign	1,020,069	2,502,294
Net Increase (Decrease) in Cash and Cash Equivalents	(1,578,860)	1,357,247
Cash and Cash Equivalents:		
Beginning of year	2,402,999	1,045,752
End of year	\$ 824,139	\$ 2,402,999

See accompanying notes to financial statements.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

1. Organization

The Audubon Society of Western Pennsylvania (Society), headquartered at the Beechwood Farms Nature Reserve, in the Borough of Fox Chapel, Pennsylvania, is a non-profit organization incorporated in 1941, under the provisions of Pennsylvania law. In addition, the Society owns and operates the Succop Nature Park and Todd Nature Reserve, both located in Butler County, Pennsylvania. The Society seeks to connect the people of southwestern Pennsylvania to birds and nature through their programs, projects, and places. Support for the Society derives from membership dues, income from educational programming, private label birdseed sales, Audubon Nature Store sales, rental income, and public contributions. A significant portion of the Beechwood Farms Nature Reserve land is owned by the Western Pennsylvania Conservancy (WPC) and is managed under a long-term Joint Operating Agreement with WPC, and is not reflected in the accompanying statements of financial position.

During 2014, the Society began a capital campaign, named the Centennial Campaign, to raise funds for various projects related to Beechwood Farms Nature Reserve, Succop Nature Park, Todd Nature Reserve, and Bird Friendly Communities.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements are presented on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred. The Society records deferred revenue for rental income received but not earned during the year. Unconditional promises to give are recorded as received as either unrestricted or temporarily restricted support dependent upon the existence of a donor-imposed restriction. When a donor restriction expires, that is, when a purpose or time 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. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. Unrestricted net assets designated by the Board of Trustees (Board) provide income for a future period.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

Income Taxes

The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) and is classified as a public charity other than a private foundation. Further, the Society annually files a Form 990.

Cash and Cash Equivalents

Cash and cash equivalents include all short-term highly liquid investments with maturities from the date of purchase of three months or less.

Uninsured Cash Balances

Cash and cash equivalents are deposited at a local bank. At June 30, 2018 and 2017, the carrying amount of the Society's deposit was \$824,139 and \$2,402,999, respectively, and the bank balance was \$876,142 and \$2,277,253, respectively. Of the bank balance for both June 30, 2018 and 2017, \$250,000 was insured by federal depository insurance, with the remaining being uninsured.

Certificate of Deposit

During fiscal year 2018, the Society purchased a certificate of deposit totaling \$1,500,000. The certificate bears interest at 1.8% and matures six months from the date of purchase. Any penalty for early withdrawal would not have a material effect on the financial statements. The certificate is insured by federal depository insurance up to \$250,000.

Investments

Investments in equity and debt securities are presented in the financial statements at fair value.

Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported

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amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The Society's estimates include estimated useful lives of fixed assets and management's determination of the collectability of receivables.

Pledges Receivable

The Society records the receivable for unconditional pledges and corresponding revenue, at estimated net realizable value when the commitment is made. Pledges receivable are recorded based on written commitments of the donors.

Inventory

Inventory is stated at the lower of cost or net realizable value.

Fixed Assets

Fixed assets are stated at cost. Fixed asset purchases and major improvements and betterments to equipment, which are valued at a cost of \$2,500 or more with a useful life greater than three years, are capitalized. Expenses for maintenance and repairs that do not extend the life of the assets are charged to expense as incurred. Depreciation of fixed assets is on the straight-line method. Also included in the fixed asset value is a non-depreciable land easement recorded at the purchase cost.

Deferred Revenue

The Society receives revenue in advance for the rental of facilities that are considered to be exchange transactions. Such amounts are recorded as deferred revenues and will be recognized in the ensuing year when earned.

Net Assets

To ensure observance of limitations and restrictions placed on the uses of the Society's available resources, the accounts of the Society are organized in accordance with accounting principles generally accepted in the United States of America. This is the procedure by which resources are classified for accounting and reporting purposes into classes of net assets established according to their nature and purpose. There are three types of net assets:

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Unrestricted - Used to accumulate all unrestricted and board-designated resources. It represents the part of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily Restricted - Represents a portion of the net assets resulting from (a) contributions and other inflows of assets whose use is limited by donor-imposed stipulations that can be fulfilled and removed by actions of the Society pursuant to those stipulations and (b) reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, and their fulfillment and removal by action pursuant to those stipulations.

Permanently Restricted - Represents a portion of the net assets resulting (a) from contributions of assets whose use by the Society is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Society, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications from other classes of net assets as a consequence of donor-imposed stipulations.

Contribution of Assets

Assets donated to the Society are recorded at their fair value in the appropriate net asset class at the time of donation. Such assets are subsequently liquidated and a gain/loss on the sale of donated assets is realized.

Risks and Uncertainties

Financial instruments, which potentially expose the Society to concentrations of credit risk, include cash, investments in marketable securities, and accounts receivable. As a matter of policy, the Society only maintains cash balances with financial institutions having a high credit quality. Concentration of credit risk for investments in marketable securities is mitigated by both the distribution of investment funds among asset managers and the overall diversification of managed investment portfolios. Investment securities are also exposed to various other risks such as interest rate and market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near-term and that such change could materially affect the amount reported on the statements of financial position.

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Concentration of credit risk for accounts and pledges receivable is generally limited due to the distribution of these balances over a wide creditor and donor base.

Contributed Services

During the years ended June 30, 2018 and 2017, the Society received a substantial amount of services donated by individuals in conducting its various program services, including the operation of the Audubon Nature Store, education programs, and supporting services, including administrative and grounds assistance. A total of 8,618 hours were contributed during the 2018 fiscal year that if valued at the Independent Sector's 2018 national average of \$24.69/hr. would amount to \$212,778. These contributed services do not meet the requirements for recognition in the financial statements in accordance with accounting principles generally accepted in the United States and are not recorded in the financial statements.

Pending Pronouncements

The Financial Accounting Standards Board (FASB) has issued statements that will become effective in future years as outlined below. Management has not yet determined the impact of these statements on the financial statements.

ASU 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*," is effective for the financial statements for the year ending June 30, 2019. This amendment aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classification, requires presentation of expenses both by nature and function, requires investment return reported net of investment expenses, requires placed-in-service approach for gifts of/for long-lived assets, and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions; qualitative and quantitative information on liquidity; methods to allocate costs among program and support functions; and underwater donor-restricted endowment.

ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*," is effective for the financial statements for the year ending June 30, 2020 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures.

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ASU 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)," is effective for the financial statements for the year ending June 30, 2020. This amendment provides guidance for Characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions.

Reclassification

Certain items for 2017 have been reclassified to conform to the 2018 presentation. The reclassification had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

3. Investments

The Society's investments are managed by registered investment advisors. These investments are reported at fair value. As of June 30, 2018 and 2017, investments consist of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 3,539	\$ 38,071
Bond funds	354,819	295,666
U.S. equities	522,361	520,587
International equities	186,539	178,191
Emerging markets	52,937	49,445
Other investments	46,928	49,616
	<u>\$ 1,167,123</u>	<u>\$ 1,131,576</u>

In accordance with accounting principles generally accepted in the United States of America, all investments of the Society are measured using Level 1, Level 2, and Level 3 fair value inputs. Level 1 fair value is defined as inputs based upon "measuring the value at

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quoted prices available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.” Level 2 is defined as inputs based upon “measuring pricing units other than at quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.” Level 3 is defined as inputs based upon “significant unobservable inputs, as they trade infrequently or not at all.” The fair values of investments held by the Society are determined using quoted prices in active markets for identical assets and, as such, are classified at June 30, 2018 and 2017 as Level 1 assets within the fair value hierarchy.

4. Fixed Assets

Fixed asset activity during the 2018 fiscal year is as follows:

	June 30, 2017	Additions	Reductions/ Placed in Service	June 30, 2018
Nondepreciable fixed assets:				
Land	\$ 1,552,025	\$ -	\$ -	\$ 1,552,025
Land easement	361,125	-	-	361,125
Work in progress	907,445	892,577	(1,030,062)	769,960
Total nondepreciable fixed assets	<u>2,820,595</u>	<u>892,577</u>	<u>(1,030,062)</u>	<u>2,683,110</u>
Depreciable fixed assets:				
Building	3,431,941	554,101	(139,553)	3,846,489
Land improvements	24,328	483,722	-	508,050
Equipment	235,532	8,388	(11,500)	232,420
Vehicles	51,372	-	-	51,372
Total depreciable fixed assets	3,743,173	1,046,211	(151,053)	4,638,331
Accumulated depreciation	<u>(1,625,374)</u>	<u>(196,396)</u>	<u>66,934</u>	<u>(1,754,836)</u>
Total depreciable fixed assets, net	<u>2,117,799</u>	<u>849,815</u>	<u>(84,119)</u>	<u>2,883,495</u>
Total fixed assets	<u>\$ 4,938,394</u>	<u>\$ 1,742,392</u>	<u>\$ (1,114,181)</u>	<u>\$ 5,566,605</u>

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

Fixed asset activity during the 2017 fiscal year is as follows:

	June 30, 2016	Additions	Reductions/ Placed in Service	June 30, 2017
Nondepreciable fixed assets:				
Land	\$ 1,453,473	\$ 98,552	\$ -	\$ 1,552,025
Land easement	361,125	-	-	361,125
Work in progress	50,450	856,995	-	907,445
Total nondepreciable fixed assets	<u>1,865,048</u>	<u>955,547</u>	<u>-</u>	<u>2,820,595</u>
Depreciable fixed assets:				
Building	3,410,056	21,885	-	3,431,941
Land improvements	24,328	-	-	24,328
Equipment	235,532	-	-	235,532
Vehicles	51,372	-	-	51,372
Total depreciable fixed assets	<u>3,721,288</u>	<u>21,885</u>	<u>-</u>	<u>3,743,173</u>
Accumulated depreciation	<u>(1,465,198)</u>	<u>(160,176)</u>	<u>-</u>	<u>(1,625,374)</u>
Total depreciable fixed assets, net	<u>2,256,090</u>	<u>(138,291)</u>	<u>-</u>	<u>2,117,799</u>
Total fixed assets	<u>\$ 4,121,138</u>	<u>\$ 817,256</u>	<u>\$ -</u>	<u>\$ 4,938,394</u>

Work in progress at June 30, 2018 and 2017 represents ongoing capital projects related to the Centennial Campaign. Such projects will be moved to depreciable fixed assets upon completion and the placed in service date.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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5. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 consist of funds restricted for the following purposes:

	<u>2018</u>	<u>2017</u>
Environmental Curricular Enrichment	\$ 568	\$ 3,888
Succop Nature Park Improvements	40,681	56,743
Succop Nature Park Buildings	388,294	468,760
Education Improvement Tax Credits	-	1,800
Bird Friendly Regional Initiatives	161,824	326,132
Centennial Campaign	2,679,722	2,919,059
Allegheny County Parks	28,975	28,975
Clean Water Fund	9,500	-
Watershed Conservation Plan	10,000	-
	<u>\$ 3,319,564</u>	<u>\$ 3,805,357</u>

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

6. Net Assets Released from Temporary Restrictions

During fiscal years 2018 and 2017, temporarily restricted net assets were released from donor restrictions by satisfying the restricted purposes as follows:

	2018	2017
Todd Sanctuary Land Acquisitions	\$ -	\$ 82,199
Environmental Curricular Enrichment	3,320	10,994
Succop Nature Park Improvements	16,062	7,460
Succop Nature Park Buildings	80,466	14,915
DEP Cit Sci (PA Environmental Ed)	-	1,836
Education Improvement Tax Credits	1,800	-
Bird Friendly Regional Initiatives	164,308	-
Citizen Science Outreach	-	455
Centennial Campaign	995,867	940,444
Allegheny County Parks	-	138,078
PAAW Grant	-	3,150
	<u>\$ 1,261,823</u>	<u>\$ 1,199,531</u>

7. Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor-imposed restrictions that the principal be invested in perpetuity. Permanently restricted net assets consist of endowment funds totaling \$656,416 at June 30, 2018 and 2017, and land totaling \$242,500 at June 30, 2018 and 2017. The Society's Endowment Fund consists of gifts received from donors with the stipulation that the principal be invested and the income be used for the general purposes of the Society.

Endowment Fund

Funds received, designated by the Society bylaws for specific purposes, are to be accounted for separately, and maintained as long-term investments of the Society. These investments have been recorded as unrestricted in accordance with accounting principles generally accepted in the United States of America.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

In accordance with the Society's investment policy, the Society maintains a diversified asset allocation in various bond and equity funds to increase growth and income of the endowment. Both capital appreciation and dividends and interest income are expected to contribute to the total return. A level of risk that is equivalent to that of the broad stock market (the S&P 500) is acceptable for all non-fixed income assets. The endowment assets used by the Society to provide income for the maintenance and programmatic activities of the Society are comprised of cash invested in a money market account as well as assets included in the investment account held by the Society.

With respect to its endowment funds, the Society has elected to spend annually between 2% and 7%, subject to approval of the Board, of the permanently restricted endowment investment portfolio. The Society's investment policy allows for an annual maximum spending withdrawal from the permanently restricted endowment of 4% of the total investment portfolio a year. The distribution is made semi-annually with the amount being calculated on a twelve-quarter rolling average.

During 2018, the Society had the following endowment-related activities:

	Board- Designated Endowment	Permanently Restricted Endowment	Total Endowment
Investment return:			
Investment income	\$ 8,929	\$ 11,005	\$ 19,934
Net (depreciation) appreciation	28,156	34,702	62,858
Investment fees	(1,576)	(1,942)	(3,518)
Transfer of accumulated investment income	38	(38)	-
Total investment return	35,547	43,727	79,274
Contributions	-	-	-
Transfers to/from other funds	-	(43,727)	(43,727)
Total change in endowment funds	35,547	-	35,547
Endowment assets:			
Beginning of year	497,037	656,416	1,153,453
End of year	\$ 532,584	\$ 656,416	\$ 1,189,000 *

* \$21,877 of endowment funds are included in cash and cash equivalents and \$1,167,123 are included in investments.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

During 2017, the Society had the following endowment-related activities:

	Board- Designated Endowment	Permanently Restricted Endowment	Total Endowment
Investment return:			
Investment income	\$ 8,295	\$ 10,954	\$ 19,249
Net (depreciation) appreciation	43,983	58,086	102,069
Investment fees	(1,238)	(1,634)	(2,872)
Transfer of accumulated investment income	17,673	(17,673)	-
Total investment return	68,713	49,733	118,446
Contributions	-	50,000	50,000
Transfers to/from other funds	-	(49,733)	(49,733)
Total change in endowment funds	68,713	50,000	118,713
Endowment assets:			
Beginning of year	428,324	606,416	1,034,740
End of year	\$ 497,037	\$ 656,416	\$ 1,153,453 *

* \$21,877 of endowment funds are included in cash and cash equivalents and \$1,131,576 are included in investments.

8. Employee Benefit Plan

The Society contributes to a defined contribution employee pension plan (Plan) covering all eligible full-time employees. The Society provides contributions totaling 3% of participant's compensation, as defined by the Plan. Total pension expense was \$11,526 and \$11,090 for the years ended June 30, 2018 and 2017, respectively.

9. Lease Commitments

The Society manages land at the Beechwood Farms Nature Reserve owned by the Western Pennsylvania Conservancy under a long-term Joint Operating Agreement (JOA). The original JOA expired on June 30, 2014 and a new twenty-five-year JOA was entered into on June 30, 2014. There are two, twenty-five-year renewal options as part of the new JOA.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

The Society manages land owned by Buffalo Township for the purpose of furthering the cause of preservation, conservation, and to facilitate the maintenance of a nature reserve, under a long-term Joint Operating Agreement (JOA). A twenty-five-year JOA was entered into on July 1, 2017. There are two, twenty-five-year renewal options as part of the new JOA.

10. Functional Allocation of Expenses

The costs of providing the program services and other activities of the Society have been summarized on a functional basis in the statement of activities. Costs were allocated among the program and support services according to management's judgment of efforts expended.

The natural classification of the Society's expenses at June 20, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Salaries and employee benefits	\$ 1,086,976	\$ 931,727
Professional services	54,166	254,152
Office expenses	124,302	113,830
Membership and fundraising	65,916	52,921
Repairs and maintenance	63,116	53,719
Occupancy	41,144	39,600
Advertising	57,483	56,175
Insurance	28,881	28,148
Depreciation	196,396	160,176
Travel	5,255	3,222
Donations	9,344	146
Other	7,630	7,132
Total expenses	<u>\$ 1,740,609</u>	<u>\$ 1,700,948</u>

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

11. Pledges Receivable

The pledges receivable are as follows at June 30, 2018:

	Due in:		Total
	Less than 1 Year	2-4 Years	
Pledges receivable	<u>\$ 455,646</u>	<u>\$ 10,887</u>	<u>\$ 466,533</u>

Financial instruments, including pledges receivable, are valued under the fair value hierarchy. The levels of fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Capital Campaign for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

As the Capital Campaign's pledges receivable have no significant observable inputs, they are all classified as Level 3. The input used by the Capital Campaign to measure the value of the pledges receivable is the original pledge commitment net of an allowance. All pledges are deemed fully collectible and, as such, no allowance has been recorded. The effect of a present valuation of the pledges receivable has been deemed by management as immaterial.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

The following table summarizes the changes in fair values associated with Level 3 pledges receivable:

	<u>2018</u>	<u>2017</u>
Beginning of the year balance	\$ 832,441	\$ 2,041,977
Pledges committed	147,000	761,100
Collection of pledges	<u>(512,908)</u>	<u>(1,970,636)</u>
End of year balance	<u>\$ 466,533</u>	<u>\$ 832,441</u>

12. Commitments and Contingencies

Commitments

At June 30, 2018, the Society has outstanding contracts related to capital improvements that committed the Society for approximately \$1.9 million, which will be paid through a combination of cash on hand, including the certificate of deposit, and through the collection of outstanding pledges receivable.

Contingencies

From time to time in the ordinary course of business, there can be various claims in which the Society is involved. The amount of liability, if any, related to these claims at year-end is not subject to determination. Accordingly, the financial statements do not include any adjustment for possible effects of these claims. Management is of the opinion that these claims will not result in material adverse effect on the Society's operations and financial statements.