

Audubon Society of Western Pennsylvania

Financial Statements

Years Ended June 30, 2019 and 2018
with Independent Auditor's Report

MaherDuessel

Pursuing the profession while promoting the public good©
www.md-cpas.com

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

YEARS ENDED JUNE 30, 2019 AND 2018

TABLE OF CONTENTS

Independent Auditor's Report

Financial Statements:

Statements of Financial Position	1
Statements of Activities:	
- Year Ended June 30, 2019	2
- Year Ended June 30, 2018	3
Statements of Functional Expenses:	
- Year Ended June 30, 2019	4
- Year Ended June 30, 2018	5
Statements of Cash Flows	6
Notes to Financial Statements	7

Independent Auditor's Report

Board of Directors 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, 2019 and 2018, and the related statements of activities, functional expenses, 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, 2019 and 2018, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Society adopted ASU 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*," which amends the requirements for financial statements for nonprofit entities. The amendment changes how nonprofit organizations classify net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity, among other requirements. Our opinion is not modified with respect to this matter.

Maker Duessel

Pittsburgh, Pennsylvania
November 11, 2019

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 120,517	\$ 824,139
Certificate of deposit	-	1,500,000
Accounts receivable	37,894	28,047
Pledges receivable	322,752	466,533
Inventories	88,736	90,025
Prepaid expenses	1,200	-
Investments	1,183,233	1,167,123
Fixed assets, net of accumulated depreciation	7,621,497	5,566,605
Total Assets	\$ 9,375,829	\$ 9,642,472
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 339,727	\$ 129,175
Accrued expenses	1,900	8,953
Deferred revenue	45,671	45,232
Total Liabilities	387,298	183,360
Net Assets:		
Without donor restrictions:		
Undesignated	6,866,293	5,276,656
Board-designated:		
Land acquisitions	22,878	22,878
Projects	11,093	39,308
Endowment	548,694	532,584
Total net assets without donor restrictions	7,448,958	5,871,426
With donor restrictions:		
Purpose restrictions	883,157	2,931,270
Perpetual in nature	656,416	656,416
Total net assets with donor restrictions	1,539,573	3,587,686
Total Net Assets	8,988,531	9,459,112
Total Liabilities and Net Assets	\$ 9,375,829	\$ 9,642,472

See accompanying notes to financial statements.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Support:			
Nature store sales	\$ 460,764	\$ -	\$ 460,764
Cost of sales	(260,881)	-	(260,881)
Gross profit	199,883	-	199,883
Fundraising, contributions, and grants - general	507,007	25,882	532,889
Fundraising, contributions, and grants - capital campaign	58,715	4,314	63,029
Rental income	250,007	-	250,007
Education and support program fees	249,507	-	249,507
Investment income	41,330	-	41,330
Unrealized gain (loss) on investments	43,419	-	43,419
Miscellaneous income	-	-	-
Realized gain from sale of donated asset	-	-	-
Net assets released from restrictions:			
Satisfaction of program restrictions	2,078,309	(2,078,309)	-
Total revenues and support	3,428,177	(2,048,113)	1,380,064
Expenses:			
Program expenses	1,568,392	-	1,568,392
Management and general	115,056	-	115,056
Fundraising	167,197	-	167,197
Total expenses	1,850,645	-	1,850,645
Change in net assets before losses	1,577,532	(2,048,113)	(470,581)
Loss on disposal of fixed assets	-	-	-
Change in Net Assets	1,577,532	(2,048,113)	(470,581)
Net Assets:			
Beginning of year	5,871,426	3,587,686	9,459,112
End of year	\$ 7,448,958	\$ 1,539,573	\$ 8,988,531

See accompanying notes to financial statements.

**AUDUBON SOCIETY OF
WESTERN PENNSYLVANIA**

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	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	1,181,357	(1,181,357)	-
Total revenues and support	2,350,499	(405,327)	1,945,172
Expenses:			
Program expenses	1,468,157	-	1,468,157
Management and general	111,806	-	111,806
Fundraising	160,646	-	160,646
Total expenses	1,740,609	-	1,740,609
Change in net assets before losses	609,890	(405,327)	204,563
Loss on disposal of fixed assets	(84,119)	-	(84,119)
Change in Net Assets	525,771	(405,327)	120,444
Net Assets:			
Beginning of year, as restated	5,345,655	3,993,013	9,338,668
End of year	\$ 5,871,426	\$ 3,587,686	\$ 9,459,112

See accompanying notes to financial statements.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Program Expenses	Management and General	Fundraising	Total
Salaries and wages	\$ 827,424	\$ 40,912	\$ 115,950	\$ 984,286
Benefits	86,807	12,030	12,923	111,760
Payroll taxes	67,097	3,334	9,616	80,047
Professional services	39,162	11,817	6,198	57,177
Advertising and promotion	49,727	1,519	11,439	62,685
Office expenses	82,903	15,276	6,364	104,543
Information technology	208	5,444	-	5,652
Occupancy	48,679	-	-	48,679
Travel	4,080	18	101	4,199
Depreciation	216,861	-	-	216,861
Insurance	25,816	-	3,232	29,048
Repairs and maintenance	56,796	6,170	-	62,966
Membership/fundraising	47,518	-	310	47,828
Donations	5,359	-	-	5,359
Other	9,955	18,536	1,064	29,555
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 1,568,392</u>	<u>\$ 115,056</u>	<u>\$ 167,197</u>	<u>\$ 1,850,645</u>

See accompanying notes to financial statements.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Program Expenses	Management and General	Fundraising	Total
Salaries and wages	\$ 749,878	\$ 32,097	\$ 122,020	\$ 903,995
Benefits	80,213	13,081	13,042	106,336
Payroll taxes	62,119	3,697	10,829	76,645
Professional services	33,221	13,636	7,309	54,166
Advertising and promotion	56,003	1,480	-	57,483
Office expenses	89,429	12,157	224	101,810
Information technology	818	5,477	-	6,295
Occupancy	41,144	-	-	41,144
Travel	5,022	203	30	5,255
Depreciation	196,396	-	-	196,396
Insurance	25,665	-	3,216	28,881
Repairs and maintenance	57,263	5,853	-	63,116
Membership/fundraising	63,241	-	2,675	65,916
Donations	2,152	-	-	2,152
Other	5,593	24,125	1,301	31,019
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 1,468,157</u>	<u>\$ 111,806</u>	<u>\$ 160,646</u>	<u>\$ 1,740,609</u>

See accompanying notes to financial statements.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash Flows From Operating Activities:		
Change in net assets	\$ (470,581)	\$ 120,444
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	216,861	196,396
Unrealized loss (gain) on investments	(43,419)	(62,858)
Loss on disposal of fixed assets	-	84,119
Contributions restricted for long-term purposes	(63,029)	(689,411)
Change in:		
Accounts receivable	(9,847)	127,790
Pledges receivable	(11,203)	35,250
Inventories	1,289	(17,332)
Prepaid expenses	(1,200)	2,396
Accounts payable and accrued expenses	203,499	(1,390)
Deferred revenue	439	(12,918)
Total adjustments	293,390	(337,958)
Net cash provided by (used in) operating activities	(177,191)	(217,514)
Cash Flows From Investing Activities:		
Purchase of fixed assets	(2,271,753)	(908,726)
Purchase of certificate of deposit	-	(1,500,000)
Redemption of certificate of deposit	1,500,000	-
Investment sale proceeds	330,181	401,455
Investment acquisitions	(302,872)	(374,144)
Net cash provided by (used in) investing activities	(744,444)	(2,381,415)
Cash Flows From Financing Activities:		
Collections of contributions restricted for long-term purposes:		
Capital campaign	218,013	1,020,069
Net cash provided by (used in) financing activities	218,013	1,020,069
Net Increase (Decrease) in Cash and Cash Equivalents	(703,622)	(1,578,860)
Cash and Cash Equivalents:		
Beginning of year	824,139	2,402,999
End of year	\$ 120,517	\$ 824,139

See accompanying notes to financial statements.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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

The financial statements are presented on the accrual basis of accounting. Accordingly, revenues and support are recognized when earned and expenses are recognized when the liabilities are incurred. The Society records deferred revenue for rental income received but not earned during the year.

Net Assets Classes

The Society's financial statements are classified for accounting and reporting purposes into two classes of net assts (with donor restrictions or without donor restrictions) established according to their nature and purpose. Separate accounts are maintained for individual funds; however, for financial reporting purposes, funds that have similar characteristics have been combined into net asset classes.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

The assets, liabilities, and net assets of the Society are reported in net asset classes as follows:

Without Donor Restrictions - Used to accumulate all undesignated and board-designated resources from operations. This class represents the part of net assets that is not subject to restrictions imposed by contributors or grantors. In addition to the Society's board-designated endowment described in Note 6, the Society has board-designated amounts for land acquisitions and projects. The use of these funds requires approval by the Board of Directors (Board).

With Donor Restrictions - Represents a portion of the net assets whose use is limited by stipulations imposed by contributors or grantors. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, that is, when a purpose or time restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted support whose restrictions are met in the same fiscal year are reported as net assets without donor restrictions.

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.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

Uninsured Cash Balances

Cash and cash equivalents are deposited at a local bank. At June 30, 2019 and 2018, the carrying amount of the Society's deposit was \$120,517 and \$824,139, respectively, and the bank balance was \$103,372 and \$876,142, respectively. At June 30, 2019, the Society's entire bank balance was insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2018, \$250,000 of the Society's bank balance was insured by the FDIC, with the remaining balance being uninsured.

Certificate of Deposit

During fiscal year 2018, the Society purchased a certificate of deposit totaling \$1,500,000. The certificate bore interest at 1.8% and matured six months from the date of purchase. The certificate was insured by the FDIC up to \$250,000. During fiscal year 2019, the certificate was redeemed.

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 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.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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.

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.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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, 2019 and 2018, 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 8,472 hours were contributed during the 2019 fiscal year that if valued at the Independent Sector's 2019 national average of \$25.43/hr. would amount to \$215,443. 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.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis on the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited according to management's judgment of efforts expended.

Adopted Accounting Standard

For the year ended June 30, 2019, the Society adopted ASU 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*," 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.

As a result of adopting ASU 2016-14, the Society's net assets have been restated as of July 1, 2017. \$711,260 was added to net assets without donor restrictions to reflect the placed-in-service approach for long-lived assets. In addition, net assets released from restriction for the year ended June 30, 2018 were reduced by \$80,466 to reflect the placed-in-service approach for long-lived assets. The table below shows the transfers between net asset classification from three net asset classes to two as a result of the adoption.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	With Donor Restriction	Without Donor Restriction
Beginning net assets, before adoption	\$ 4,634,395	\$ 3,805,357	\$ 898,916	\$ -	\$ -
Transfers between classes as a result of adoption	(4,634,395)	(3,805,357)	(898,916)	5,345,655	3,993,013
Beginning net assets, as restated	\$ -	\$ -	\$ -	\$ 5,345,655	\$ 3,993,013

Pending Standards

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

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.

ASU 2016-02, *“Leases (Topic 842),”* is effective for the financial statements for the year ending June 30, 2022. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU 2016-18, *“Statement of Cash Flows (Topic 230): Restricted Cash,”* is effective for the financial statements for the year ending June 30, 2020. This amendment requires that the statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

ASU 2016-13, *“Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,”* is effective for the financial statements for the year ending June 30, 2023 (as amended by ASU 2018-19). This amendment requires a financial asset (or a

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. This includes loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

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.

ASU 2018-13, “*Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)*,” is effective for the financial statements for the year ending June 30, 2021. This amendment removes and modifies certain fair value hierarchy leveling disclosures.

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. Liquidity and Availability

The following reflects the Society’s financial assets (cash and cash equivalents, accounts receivable, current portion pledges receivable, and investments) as of June 30, 2019 expected to be available within one year to meet the cash needs for general expenditures:

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

Financial assets, at year-end	\$ 1,659,996
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions less non-current portion of pledges receivable	(878,757)
Investments held in perpetuity	<u>(656,416)</u>
Financial asset available to meet cash needs for general expenditures within one year	<u>\$ 124,823</u>

The Society manages its liquid resources by focusing on both fundraising efforts as well as earned revenue sources to ensure the organization has adequate cash flow to cover the related program expenses. The Society's goal is to maintain adequate liquid assets to fund near-term operating needs as well as maintain sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

Income from the Board-designated endowment may be used for the operations of the Society. Although the Society does not intend to spend from the corpus of this Board-designated endowment, these amounts of \$582,665 are available for general expenditures as of year-end.

During the year ended June 30, 2019, the Society incurred unanticipated construction costs related to projects associated with the Centennial Campaign. The Society is in the process of soliciting additional contributions to cover this shortage and replenish its financial reserves. In addition, as further described in Note 6, the Society has a board-designated endowment fund to provide income for the maintenance and programmatic activities of the Society.

4. Investments

The Society's investments are managed by registered investment advisors. These investments are reported at fair value. As of June 30, 2019 and 2018, investments consist of the following:

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 23,986	\$ 3,539
Bond funds	373,257	354,819
U.S. equities	554,843	522,361
International equities	178,328	186,539
Emerging markets	52,819	52,937
Other investments	-	46,928
	<u>\$ 1,183,233</u>	<u>\$ 1,167,123</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 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, 2019 and 2018 as Level 1 assets within the fair value hierarchy.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

5. Fixed Assets

Fixed asset activity during the 2019 fiscal year is as follows:

	June 30, 2018	Additions	Reductions/ Placed in Service	June 30, 2019
Nondepreciable fixed assets:				
Land	\$ 1,552,025	\$ -	\$ -	\$ 1,552,025
Land easement	361,125	-	-	361,125
Work in progress	769,960	-	(744,316)	25,644
Total nondepreciable fixed assets	2,683,110	-	(744,316)	1,938,794
Depreciable fixed assets:				
Building	3,846,489	2,855,817	-	6,702,306
Land improvements	508,050	106,419	-	614,469
Equipment	232,420	53,833	-	286,253
Vehicles	51,372	-	-	51,372
Total depreciable fixed assets	4,638,331	3,016,069	-	7,654,400
Accumulated depreciation	(1,754,836)	(216,861)	-	(1,971,697)
Total depreciable fixed assets, net	2,883,495	2,799,208	-	5,682,703
Total fixed assets	\$ 5,566,605	\$ 2,799,208	\$ (744,316)	\$ 7,621,497

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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><u>\$ 4,938,394</u></u>	<u><u>\$ 1,742,392</u></u>	<u><u>\$ (1,114,181)</u></u>	<u><u>\$ 5,566,605</u></u>

Work in progress at June 30, 2019 and 2018 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

YEARS ENDED JUNE 30, 2019 AND 2018

6. Net Assets

Net assets with donor restrictions consist of the following at June 30:

	2019	2018
Subject to expense for a specified purpose (or purpose and time):		
Environmental Curricular Enrichment	\$ -	\$ 568
Succop Nature Park Improvements	32,117	40,681
Bird Friendly Regional Initiatives	61,522	161,824
Centennial Campaign	724,976	2,679,722
Allegheny County Parks	28,975	28,975
Clean Water Fund	5,244	9,500
Watershed Conservation Plan	4,441	10,000
Shannon's Camp Fund	1,252	-
ECO Expedition	12,475	-
Pine Hollow	12,155	-
Total subject to purpose and time restrictions	883,157	2,931,270
Subject to the Society's spending policy and appropriation:		
Investment in perpetuity	656,416	656,416
Total net assets with donor restrictions	\$ 1,539,573	\$ 3,587,686

Investment in Perpetuity

Net assets with donor restrictions that are perpetual in nature are subject to donor-imposed restrictions that the principal be invested in perpetuity. Net assets with donor restrictions that are perpetual in nature consist of endowment funds totaling \$656,416 at June 30, 2019 and 2018. 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.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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 net assets with donor restrictions – perpetual in nature endowment investment portfolio. The Society's investment policy allows for an annual maximum spending withdrawal from the net assets with donor restrictions – perpetual in nature 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 2019, the Society had the following endowment-related activities:

	Board- Designated Endowment	Donor Restricted - Perpetual in Nature Endowment	Total Endowment
Investment return:			
Investment income	\$ 10,722	\$ 12,826	\$ 23,548
Net (depreciation) appreciation	19,769	23,650	43,419
Investment fees	(1,635)	(1,957)	(3,592)
Transfer of accumulated investment income	(12,746)	12,746	-
Total investment return	16,110	47,265	63,375
Transfers to/from other funds	-	(47,265)	(47,265)
Total change in endowment funds	16,110	-	16,110
Endowment assets:			
Beginning of year	532,584	656,416	1,189,000
End of year	\$ 548,694	\$ 656,416	\$ 1,205,110 *

* \$21,877 of endowment funds are included in cash and cash equivalents and \$1,183,233 are included in investments.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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

	Board- Designated Endowment	Donor Restricted - Perpetual in Nature 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
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.

7. Net Assets Released from Donor Restrictions

During fiscal years 2019 and 2018, net assets with donor restrictions were released from donor restrictions by satisfying the restricted purposes as follows:

	2019	2018
Environmental Curricular Enrichment	\$ 568	\$ 3,320
Succop Nature Park Improvements	8,564	16,062
Education Improvement Tax Credits	-	1,800
Bird Friendly Regional Initiatives	100,302	164,308
Centennial Campaign	1,959,060	995,867
Clean Water Fund	4,256	-
Watershed Conservation Plan	5,559	-
	\$ 2,078,309	\$ 1,181,357

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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 \$14,754 and \$11,526 for the years ended June 30, 2019 and 2018, 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.

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. Pledges Receivable

The pledges receivable are as follows at June 30, 2019:

	Due in:		
	<u>Less than 1 Year</u>	<u>2-4 Years</u>	<u>Total</u>
Pledges receivable	<u>\$ 318,352</u>	<u>\$ 4,400</u>	<u>\$ 322,752</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.

AUDUBON SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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:

	2019	2018
Beginning of the year balance	\$ 466,533	\$ 832,441
Pledges committed	-	147,000
Collection of pledges	(143,781)	(512,908)
End of year balance	<u>\$ 322,752</u>	<u>\$ 466,533</u>

11. Commitments and 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.
