

Audubon Society of Western Pennsylvania

Financial Statements

Years Ended June 30, 2016 and 2015
with Independent Auditor's Report

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Certified Public Accountants

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**AUDUBON SOCIETY OF
WESTERN PENNSYLVANIA**

YEARS ENDED JUNE 30, 2016 AND 2015

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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, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2016 and 2015, 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.

Maher Duessel

Pittsburgh, Pennsylvania
October 7, 2016

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015
Assets		
Cash and cash equivalents	\$ 1,045,752	\$ 910,403
Accounts receivable	8,216	52,984
Pledges receivable	2,041,977	1,643,188
Inventories	77,003	85,636
Prepaid expenses	375	-
Investments	1,012,863	974,181
Land, building, equipment, and other fixed assets, net of accumulated depreciation of \$1,465,198 and \$1,311,666	4,121,138	4,035,115
Total Assets	\$ 8,307,324	\$ 7,701,507
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 31,370	\$ 34,132
Accrued expenses	1,632	1,514
Deferred revenue	62,935	50,760
Total Liabilities	95,937	86,406
Net Assets:		
Unrestricted - undesignated	3,181,670	3,206,886
Unrestricted - board-designated:		
Land acquisitions	39,276	39,276
Projects	41,101	61,868
Endowment	428,324	467,437
Total unrestricted	3,690,371	3,775,467
Temporarily restricted	3,672,100	3,046,718
Permanently restricted	848,916	792,916
Total Net Assets	8,211,387	7,615,101
Total Liabilities and Net Assets	\$ 8,307,324	\$ 7,701,507

See accompanying notes to financial statements.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Support:				
Nature store sales	\$ 414,023	\$ -	\$ -	\$ 414,023
Cost of sales	(223,371)	-	-	(223,371)
Gross profit	190,652	-	-	190,652
Fundraising, contributions, and grants - general	362,092	178,313	-	540,405
Fundraising, contributions, and grants - capital campaign	-	1,047,028	56,000	1,103,028
Rental income	274,505	-	-	274,505
Special events	-	-	-	-
Education and support program fees	211,514	-	-	211,514
Investment income	16,778	-	-	16,778
Unrealized gain (loss) on investments	(6,348)	-	-	(6,348)
Net assets released from restrictions:				
Satisfaction of program restrictions	599,959	(599,959)	-	-
Total revenues and support	1,649,152	625,382	56,000	2,330,534
Expenses:				
Program expenses:				
Education and support programs	547,573	-	-	547,573
Facilities	401,611	-	-	401,611
Membership	30,363	-	-	30,363
Native plant center	70,878	-	-	70,878
Merchandising	115,658	-	-	115,658
Rental	144,543	-	-	144,543
Total program expenses	1,310,626	-	-	1,310,626
General and administrative	89,106	-	-	89,106
Fundraising:				
General	104,406	-	-	104,406
Capital campaign	230,110	-	-	230,110
Total fundraising expenses	334,516	-	-	334,516
Total expenses	1,734,248	-	-	1,734,248
Change in Net Assets	(85,096)	625,382	56,000	596,286
Net Assets:				
Beginning of year	3,775,467	3,046,718	792,916	7,615,101
End of year	\$ 3,690,371	\$ 3,672,100	\$ 848,916	\$ 8,211,387

See accompanying notes to financial statements.

**AUDUBON SOCIETY OF
WESTERN PENNSYLVANIA**

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Support:				
Nature store sales	\$ 403,003	\$ -	\$ -	\$ 403,003
Cost of sales	(210,883)	-	-	(210,883)
Gross profit	192,120	-	-	192,120
Fundraising, contributions, and grants - general	487,249	21,303	-	508,552
Fundraising, contributions, and grants - capital campaign	392,359	2,295,915	-	2,688,274
Rental income	268,345	-	-	268,345
Special events	37,201	-	-	37,201
Education and support program fees	183,241	-	-	183,241
Investment income	15,078	-	-	15,078
Unrealized gain (loss) on investments	(14,344)	-	-	(14,344)
Net assets released from restrictions:				
Satisfaction of program restrictions	84,468	(84,468)	-	-
Total revenues and support	1,645,717	2,232,750	-	3,878,467
Expenses:				
Program expenses:				
Education and support programs	401,918	-	-	401,918
Facilities	361,798	-	-	361,798
Membership	34,085	-	-	34,085
Native plant center	76,758	-	-	76,758
Merchandising	115,094	-	-	115,094
Rental	137,852	-	-	137,852
Total program expenses	1,127,505	-	-	1,127,505
General and administrative	69,524	-	-	69,524
Fundraising:				
General	125,682	-	-	125,682
Capital campaign	234,619	-	-	234,619
Total fundraising expenses	360,301	-	-	360,301
Total expenses	1,557,330	-	-	1,557,330
Change in Net Assets	88,387	2,232,750	-	2,321,137
Net Assets:				
Beginning of year	3,687,080	813,968	792,916	5,293,964
End of year	\$ 3,775,467	\$ 3,046,718	\$ 792,916	\$ 7,615,101

See accompanying notes to financial statements.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities:		
Change in net assets	\$ 596,286	\$ 2,321,137
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	153,532	135,090
Unrealized loss (gain) on investments	6,348	14,344
Contributions restricted for long-term purposes	(798,749)	(1,080,653)
Change in:		
Accounts receivable	44,768	(29,213)
Pledges receivable	(398,789)	(1,607,621)
Inventories	8,633	(19,511)
Prepaid expenses	(375)	1,391
Accounts payable and accrued expenses	(2,644)	(9,666)
Deferred revenue	12,175	11,860
Total adjustments	(975,101)	(2,583,979)
Net cash provided by (used in) operating activities	(378,815)	(262,842)
Cash Flows From Investing Activities:		
Purchase of land, land easement, building, and equipment	(239,555)	(203,412)
Investment sale proceeds	98,086	79,449
Investment acquisitions	(143,116)	(49,997)
Net cash provided by (used in) investing activities	(284,585)	(173,960)
Cash Flows From Financing Activities:		
Collections of contributions restricted for long-term purposes:		
Capital campaign	798,749	1,080,653
Net Increase (Decrease) in Cash and Cash Equivalents	135,349	643,851
Cash and Cash Equivalents:		
Beginning of year	910,403	266,552
End of year	\$ 1,045,752	\$ 910,403

See accompanying notes to financial statements.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

1. ORGANIZATION

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, 2016 AND 2015

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, 2016 and 2015, the carrying amount of the Society's deposit was \$1,045,752 and \$910,403, respectively, and the bank balance was \$1,053,322 and \$926,805, respectively. Of the bank balance for both June 30, 2016 and 2015, \$250,000 was insured by federal depository insurance, with the remaining being uninsured.

Investments

Investments in equity securities with readily determinable fair values 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 amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

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.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

Inventory

Inventory is stated at the lower of cost, determined on the average cost method, or market.

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. Depreciation expense for the years ended June 30, 2016 and 2015 totaled \$153,532 and \$135,090, respectively. 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:

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.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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.

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. 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, 2016 and 2015, 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 7,914 hours were contributed during the 2016 fiscal year that if valued at the Independent Sector's 2015 national average of \$23.56/hr. would amount to \$186,454. 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 Pronouncement

In August 2016, the Financial Accounting Standards Board issued ASU No. 2016-14, "Not-for-Profit Entities (Topic 958)", which 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,

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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 endowments. The changes in the standard are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Society is in the process of determining the impact of the adoption of this guidance on its financial statements.

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, 2016 and 2015, investments consist of the following:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 21,035	\$ 1,714
Bond funds	293,108	247,717
U.S. equities	464,261	478,489
International equities	148,407	166,810
Emerging markets	40,451	43,637
Other investments	45,601	35,814
	<u>\$ 1,012,863</u>	<u>\$ 974,181</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 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

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YEARS ENDED JUNE 30, 2016 AND 2015

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, 2016 and 2015 as Level 1 assets within the fair value hierarchy.

4. FIXED ASSETS

Fixed asset activity during the 2016 fiscal year is as follows:

	June 30, 2015	Additions	Deletions	June 30, 2016
Nondepreciable fixed assets:				
Land	\$ 1,453,473	\$ -	\$ -	\$ 1,453,473
Land easement	361,125	-	-	361,125
Work in progress	-	50,450	-	50,450
Total nondepreciable fixed assets	1,814,598	50,450	-	1,865,048
Depreciable fixed assets:				
Building	3,222,850	187,206	-	3,410,056
Land improvements	24,328	-	-	24,328
Equipment	233,633	1,899	-	235,532
Vehicles	51,372	-	-	51,372
Total depreciable fixed assets	3,532,183	189,105	-	3,721,288
Accumulated depreciation	(1,311,666)	(153,532)	-	(1,465,198)
Total depreciable fixed assets, net	2,220,517	35,573	-	2,256,090
Total fixed assets	\$ 4,035,115	\$ 86,023	\$ -	\$ 4,121,138

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

Fixed asset activity during the 2015 fiscal year is as follows:

	June 30, 2014	Additions	Deletions	June 30, 2015
Nondepreciable fixed assets:				
Land	\$ 1,429,873	\$ 23,600	\$ -	\$ 1,453,473
Land easement	361,125	-	-	361,125
Work in progress	11,500	-	(11,500)	-
Total nondepreciable fixed assets	1,802,498	23,600	(11,500)	1,814,598
Depreciable fixed assets:				
Building	3,146,833	76,017	-	3,222,850
Land improvements	16,648	7,680	-	24,328
Equipment	177,390	56,243	-	233,633
Vehicles	-	51,372	-	51,372
Total depreciable fixed assets	3,340,871	191,312	-	3,532,183
Accumulated depreciation	(1,176,576)	(135,090)	-	(1,311,666)
Total depreciable fixed assets, net	2,164,295	56,222	-	2,220,517
Total fixed assets	\$ 3,966,793	\$ 79,822	\$ (11,500)	\$ 4,035,115

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 and 2015 consist of:

	<u>2016</u>	<u>2015</u>
Todd Area Land Acquisitions	\$ 82,199	\$ 86,044
Shannon's Camp Fund	-	9,389
Beechwood Trail Maps	-	5,000
Environmental Curricular Enrichment	14,882	38,414
Succop Nature Park Improvements	64,202	97,392
Succop Nature Park Buildings	483,675	498,590
DEP Cit Sci (PA Environmental Ed)	1,836	3,000
Education Improvement Tax Credits	-	967
Citizen Science Outreach	455	2,795
Bird Friendly Regional Initiatives	295,413	13,303
Centennial Campaign	2,559,235	2,291,824
Allegheny County Parks	167,053	-
PAAW Grant	3,150	-
	<u>\$ 3,672,100</u>	<u>\$ 3,046,718</u>

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

6. NET ASSETS RELEASED FROM TEMPORARY RESTRICTIONS

During fiscal years 2016 and 2015, temporarily restricted net assets were released from donor restrictions by satisfying the restricted purposes as follows:

	2016	2015
Todd Sanctuary Land Acquisitions	\$ 3,845	\$ 5,544
Shannon's Camp Fund	9,389	5,725
Beechwood Trail Maps	5,000	-
Environmental Curricular Enrichment	23,532	14,274
Succop Nature Park Improvements	33,190	8,210
Succop Nature Park Buildings	14,915	14,915
DEP Cit Sci (PA Environmental Ed)	1,164	-
Education Improvement Tax Credits	967	29,290
Citizen Science Outreach	2,340	1,323
Centennial Campaign	505,617	-
Rain Garden Projects	-	5,000
Junior/Senior Program	-	187
	<u>\$ 599,959</u>	<u>\$ 84,468</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 \$606,416 and \$550,416 at June 30, 2016 and 2015, respectively, and land totaling \$242,500 at June 30, 2016 and 2015. 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.

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YEARS ENDED JUNE 30, 2016 AND 2015

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 is comprised of cash invested in a money market accounts as well as assets included in the investment account held by the Society.

With respect to its endowment funds, the Society, subject to approval of its Board, has elected to spend annually between 2% and 7% 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 5% 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 2016, the Society had the following endowment-related activities:

	Board- Designated Endowment	Permanently Restricted Endowment	Total Endowment
Investment return:			
Investment income	\$ 5,878	\$ 8,769	\$ 14,647
Net (depreciation) appreciation	(2,547)	(3,801)	(6,348)
Investment fees	(552)	(821)	(1,373)
Transfer of accumulated investment income	(41,892)	41,892	-
Total investment return	(39,113)	46,039	6,926
Contributions	-	56,000	56,000
Transfers to/from other funds	-	(46,039)	(46,039)
Total change in endowment funds	(39,113)	56,000	16,887
Endowment assets:			
Beginning of year	467,437	550,416	1,017,853
End of year	\$ 428,324	\$ 606,416	\$ 1,034,740 *

* \$21,877 of endowment funds are included in cash and cash equivalents and \$1,012,863 are included in investments.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

During 2015, the Society had the following endowment-related activities:

	Board- Designated Endowment	Permanently Restricted Endowment	Total Endowment
Investment return:			
Investment income	\$ 6,501	\$ 7,654	\$ 14,155
Net (depreciation) appreciation	(6,587)	(7,757)	(14,344)
Investment fees	(1,142)	(1,344)	(2,486)
Transfer of accumulated investment income	(42,568)	42,568	-
Total investment return	(43,796)	41,121	(2,675)
Transfers to/from other funds	-	(41,121)	(41,121)
Total change in endowment funds	(43,796)	-	(43,796)
Endowment assets:			
Beginning of year	511,233	550,416	1,061,649
End of year	\$ 467,437	\$ 550,416	\$ 1,017,853 *

* \$43,672 of endowment funds are included in cash and cash equivalents and \$974,181 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 \$10,344 and \$10,215 for the years ended June 30, 2016 and 2015, respectively.

9. LEASE COMMITMENT

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, 2016 AND 2015

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, 2016 and 2015 is as follows:

	2016	2015
Salaries and employee benefits	\$ 903,397	\$ 784,822
Professional services	294,469	297,274
Office expenses	105,708	92,659
Membership and fundraising	48,654	45,532
Repairs and maintenance	50,839	53,878
Occupancy	43,028	41,832
Advertising	63,066	38,978
Insurance	24,047	25,820
Depreciation	153,532	135,090
Travel	3,827	6,792
Donations	30,146	-
Other	13,535	34,653
Total expenses	\$ 1,734,248	\$ 1,557,330

11. PLEDGES RECEIVABLE

The pledges receivable are as follows at June 30, 2016:

	Due in:		Total
	Less than 1 Year	2-4 Years	
Pledges receivable	\$ 1,464,606	\$ 577,371	\$ 2,041,977

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Financial instruments, including pledges receivable, are valued under the fair market 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.

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

	<u>2016</u>	<u>2015</u>
Beginning of the year balance	\$ 1,643,188	\$ 35,567
Pledges committed	923,620	2,338,654
Collection of pledges	<u>(524,831)</u>	<u>(731,033)</u>
End of year balance	<u>\$ 2,041,977</u>	<u>\$ 1,643,188</u>