

Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

NATIONAL AUDUBON SOCIETY, INC.

For the years ended June 30, 2016 and 2015

NATIONAL AUDUBON SOCIETY, INC.

TABLE OF CONTENTS

	Page
Report of Independent Certified Public Accountants	1 - 2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position as of June 30, 2016 and 2015	3
Consolidated Statement of Activities for the year ended June 30, 2016	4
Consolidated Statement of Activities for the year ended June 30, 2015	5
Consolidated Statement of Functional Expenses for the year ended June 30, 2016	6
Consolidated Statement of Functional Expenses for the year ended June 30, 2015	7
Consolidated Statements of Cash Flows for the years ended June 30, 2016 and 2015	8
Notes to Consolidated Financial Statements	9 - 37



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
National Audubon Society, Inc.:

We have audited the accompanying consolidated financial statements of National Audubon Society, Inc. (“Audubon”), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 Audubon’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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Audubon Society, Inc. as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

New York, New York

November 11, 2016

NATIONAL AUDUBON SOCIETY, INC.
Consolidated Statements of Financial Position
As of June 30, 2016 and 2015

ASSETS	2016	2015
Cash and cash equivalents	\$ 34,896,969	\$ 33,482,773
Other receivables, net (Note 4)	8,145,961	6,731,229
Prepaid expenses and other assets (Note 9)	2,747,968	2,998,600
Pledges receivable, net (Note 4)	10,658,123	6,817,026
Investments (Note 5)	215,505,530	231,977,976
Beneficial interest in charitable trusts (Notes 5 and 11)	37,124,879	40,895,798
Building and equipment, net (Note 6)	47,873,764	48,917,243
Land (Note 6)	99,278,203	99,135,000
Total assets	<u>\$ 456,231,397</u>	<u>\$ 470,955,645</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 8,614,880	\$ 8,894,655
Deferred rent, tuition and other (Note 9)	6,207,147	6,587,925
Funds held for others	2,771,103	2,291,265
Loans payable	100,000	120,785
Obligations under charitable trusts (Notes 5 and 11)	7,944,416	6,256,537
Pension and postretirement benefit liability (Note 10)	15,011,851	12,014,452
Total liabilities	<u>40,649,397</u>	<u>36,165,619</u>
COMMITMENTS AND CONTINGENCIES (Notes 5 and 9)		
NET ASSETS		
Unrestricted (Note 2)	182,017,209	188,527,972
Temporarily restricted (Notes 2 and 3)	133,868,225	143,794,227
Permanently restricted (Note 3)	99,696,566	102,467,827
Total net assets	<u>415,582,000</u>	<u>434,790,026</u>
Total liabilities and net assets	<u>\$ 456,231,397</u>	<u>\$ 470,955,645</u>

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

NATIONAL AUDUBON SOCIETY, INC.
Consolidated Statement of Activities
For the year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING ACTIVITIES				
REVENUES, GAINS AND OTHER SUPPORT				
Contributions and grants (Note 8)	\$ 52,765,172	\$ 18,306,401	\$ 84,038	\$ 71,155,611
Bequests	7,506,341	1,468,606	459,872	9,434,819
Earned income	10,707,727	-	-	10,707,727
Investment earnings on non-pooled funds, net (Note 5)	2,335,209	1,601	-	2,336,810
Investment earnings on pooled funds - appropriated, net (Note 5)	7,869,542	267,030	-	8,136,572
Royalties, net and other revenue	825,833	-	-	825,833
Net assets released from restrictions (Note 7)	<u>16,788,983</u>	<u>(16,788,983)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>98,798,807</u>	<u>3,254,655</u>	<u>543,910</u>	<u>102,597,372</u>
EXPENSES				
Conservation programs:				
Field conservation programs	56,082,279	-	-	56,082,279
National conservation programs	<u>24,409,962</u>	<u>-</u>	<u>-</u>	<u>24,409,962</u>
	<u>80,492,241</u>	<u>-</u>	<u>-</u>	<u>80,492,241</u>
Fundraising:				
Membership development	4,100,078	-	-	4,100,078
Other development	<u>9,298,626</u>	<u>-</u>	<u>-</u>	<u>9,298,626</u>
	13,398,704	-	-	13,398,704
Management and general	<u>3,528,806</u>	<u>-</u>	<u>-</u>	<u>3,528,806</u>
Total expenses	<u>97,419,751</u>	<u>-</u>	<u>-</u>	<u>97,419,751</u>
Changes in net assets from operations	1,379,056	3,254,655	543,910	5,177,621
NON-OPERATING ACTIVITIES				
Gain on sales of property	3,504	-	-	3,504
Investment loss on pooled funds not appropriated, net (Note 5)	(4,282,993)	(11,196,290)	-	(15,479,283)
Charitable trust additions	-	606,743	-	606,743
Change in value of charitable trusts (Notes 3 and 5)	<u>-</u>	<u>(2,591,110)</u>	<u>(3,315,171)</u>	<u>(5,906,281)</u>
Changes in net assets before pension and postretirement related changes other than net periodic costs	(2,900,433)	(9,926,002)	(2,771,261)	(15,597,696)
Pension and postretirement related changes other than net periodic costs (Note 10)	<u>(3,610,330)</u>	<u>-</u>	<u>-</u>	<u>(3,610,330)</u>
Changes in net assets	(6,510,763)	(9,926,002)	(2,771,261)	(19,208,026)
Net assets, beginning of year	<u>188,527,972</u>	<u>143,794,227</u>	<u>102,467,827</u>	<u>434,790,026</u>
Net assets, end of year	<u>\$ 182,017,209</u>	<u>\$ 133,868,225</u>	<u>\$ 99,696,566</u>	<u>\$ 415,582,000</u>

The accompanying notes are an integral part of this consolidated financial statement.

NATIONAL AUDUBON SOCIETY, INC.
Consolidated Statement of Activities
For the year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING ACTIVITIES				
REVENUES, GAINS AND OTHER SUPPORT				
Contributions and grants (Note 8)	\$ 49,948,903	\$ 17,664,440	\$ 1,088,182	\$ 68,701,525
Bequests	7,472,233	4,808,397	527,946	12,808,576
Earned income	11,023,641	-	-	11,023,641
Investment earnings on non-pooled funds, net (Note 5)	1,431,238	422	-	1,431,660
Investment earnings on pooled funds - appropriated, net (Note 5)	7,614,299	221,045	-	7,835,344
Royalties, net and other revenue	1,154,588	-	-	1,154,588
Net assets released from restrictions (Note 7)	<u>16,495,725</u>	<u>(16,449,326)</u>	<u>(46,399)</u>	<u>-</u>
Total revenues, gains and other support	<u>95,140,627</u>	<u>6,244,978</u>	<u>1,569,729</u>	<u>102,955,334</u>
EXPENSES				
Conservation programs:				
Field conservation programs	51,425,915	-	-	51,425,915
National conservation programs	<u>25,154,967</u>	<u>-</u>	<u>-</u>	<u>25,154,967</u>
	<u>76,580,882</u>	<u>-</u>	<u>-</u>	<u>76,580,882</u>
Fundraising:				
Membership development	4,370,849	-	-	4,370,849
Other development	<u>8,479,964</u>	<u>-</u>	<u>-</u>	<u>8,479,964</u>
	12,850,813	-	-	12,850,813
Management and general	<u>4,348,679</u>	<u>-</u>	<u>-</u>	<u>4,348,679</u>
Total expenses	<u>93,780,374</u>	<u>-</u>	<u>-</u>	<u>93,780,374</u>
Changes in net assets from operations	1,360,253	6,244,978	1,569,729	9,174,960
NON-OPERATING ACTIVITIES				
Gain on sales of property	211,311	2,500	-	213,811
Investment loss on pooled funds not appropriated, net (Note 5)	(2,350,633)	(3,386,683)	-	(5,737,316)
Charitable trust additions	-	375,754	-	375,754
Change in value of charitable trusts (Notes 3 and 5)	<u>-</u>	<u>(1,973,370)</u>	<u>(671,237)</u>	<u>(2,644,607)</u>
Changes in net assets before pension and postretirement related changes other than net periodic costs	(779,069)	1,263,179	898,492	1,382,602
Pension and postretirement related changes other than net periodic costs (Note 10)	<u>(888,273)</u>	<u>-</u>	<u>-</u>	<u>(888,273)</u>
Changes in net assets	(1,667,342)	1,263,179	898,492	494,329
Net assets, beginning of year	<u>190,195,314</u>	<u>142,531,048</u>	<u>101,569,335</u>	<u>434,295,697</u>
Net assets, end of year	<u>\$ 188,527,972</u>	<u>\$ 143,794,227</u>	<u>\$ 102,467,827</u>	<u>\$ 434,790,026</u>

The accompanying notes are an integral part of this consolidated financial statement.

NATIONAL AUDUBON SOCIETY, INC.
Consolidated Statement of Functional Expenses
For the year ended June 30, 2016

	Conservation Program Expenses			Fundraising Expenses			Management and General	Total
	Field Programs	National Programs	Total Program Expenses	Membership Development	Other Development	Total Development Expenses		
Salaries	\$ 24,843,615	\$ 8,086,442	\$ 32,930,057	\$ 174,056	\$ 4,969,591	\$ 5,143,647	\$ 1,169,746	\$ 39,243,450
Payroll taxes and fringe benefits (Note 10)	6,382,152	2,077,351	8,459,503	44,714	1,276,653	1,321,367	300,500	10,081,370
Travel and meetings	2,090,140	770,983	2,861,123	10,662	666,604	677,266	114,438	3,652,827
Postage and mailing	173,363	3,198,782	3,372,145	1,651,267	137,624	1,788,891	11,289	5,172,325
Grants and scholarships	1,185,974	1,171,301	2,357,275	55	1,898	1,953	2,958	2,362,186
Chapter grants and support	967,264	4,034	971,298	-	-	-	-	971,298
Professional services	7,824,586	2,996,596	10,821,182	466,651	883,971	1,350,622	305,770	12,477,574
Occupancy (Note 9)	2,387,780	704,290	3,092,070	19,791	187,248	207,039	345,142	3,644,251
Telephone and telecommunications	456,387	99,601	555,988	758	30,290	31,048	40,765	627,801
Maintenance and other rental fees	2,183,826	93,889	2,277,715	684	73,359	74,043	36,786	2,388,544
Supplies	1,911,474	826,522	2,737,996	7,160	136,615	143,775	156,938	3,038,709
Printing and promotion	363,796	1,560,685	1,924,481	966,871	156,575	1,123,446	10,219	3,058,146
Membership fulfillment	147,057	519,247	666,304	299,223	29,871	329,094	55,290	1,050,688
Magazine printing	-	614,192	614,192	4,596	-	4,596	-	618,788
Commissions	-	203,118	203,118	48,818	-	48,818	-	251,936
Service bureaus	723,063	355,025	1,078,088	84,339	265,988	350,327	182,880	1,611,295
Insurance	1,098,829	167,533	1,266,362	3,091	98,973	102,064	117,119	1,485,545
Taxes	179,389	7,859	187,248	14	335	349	28	187,625
Advertising	296,848	240,988	537,836	132,632	80,420	213,052	-	750,888
Licenses and fees	191,689	134,372	326,061	5,935	18,353	24,288	19,893	370,242
Depreciation and amortization	2,650,280	136,077	2,786,357	-	390	390	425,783	3,212,530
Other	24,767	441,075	465,842	178,761	283,868	462,629	233,262	1,161,733
Total expenses	<u>\$ 56,082,279</u>	<u>\$ 24,409,962</u>	<u>\$ 80,492,241</u>	<u>\$ 4,100,078</u>	<u>\$ 9,298,626</u>	<u>\$ 13,398,704</u>	<u>\$ 3,528,806</u>	<u>\$ 97,419,751</u>

The accompanying notes are an integral part of this consolidated financial statement.

NATIONAL AUDUBON SOCIETY, INC.
Consolidated Statement of Functional Expenses
For the year ended June 30, 2015

	Conservation Program Expenses			Fundraising Expenses			Management and General	Total
	Field Programs	National Programs	Total Program Expenses	Membership Development	Other Development	Total Development Expenses		
Salaries	\$ 23,192,605	\$ 7,959,268	\$ 31,151,873	\$ 317,574	\$ 4,144,864	\$ 4,462,438	\$ 1,655,195	\$ 37,269,506
Payroll taxes and fringe benefits (Note 10)	6,424,012	2,204,601	8,628,613	87,963	1,148,067	1,236,030	458,465	10,323,108
Travel and meetings	1,897,389	958,464	2,855,853	34,657	553,110	587,767	194,291	3,637,911
Postage and mailing	184,416	3,270,623	3,455,039	1,750,086	119,975	1,870,061	13,062	5,338,162
Grants and scholarships	1,113,289	1,371,428	2,484,717	287	21,001	21,288	13,017	2,519,022
Chapter grants and support	996,662	2,500	999,162	-	-	-	-	999,162
Professional services	5,505,363	3,264,978	8,770,341	398,310	1,214,746	1,613,056	367,584	10,750,981
Occupancy (Note 9)	2,344,150	680,894	3,025,044	23,255	143,265	166,520	505,113	3,696,677
Telephone and telecommunications	492,858	95,728	588,586	1,681	29,507	31,188	76,274	696,048
Maintenance and other rental fees	1,599,889	67,943	1,667,832	1,195	46,861	48,056	54,231	1,770,119
Supplies	1,888,095	899,753	2,787,848	8,934	152,238	161,172	309,915	3,258,935
Printing and promotion	379,486	1,590,760	1,970,246	1,011,089	123,217	1,134,306	1,990	3,106,542
Membership fulfillment	354,620	586,226	940,846	324,662	62,728	387,390	219,983	1,548,219
Magazine printing	-	705,151	705,151	-	-	-	-	705,151
Commissions	-	179,231	179,231	45,375	-	45,375	-	224,606
Service bureaus	563,927	369,466	933,393	67,519	198,705	266,224	211,844	1,411,461
Insurance	924,401	120,312	1,044,713	3,313	71,518	74,831	116,197	1,235,741
Taxes	196,909	8,073	204,982	38	31	69	-	205,051
Advertising	293,227	184,122	477,349	98,234	85,775	184,009	3,117	664,475
Licenses and fees	87,959	103,202	191,161	3,715	8,634	12,349	5,830	209,340
Depreciation and amortization	2,749,958	107,331	2,857,289	2,581	33,678	36,259	117,070	3,010,618
Other	236,700	424,913	661,613	190,381	322,044	512,425	25,501	1,199,539
Total expenses	<u>\$ 51,425,915</u>	<u>\$ 25,154,967</u>	<u>\$ 76,580,882</u>	<u>\$ 4,370,849</u>	<u>\$ 8,479,964</u>	<u>\$ 12,850,813</u>	<u>\$ 4,348,679</u>	<u>\$ 93,780,374</u>

The accompanying notes are an integral part of this consolidated financial statement.

NATIONAL AUDUBON SOCIETY, INC.
Consolidated Statements of Cash Flows
For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (19,208,026)	\$ 494,329
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,212,530	3,010,690
Net realized and unrealized losses on investments	11,139,433	860,202
Decrease in beneficial interests in charitable trusts	3,770,919	2,585,851
Gains on sales of land, buildings and equipment	(3,504)	(213,811)
Increase in estimate of allowance for uncollectible pledges, and other receivables	275,781	21,203
Long-term contributions, bequests and additions to charitable trusts	(2,968,086)	(7,004,742)
Change in operating assets and liabilities:		
(Increase) in pledges and other receivables	(5,531,610)	(2,316,865)
Decrease (increase) in prepaid expenses and other assets	250,632	(329,783)
Increase in accounts payable, accrued expenses, funds held for others and obligations under charitable trusts	1,887,942	1,591,003
(Decrease) increase in deferred rent, tuition and other	(380,778)	48,801
Increase (decrease) in pension and postretirement benefit liability	2,997,399	(32,929)
Net cash used in operating activities	<u>(4,557,368)</u>	<u>(1,286,051)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(58,218,492)	(379,759,852)
Proceeds from sales of investments	63,551,505	378,259,010
Additions to land, buildings and equipment	(2,312,254)	(4,324,989)
Proceeds from sales of land, buildings and equipment	3,504	217,440
Net cash provided by (used in) investing activities	<u>3,024,263</u>	<u>(5,608,391)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease (increase) in loan payable	(20,785)	20,785
Proceeds from contributions, bequests and charitable trusts restricted for:		
Endowment	543,910	1,569,728
Capital projects	1,817,433	5,059,259
Charitable trust additions	606,743	375,755
Net cash provided by financing activities	<u>2,947,301</u>	<u>7,025,527</u>
Net increase in cash and cash equivalents	1,414,196	131,085
Cash and cash equivalents, beginning of the year	<u>33,482,773</u>	<u>33,351,688</u>
Cash and cash equivalents, end of the year	<u>\$ 34,896,969</u>	<u>\$ 33,482,773</u>

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

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

1. ORGANIZATION AND NATURE OF ACTIVITIES

National Audubon Society, Inc. (“Audubon”) was incorporated in 1905. Audubon’s mission is protect birds and the places they need, today and tomorrow.

Audubon operates an extensive network of national conservation programs, 23 state and regional offices, 41 centers, 23 sanctuaries and 463 independent chapters. Our work is a powerful combination of science, on the ground conservation, policy and engagement expertise that strives to protect and restore habitat, and to build the durable public will to implement policies that safeguard birds, other wildlife and the resources that sustain us all—in the U.S. and across the Americas.

In 2016, Audubon adopted a new strategic plan with the goal of protecting birds during every point of their lifecycles throughout the Americas. Audubon maximizes its conservation results by focusing on five strategies critical for birds:

1. **Coasts**: Audubon and its partners in Latin America work to strengthen populations of shorebirds, while preserving the breeding, stopover and wintering sites in vital habitats along the coasts of the Americas.
2. **Working Lands**: Audubon works with landowners, land managers, private industry and government agencies to create bird friendly, sustainable land-management practices on the millions of acres across the hemisphere that are dedicated to agriculture and grazing.
3. **Water**: Audubon works to ensure that critical wetlands, in peril due to water allocation and quality issues, get the water they need to remain important wintering and migratory stopover habitats and sustain wildlife.
4. **Climate**: Audubon seeks to create greater demand to change on the climate issue by tapping into people’s passion for birds to protect the 314 North American bird species threatened by climate change by caring for the places they need now and in a climate-changed future.
5. **Bird-Friendly Communities**: Audubon’s network works in America’s cities and towns, the places where birds and people intersect the most, to protect and restore bird populations by providing food, shelter, safe passage and places to raise their young.

Field Conservation Programs operate Audubon’s 23 regional and state offices and combine local policy, science and on the ground conservation efforts to advance Audubon’s mission. The Field Conservation Programs also connect the work of Audubon chapters, nature centers, volunteers, partners, and other supporters along each of the four migratory flyways. Through this work, Audubon weaves a seamless web to achieve full lifecycle conservation for both migratory and non-migratory species. Integrated, shared flyway conservation goals enhance our impact, and coordinated resources and expertise increases efficiency across the network.

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

National Conservation Programs focus and align Audubon's unparalleled network to meet today's unprecedented environmental challenges. National Conservation provides strategy, expertise and leadership for Audubon's conservation work and ensures efforts are integrated for maximum effectiveness.

National programs include:

- **Climate Initiative** works to protect the places birds need in a warmer world, and advocate for significant public policy changes at the local, state and federal levels. Audubon seeks to create greater demand for change on the climate issue by building sustained grassroots influence among Audubon's bipartisan, 1 million members and supporters. Our work includes action to protect and monitor climate strongholds (places where birds will have the best chance to survive), and influence policies and regulations that reduce greenhouse gases and encourage renewable energy.
- **Network** works to increase the capacity, diversity, connectedness and effectiveness of Audubon's network. Working with Audubon staff in state offices and centers, and our 463 independent chapters, Network develops tools and programs that advance our shared conservation priorities. The goal is to bring Audubon's conservation mission to life in communities through creative and relevant local action that achieves lasting outcomes and builds durable public support for birds and conservation. Audubon nature centers are one of the principle elements of Audubon's network, reaching a million visitors each year.
- **Science** engages in research and analysis to support the development of our conservation strategies, and build our authority as a science-led thought leader. The Science program establishes common metrics to track progress across initiatives and flyways, including biological response of species, and acres of habitat restored, protected or managed. It conducts citizen science bird monitoring and data collection through the Christmas Bird Count and Great Backyard Bird Count, and the Climate Watch program, to gain a unique view on bird trends across the hemisphere to identify and understand threats like climate change. Science's work was at the center of the Climate Initiative launch, based on an analysis of more than 100 years of observations from our citizen scientists that indicated that more than half of America's 314 bird species are in peril from changing climatic conditions.
- **Policy** uses a centrist approach to environmental advocacy that has earned a reputation as a trusted and influential voice. We combine grassroots organizing, advocacy and communication to support large state and multi-state efforts such as: the restoration of large iconic ecosystems, like the Arctic Slope in Alaska, the wetlands of the Everglades, and the Mississippi River Delta; protection of 2,838 Important Bird Areas covering approximately 400 million acres of public and private lands; and safeguarding common sense laws like the Clean Air Act, Clean Water Act, Endangered Species Act and the Neotropical Migratory Bird Conservation Act.

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

- **Marketing & Engagement** builds the size and effectiveness of Audubon’s network of supporters and volunteers so that more people take action for birds and the environment. We reach supporters through a variety of channels including *www.audubon.org*, social media, email marketing, and *AUDUBON* magazine, which reaches approximately 1.5 million readers. In April 2015, Audubon acquired the assets of digital applications bearing the Audubon branded nature guides. The guides have been downloaded more than 1 million times, and advance Audubon’s mission of educating people about birds.
- **Hemispheric Strategy** works through partner organizations as part of BirdLife International to deliver concrete, on the ground actions that address critical threats to Audubon’s priority bird species. Audubon provides science, technical expertise, and policy development tools to build the conservation capacities of in-country organizations. Audubon collaborates with international partners in nine countries on conservation work and five more to foster grassroots action on climate change issues. We are the BirdLife International partner for the United States.
- **Diversity and Inclusion** is a core value and strategic imperative for Audubon. Achieving our conservation goals requires authentic representation of all the communities we work in to build a brighter future for birds. Audubon’s diversity and inclusion efforts will broaden our network of supporters and increase our staff diversity, inspiring more people to work to conserve more habitats. Audubon is dedicated to providing a work environment that prioritizes fairness and respect, and a workplace free of any kind of discrimination based on race, color, religion, sex, age, sexual orientation, gender identity and expression, disability, national or ethnic origin, politics or veteran status.

Fundraising relates to activities in raising contributions, grants and planned giving gifts for Audubon. Development expenses include fundraising staff efforts associated with raising contributed income to fund operations and capital projects. During the years ended June 30, 2016 and 2015, Audubon incurred joint costs of approximately \$9,325,000 and \$9,625,000, respectively, for informational material and activities that included development appeals. Of those costs approximately \$3,141,000 and \$3,601,000 were allocated to fundraising and approximately \$6,184,000 and \$6,024,000 were allocated to program for the years ended June 30, 2016 and 2015, respectively.

Management and general are those expenses that are not allocated to a program or fundraising activity and include certain activities of the President’s Office, as well as support areas such as Finance, Human Resources, Information Services, and the Office of the General Counsel. Certain costs incurred in these areas are allocated to programs and fundraising based on headcount.

The consolidated financial statements of Audubon include the accounts of Audubon’s wholly owned subsidiaries, National Audubon Society of Coastal Connecticut, Inc., National Audubon Society of Sharon, Inc., Lincoln Audubon Society, and The National Audubon Society of Greenwich, Inc. (collectively, the “Subsidiaries”). The Subsidiaries hold land for the benefit and use of Audubon, and conduct no other business.

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Net Assets

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into the following categories:

Unrestricted Net Assets

Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted Net Assets

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that will be met either by actions of Audubon and/or the passage of time. Audubon reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends and/or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Temporarily restricted net assets also include earnings on permanently restricted endowment funds that have not yet been appropriated for expenditure.

Permanently Restricted Net Assets

Permanently restricted net assets result from donors who stipulate that their donated resources be maintained in perpetuity by Audubon. Generally, Audubon is permitted to expend part or all of the income and gains derived from these donated assets, restricted only by donors’ stipulations.

Cash and Cash Equivalents

Audubon considers all cash not intended for investment purposes and all non-pooled investments purchased with original maturities of 90 days or less to be cash equivalents.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value, generally determined on the basis of quoted market prices. Audubon also invests in non-exchange traded alternative investments, which are stated at estimated fair value based on the net asset value (“NAV”), as a practical expedient, reported by the investment managers or general partners. NAV may differ significantly from the values that would have been reported had a ready market for these investments existed. Audubon reviews and evaluates the values provided by the investment managers or general partners and has determined that the valuation methods and assumptions used in determining the fair value of the alternative investments are reasonable.

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Audubon manages its investments on a total return basis and has established budgeted spending limits for specific endowment funds of 2.0%, 3.5% or 4.5% of the average of the rolling five calendar year-end market values, subject to limitations where applicable under donor restrictions or regulatory requirements.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets include inventories of retail store merchandise of approximately \$300,000 and \$338,000 as of June 30, 2016 and 2015, respectively, which are valued at the lower of cost or market, on a first-in, first-out basis.

Charitable Trust Agreements

Audubon is the beneficiary of charitable trust agreements under varying terms and conditions. Audubon's interest in charitable remainder trusts, charitable remainder unitrusts, and other charitable trusts held by third-party trustees is reported at present value reflecting the fair value of the amounts Audubon expects to receive using discount rates ranging from 1.20% to 11.20%.

The discount rates used to value the charitable gift annuity agreements and the pooled life income fund ranged from 1.20% to 10.60% for both fiscal years 2016 and 2015.

Buildings and Equipment

In 1978, Audubon adopted the policy of capitalizing, depreciating and amortizing buildings and equipment. Because historical costs were not available for buildings and art works, other basis were used to establish the initial carrying values of such property. Property tax appraisals adjusted to market and insurance appraisals were used to value buildings, and appraised net current retail values were used for the art collection. Assets acquired subsequent to July 1, 1978 have been recorded at cost. Depreciation of buildings and equipment is provided over the estimated useful lives of the assets on a straight-line basis.

Leasehold improvements are amortized over the lesser of the related useful life of the asset or the lease term. Artwork is not depreciated. Audubon capitalizes property with a cost of \$5,000 or more and a useful life of greater than one year. Average estimated useful lives are as follows.

	<u>Estimated Useful Lives</u>
Buildings and building improvements	10 - 40 years
Equipment	3 - 10 years
Land improvements	10 - 40 years
Leasehold improvements	5 - 40 years

Change in Accounting Principle

Prior to fiscal 2015, Audubon accounted for any contributions restricted to the purchase of fixed assets as temporarily restricted net assets, and released the restriction over the useful life of the assets acquired as they were depreciated. Audubon management concluded that this policy complicated reporting on capital projects and created impediments in capital budgeting. Audubon elected a more preferable industry standard, which is allowable under U.S. GAAP, resulting in a change in accounting principle which permits recognition of contributions for fixed assets as temporarily restricted until the fixed asset is placed in

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

service. Upon placing the asset into service, the net assets are released from temporarily restricted net asset to unrestricted net assets.

Land

Land consists of approximately 104,809 acres on which some of Audubon's nature centers, state offices, and sanctuaries are located. Land is valued at cost when purchased or, if donated, at fair value on the date of donation. Included in permanently restricted net assets is land of approximately \$10,295,000 as of both June 30, 2016 and 2015 (see Note 3). Included in unrestricted net assets is land of approximately \$88,982,000 and \$88,839,000 as of June 30, 2016 and 2015, respectively. A significant portion of the land included in unrestricted net assets is subject to legally binding contractual restrictions on use and/or disposition. Land purchased or donated to Audubon during the years ended June 30, 2016 and 2015 totaled approximately \$143,000 and \$700,000, respectively. No land was sold during the years ended June 30, 2016 and June 30, 2015.

Chapters

Audubon has 463 independent chapters throughout the United States. The consolidated financial statements do not include the assets, liabilities, net assets, revenues and expenses of Audubon's chapters since such chapters are independent organizations.

Contributions and Grants

Audubon reports gifts of cash and other assets as an increase in restricted net assets if they are received with donor stipulations limiting the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Temporarily restricted gifts and grants, received and utilized in the same year, are reflected in the consolidated statement of activities in the unrestricted class of net assets. Bequests are recognized as revenue once the probate process is complete and amounts are determined to be uncontested.

Revenue from federal grants is recognized to the extent that qualifying reimbursable expenses have been incurred over the terms of the respective agreements.

Gifts of long-lived assets and gifts of cash or other assets that must be used to acquire long-lived assets are reported as an increase in temporarily restricted net assets.

Earned Income

Earned income includes advertising revenue, tuition and admission revenue, retail sales and program revenue. Revenue is recorded when earned under the terms of the related agreements.

Receivables

Receivables are recorded at net realizable value (using credit adjusted discount rates for receivables expected to be collected in more than one year). Receivables are stated net of an allowance for uncollectible amounts of approximately \$1,020,000 and \$744,000 as of June 30, 2016 and 2015, respectively. Such estimated allowances are based on management's assessment of the credit worthiness of its donors, the aged basis of the receivables, and historical information. Receivables are written off in the period they are deemed uncollectible and payments subsequently received are recorded as income in the period received.

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Other receivables include grant receivables and receivables due from other organizations.

Funds Held for Others

As of June 30, 2016 and 2015, funds held for others included approximately \$2,724,000 and \$2,170,000, respectively, in agency funds held for other organizations and independent Audubon chapters and \$47,000 and \$122,000, respectively, and in funds held for employees and former employees of Audubon related to a deferred compensation plan to which funds are no longer being contributed. Such amounts are included in investments and funds held for others in the accompanying consolidated statements of financial position.

Fair Value Measurements

Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels as follows:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities. 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 - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable. The nature of these securities include 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. Also included in Level 2 are investments measured using a NAV per share, or its equivalent, that may be redeemed at the NAV at the consolidated statement of financial position date or in the near term, which is generally considered to be within 90 days.
- Level 3 - Securities that have little to no observable pricing. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at NAV at the consolidated statement of financial position date or in the near term or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

In determining fair value, Audubon utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

Income Taxes

Audubon follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Audubon is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Audubon has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The tax years ended June 30, 2013, 2014, 2015 and 2016 are still open to audit for both federal and state purposes. Audubon has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating Measure

Operating revenues and expenses reflect the activities in which Audubon typically engages to fulfill its mission. Audubon utilizes a spending rate in making its annual investment allocation for support of operations. Investment income, including net realized and unrealized gains and losses, earned in excess of or less than Audubon's spending rate is recognized within non-operating activities. Charitable trust contributions, the change in value of charitable trusts, pension related expenses other than net periodic pension costs and other transactions that are non-recurring and unusual in nature are recorded below the operating indicator on the accompanying consolidated statement of activities.

Allocation of Functional Expenses

The costs associated with conducting Audubon's programs and activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management.

Concentrations

Cash, cash equivalents, and investments are exposed to interest rate, market, and credit risks. Audubon maintains its cash and cash equivalents in various bank deposit accounts that may exceed federally insured limits at times. To minimize risk, Audubon places its cash accounts with high credit quality financial institutions. Audubon does not anticipate any losses in such accounts.

Investment concentrations are disclosed in Note 5 to the accompanying consolidated financial statements.

Reclassifications

Certain reclassifications were made to the fiscal 2015 consolidated financial statements in order to conform to the fiscal 2016 presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as reflected in the fiscal 2016 financial statements.

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Subsequent Events

Audubon has evaluated, for potential recognition and disclosure, events subsequent to the consolidated statement of financial position date of June 30, 2016 through November 11, 2016, the date the consolidated financial statements were available to be issued.

Audubon is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.

3. NET ASSETS

The New York Prudent Management of Institutional Funds Act (“NYPMIFA”) was enacted in 2010. Audubon has interpreted NYPMIFA as requiring the preservation of the original gift, as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Audubon classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Audubon in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of Audubon and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Audubon
- The investment policies of Audubon
- Where appropriate, alternatives to spending from donor-restricted endowment funds and the possible effects on Audubon

Audubon’s endowment investment policy is based on a study of its assets and liabilities. The risk tolerance of the portfolio is directly related to Audubon’s overall finances and its restricted and endowment funds. Investments are allocated across capital markets beginning with a careful review of the world capital market allocation and are adjusted to reflect Audubon’s unique circumstances with a controlled opportunistic overlay. The portfolio’s investment strategy combines both passive and active investment solutions, the selection of which is governed by rules elaborated in Audubon’s Statement of Investment Policy. Audubon relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Annual spending from the endowment funds is described in Note 2.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA requires Audubon to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature, if they occurred, are reported in

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

unrestricted net assets. As of June 30, 2016, there were eight donor endowment funds whose fair value of approximately \$978,000 was below the original gift amount of approximately \$991,000 by \$13,000. As of June 30, 2015, there were three donor endowment funds whose fair value of approximately \$35,000 was below the original gift amount of approximately \$36,000 by \$1,000.

Changes in endowment net assets, excluding permanently restricted land of \$10,295,373 for the years ended June 30, 2016 and 2015 were as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (1,000)	\$ 50,366,844	\$ 92,172,454	\$ 142,538,298
Investment activity:				
Interest, dividends and realized gains	-	2,855,121	-	2,855,121
Unrealized losses on investments	(12,000)	(6,937,712)	-	(6,949,712)
Change in value of charitable trusts	-	-	(3,315,171)	(3,315,171)
Total investment activity	(12,000)	(4,082,591)	(3,315,171)	(7,409,762)
Amounts appropriated for expenditure	-	(3,838,559)	-	(3,838,559)
Contributions to endowments	-	-	84,038	84,038
Bequests	-	-	459,872	459,872
Endowment net assets, end of year	\$ (13,000)	\$ 42,445,694	\$ 89,401,193	\$ 131,833,887
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 52,669,139	\$ 91,273,962	\$ 143,943,101
Investment activity:				
Interest, dividends and realized gains	-	11,925,013	-	11,925,013
Unrealized losses on investments	(1,000)	(10,784,915)	-	(10,785,915)
Change in value of charitable trusts	-	-	(671,237)	(671,237)
Total investment activity	(1,000)	1,140,098	(671,237)	467,861
Amounts appropriated for expenditure	-	(3,442,543)	-	(3,442,543)
Contributions to endowments	-	150	1,616,128	1,616,278
Transfers of net assets	-	-	(46,399)	(46,399)
Endowment net assets, end of year	\$ (1,000)	\$ 50,366,844	\$ 92,172,454	\$ 142,538,298

Endowment net assets of \$131,833,887 and \$142,538,298 as of June 30, 2016 and 2015, respectively, are included within the investments and beneficial interest in charitable trusts in the accompanying consolidated statements of financial position.

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Temporarily restricted net assets as of June 30, 2016 and 2015 are available for the following:

	<u>2016</u>	<u>2015</u>
Purpose restrictions:		
Field conservation programs	\$ 124,876,494	\$ 130,439,361
National conservation programs	4,776,214	6,486,760
Time restrictions	4,215,517	6,868,106
	<u>\$ 133,868,225</u>	<u>\$ 143,794,227</u>

Temporarily restricted net assets above are further characterized by Audubon in the following manner as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Accumulated earnings on endowment funds	\$ 42,432,694	\$ 50,365,844
Funds restricted for property	7,045,200	9,919,610
Charitable trusts, net of obligations	4,215,517	6,868,106
Other time restricted funds	7,035,022	8,216,645
Other purpose restricted funds	73,139,792	68,424,022
	<u>\$ 133,868,225</u>	<u>\$ 143,794,227</u>

Permanently restricted net assets, excluding permanently restricted land of \$10,295,373, represent gifts to be held in perpetuity and generate income that was available to support the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Purpose restrictions:		
Field conservation programs	\$ 55,264,365	\$ 57,561,580
National conservation programs	10,079,146	10,200,132
General purposes	24,057,682	24,410,742
	<u>\$ 89,401,193</u>	<u>\$ 92,172,454</u>

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

4. RECEIVABLES

Receivables consist of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unconditional pledges receivable:		
Less than one year	\$ 7,549,663	\$ 6,900,226
One to five years	<u>3,480,960</u>	<u>88,800</u>
	11,030,623	6,989,026
Less: Allowance for uncollectible pledges	<u>(372,500)</u>	<u>(172,000)</u>
Total pledges receivable, net	10,658,123	6,817,026
Other receivables (net of allowance of \$647,331 and \$572,050 at June 30, 2016 and 2015, respectively)	<u>8,145,961</u>	<u>6,731,229</u>
	<u>\$ 18,804,084</u>	<u>\$ 13,548,255</u>

Audubon received new conditional pledges of approximately \$390,000 and \$2,550,000 during the years ended June 30, 2016 and 2015, respectively. Audubon has recorded revenue of approximately \$3,238,366 and \$6,410,000 for the years ended June 30, 2016 and 2015, respectively, the extent to which the conditions on the pledges have been met. As of June 30, 2016 and 2015, Audubon had conditional pledges outstanding of \$1,902,634 and \$4,751,000, respectively. Pledge payments due over the ensuing one to two years are conditional based on progress and reporting satisfactory to the donor.

5. INVESTMENTS

Audubon's investments consisted of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 15,910,069	\$ 17,929,904
U.S. government and agency obligations	831,240	1,470,140
Bonds	2,182,858	2,700,564
Mutual funds - equity	86,452,726	87,272,903
Mutual funds - fixed income	38,843,846	45,234,330
Exchange traded funds - equity	180,200	236,421
Exchange traded funds - international equity	181,046	267,409
Exchange traded funds - fixed income	79,619	80,807
Common trust funds	9,304,009	8,962,728
Alternative investments	<u>61,539,917</u>	<u>67,822,770</u>
	<u>\$ 215,505,530</u>	<u>\$ 231,977,976</u>

As of June 30, 2016, concentrations included approximately 11% invested in the Vanguard Institutional Index Fund. As of June 30, 2015, concentrations of Audubon's investments in excess of 10% of the fair value of its portfolio included approximately 11% invested in the Janus Flexible Bond Fund, and approximately 10% in the Vanguard Institutional Index Fund.

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Investments are subject to market volatility that could change their carrying values substantially in the near term.

Investment income consists of the following for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 6,571,006	\$ 5,358,626
Net realized gains	1,907,914	17,331,141
Net unrealized losses	(13,047,347)	(18,191,343)
Investment fees	(578,584)	(719,651)
	<u>\$ (5,147,011)</u>	<u>\$ 3,778,773</u>

Investment income is reported as follows in the accompanying consolidated statements of activities for the years ended June 30, 2016 and 2015:

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains, and support:			
Investment earnings on non-pooled funds, net	\$ 2,335,209	\$ 1,601	\$ 2,336,810
Investment earnings on pooled funds – appropriated, net	7,869,542	267,030	8,136,572
Nonoperating items:			
Investment losses on pooled funds not appropriated, net	(4,282,993)	(11,196,290)	(15,479,283)
Unrealized losses included in change in value of charitable trusts	-	(141,110)	(141,110)
	<u>\$ 5,921,758</u>	<u>\$ (11,068,769)</u>	<u>\$ (5,147,011)</u>
	<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains, and support:			
Investment earnings on non-pooled funds, net	\$ 1,431,238	\$ 422	\$ 1,431,660
Investment earnings on pooled funds – appropriated, net	7,614,299	221,045	7,835,344
Nonoperating items:			
Investment losses on pooled funds not appropriated, net	(2,350,633)	(3,386,683)	(5,737,316)
Unrealized gains included in change in value of charitable trusts	-	249,085	249,085
	<u>\$ 6,694,904</u>	<u>\$ (2,916,131)</u>	<u>\$ 3,778,773</u>

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Included in investment income for the years ended June 30, 2016 and 2015 is approximately \$2,323,515 and \$1,425,000 related to assets held in trust, respectively, where Audubon is a designated income beneficiary.

Assets and liabilities measured at fair value at June 30, 2016 and 2015 are classified in the tables below in one of the three levels as follows:

	2016			Total
	Level 1	Level 2	Level 3	
Assets carried at fair value:				
Investments:				
U.S. government and agency obligations	\$ 831,240	\$ -	\$ -	\$ 831,240
Bonds	-	2,182,858	-	2,182,858
Mutual funds - equity	86,452,726	-	-	86,452,726
Mutual funds - fixed income	38,843,846	-	-	38,843,846
Exchange traded funds - equity	180,200	-	-	180,200
Exchange traded funds - international equity	181,046	-	-	181,046
Exchange traded funds - fixed income	79,619	-	-	79,619
Common trust funds	-	9,304,009	-	9,304,009
Alternative investments	-	33,049,155	28,490,762	61,539,917
	<u>126,568,677</u>	<u>44,536,022</u>	<u>28,490,762</u>	<u>199,595,461</u>
Cash and cash equivalents				<u>15,910,069</u>
Total investments				215,505,530
Beneficial interest in charitable trusts	<u>-</u>	<u>-</u>	<u>37,124,879</u>	<u>37,124,879</u>
Total assets carried at fair value	<u>\$ 126,568,677</u>	<u>\$ 44,536,022</u>	<u>\$ 65,615,641</u>	<u>\$ 252,630,409</u>
Liabilities carried at fair value:				
Obligations under charitable trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,944,416</u>	<u>\$ 7,944,416</u>
Total liabilities carried at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,944,416</u>	<u>\$ 7,944,416</u>

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

	2015			
	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
Investments:				
U.S. government and agency obligations	\$ 1,470,140	\$ -	\$ -	\$ 1,470,140
Bonds	-	2,700,564	-	2,700,564
Mutual funds - equity	87,272,903	-	-	87,272,903
Mutual funds - fixed income	45,234,330	-	-	45,234,330
Exchange traded funds - equity	236,421	-	-	236,421
Exchange traded funds - international equity	267,409	-	-	267,409
Exchange traded funds - fixed income	80,807	-	-	80,807
Common trust funds	-	8,962,728	-	8,962,728
Alternative investments	-	36,707,640	31,115,130	67,822,770
	<u>134,562,010</u>	<u>48,370,932</u>	<u>31,115,130</u>	<u>214,048,072</u>
Cash and cash equivalents				17,929,904
Total investments				231,977,976
Beneficial interest in charitable trusts	-	-	40,895,798	40,895,798
Total assets carried at fair value	<u>\$ 134,562,010</u>	<u>\$ 48,370,932</u>	<u>\$ 72,010,928</u>	<u>\$ 272,873,774</u>
Liabilities carried at fair value:				
Obligations under charitable trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,256,537</u>	<u>\$ 6,256,537</u>

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Equity Securities, Mutual Funds and Exchange Traded Funds

Valued at the closing price reported on the active market on which the individual securities are traded at year end.

Alternative Investments

Alternative investments in hedge funds, fund of funds, and limited partnerships are designated as Level 2 or 3 as indicative of the investment manager's classification of Audubon's investment in the funds. It is not meant to be indicative of the classification of the investments in the underlying portfolio of these funds. The fair value of alternative investments is provided by the general partner or fund manager, and may be based on appraisals and obtainable prices for similar assets or other estimates.

U.S. Government and Agency Obligations

Investments in U.S. government and agency obligations are valued using market prices in active markets (Level 1), except for Audubon's interests in common trusts which are valued using the NAV provided by the administrator of the trusts and which is categorized under Level 2 in the fair value hierarchy. The NAV is based on the value of the underlying assets owned by the trust, less the trust's liabilities and then divided by the number of shares outstanding.

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Bonds

Municipal and corporate bonds are designated as Level 2 instruments and valuations are obtained from readily-available pricing sources for comparable instruments (credit risk/grade, maturities, etc.)

The following tables list investments valued at NAV as of June 30, 2016 and 2015:

2016							
Name/Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Alternative investment - International Value Equity Fund	Seeks to achieve long-term growth primarily by investing in a diversified portfolio of equity securities of companies located in any country other than the U.S. Fund will invest primarily in established international markets; but may invest a portion in emerging markets.	1	\$ 18,439,691	N/A	N/A	May redeem all or part of units on the first business day of each month by providing written notice at least six (6) business days prior to the month end.	Redemptions ordinarily must equal or exceed \$500,000. Notice and minimum redemption requirements may be waived.
Alternative investment - Fixed Income Hedge Funds	Seeks to exploit structural and technical inefficiencies in the market, especially in the short-end of the yield curve, and to enhance returns through the use of hedging, modest leverage and select longer-term return investments.	1	11,476,932	N/A	N/A	Shares may be redeemed semi-annually with 90 days notice.	N/A
Alternative investment - Fixed Income Hedge Funds	Seeks capital appreciation and current income by investing in financial instruments that are perceived to be inefficiently priced.	1	11,825,681	N/A	N/A	Shares may be redeemed semi-annually with 90 days notice.	N/A
Alternative investment - Limited Partnerships	Venture capital and private equity	5	4,207,206	1-3 years	\$ 1,384,143	N/A	Not permitted to withdraw.
Alternative investment - Limited Partnership	The partnership is organized for the purpose of earning attractive rates of return through an investment program of "alternative investment strategies" including general or limited partnerships or other pooled vehicles and with managers of separately managed accounts.	1	14,567,618	N/A	N/A	90 days written notice as of each June 30th and December 31st.	N/A
Alternative investment - Open-ended Investment Company	Seeks to achieve attractive risk adjusted returns by investing in, on margin or otherwise, a diversified portfolio of public and private securities, primarily involving high yield fixed income securities, syndicated leveraged loans (bank debt), credit derivatives and to a lesser extent, equities.	1	980,943	N/A	N/A	Shares may be redeemed annually on June 30 with notice not less than 90 days prior to the intended redemption date.	N/A
Alternative investment - Limited Partnership	Objective is to achieve superior risk-adjusted returns through opportunistic investments across the credit spectrum.	1	41,846	N/A	N/A	Quarterly with 90 days prior written notice required.	Certain lock-up and redemption restrictions.
Common trust funds - State Street	The objectives of the funds are to approximate the performance of S&P 500 Index, Russell 2000 Index, MSCI EAFE Index and S&P MidCap 400 Index.	10	9,304,009	N/A	N/A	Daily/Monthly	N/A
		21	\$ 70,843,926		\$ 1,384,143		

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

2015							
Name/Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Alternative investment - International Value Equity Fund	Seeks to achieve long-term growth primarily by investing in a diversified portfolio of equity securities of companies located in any country other than the U.S. Fund will invest primarily in established international markets; but may invest a portion in emerging markets.	1	\$ 20,113,281	N/A	N/A	May redeem all or part of units on the first business day of each month by providing written notice at least six (6) business days prior to the month end.	Redemptions ordinarily must equal or exceed \$500,000. Notice and minimum redemption requirements may be waived.
Alternative investment - Fixed Income Hedge Funds	Seeks to exploit structural and technical inefficiencies in the market, especially in the short-end of the yield curve, and to enhance returns through the use of hedging, modest leverage and select longer-term return investments.	1	12,111,612	N/A	N/A	Shares may be redeemed semi-annually with 90 days notice.	Soft lock expires on 03/31/2016.
Alternative investment - Fixed Income Hedge Funds	Seeks capital appreciation and current income by investing in financial instruments that are perceived to be inefficiently priced.	1	12,278,351	N/A	N/A	Shares may be redeemed semi-annually with 90 days notice.	N/A
Alternative investment - Limited Partnerships	Venture capital and private equity	5	5,658,605	1-3 years	\$ 1,384,143	N/A	Not permitted to withdraw.
Alternative investment - Limited Partnership	The partnership is organized for the purpose of earning attractive rates of return through an investment program of "alternative investment strategies" including general or limited partnerships or other pooled vehicles and with managers of separately managed accounts.	1	16,018,484	N/A	N/A	90 days written notice as of each June 30th and December 31st.	N/A
Alternative investment - Open-ended Investment Company	Seeks to achieve attractive risk adjusted returns by investing in, on margin or otherwise, a diversified portfolio of public and private securities, primarily involving high yield fixed income securities, syndicated leveraged loans (bank debt), credit derivatives and to a lesser extent, equities.	1	1,066,562	N/A	N/A	Shares may be redeemed annually on June 30 with notice not less than 90 days prior to the intended redemption date.	N/A
Alternative investment - Limited Partnership	Objective is to achieve superior risk-adjusted returns through opportunistic investments across the credit spectrum.	1	575,875	N/A	N/A	Quarterly with 90 days prior written notice required.	Certain lock-up and redemption restrictions.
Common trust funds - State Street	The objectives of the funds are to approximate the performance of S&P 500 Index, Russell 2000 Index, MSCI EAFE Index and S&P MidCap 400 Index.	9	8,962,728	N/A	N/A	Daily/Monthly	N/A
		<u>20</u>	<u>\$ 76,785,498</u>		<u>\$ 1,384,143</u>		

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

The changes in investment assets measured at fair value for which Audubon has used Level 3 inputs to determine fair value were as follows for the years ended June 30, 2016 and 2015:

Balance at June 30, 2014	\$ 7,638,048
Purchases	24,199,065
Redemptions	(744,308)
Unrealized gains	<u>22,325</u>
Balance at June 30, 2015	31,115,130
Purchases	-
Redemptions	(120,495)
Unrealized losses	<u>(2,503,873)</u>
Balance at June 30, 2016	<u>\$ 28,490,762</u>

Charitable Trust Agreements

Beneficial interest in charitable trusts and obligations under charitable trusts are designated as Level 3. The changes in assets and liabilities measured at fair value for which Audubon has used Level 3 inputs to determine fair value was as follows for the years ended June 30, 2016 and 2015.

	Beneficial Interest in Charitable Trusts	Obligations Under Charitable Trusts
Balance at June 30, 2014	\$ 43,481,649	\$ 6,296,638
New agreements	671,871	436,380
Payments to annuitants	-	(838,491)
Trust distributions	(1,565,672)	-
Change in fair value of trust assets	(1,372,141)	-
Change in value due to actuarial valuations	<u>(319,909)</u>	<u>362,010</u>
Balance at June 30, 2015	40,895,798	6,256,537
New agreements	-	1,031,243
Payments to annuitants	-	(780,162)
Trust distributions	(94,773)	-
Change in fair value of trust assets	(3,749,028)	-
Change in value due to actuarial valuations	<u>72,882</u>	<u>1,436,798</u>
Balance at June 30, 2016	<u>\$ 37,124,879</u>	<u>\$ 7,944,416</u>

Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, prepaid expenses and other assets, and accounts payable and accrued expenses approximate fair value due to the short maturity of these financial instruments. The carrying value of receivables has been reduced by an appropriate allowance for uncollectible accounts, based on historical collection experience and therefore approximates net realizable value.

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

6. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Buildings and building improvements	\$ 45,894,395	\$ 43,503,893
Equipment	11,500,963	11,218,468
Land improvements	91,936	91,936
Leasehold improvements	24,948,243	24,943,674
Construction in progress (see Note 9)	2,397,993	3,008,773
Artwork	383,753	383,753
	<u>85,217,283</u>	<u>83,150,497</u>
Less: Accumulated depreciation and amortization	<u>(37,343,519)</u>	<u>(34,233,254)</u>
Buildings and equipment, net	<u>\$ 47,873,764</u>	<u>\$ 48,917,243</u>
Land available for sale	\$ 1,500	\$ 1,500
Land - Sanctuaries	<u>99,276,703</u>	<u>99,133,500</u>
Land	<u>\$ 99,278,203</u>	<u>\$ 99,135,000</u>

7. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions due to the passage of time and/or satisfying the restricted purposes specified by the donors are as follows:

	<u>2016</u>	<u>2015</u>
Program restrictions:		
Field conservation programs	\$ 15,120,080	\$ 12,056,239
National conservation programs	1,571,894	4,345,843
Time restrictions	<u>97,009</u>	<u>93,643</u>
	<u>\$ 16,788,983</u>	<u>\$ 16,495,725</u>

8. IN-KIND CONTRIBUTIONS

Audubon receives in-kind contributions in the form of donated goods and land which are recorded at their estimated fair value at the date of receipt. A number of volunteers donate substantial amounts of time to Audubon's program services. Donated services are evaluated to determine if they meet the criteria for recognition in the consolidated financial statements. The value of such in-kind contributions, that met the criteria for recognition, was approximately \$219,139 and \$387,174 for the years ended June 30, 2016 and 2015, respectively, and is reflected in the accompanying consolidated financial statements as contribution revenue and applicable functional expenses or capitalized asset as appropriate.

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

9. COMMITMENTS AND CONTINGENCIES

Audubon entered into a twenty year lease agreement for its national headquarters in New York. The lease commenced September 1, 2007 and was amended on November 1, 2007. Rental payments commenced May 1, 2008 and call for approximately the following commitments for years subsequent to June 30, 2016:

	Base Rent	Operating Expenses	Total
2017	\$ 1,195,000	\$ 330,000	\$ 1,525,000
2018	1,262,000	376,000	1,638,000
2019	1,310,000	425,000	1,735,000
2020	1,310,000	477,000	1,787,000
2021	1,310,000	531,000	1,841,000
Thereafter	<u>8,984,000</u>	<u>4,821,000</u>	<u>13,805,000</u>
	<u>\$ 15,371,000</u>	<u>\$ 6,960,000</u>	<u>\$ 22,331,000</u>

As of June 30, 2016 and 2015, Audubon substituted a standby letter of credit in the amount of \$273,211 in lieu of a security deposit for its office lease. As required by Audubon's bank, a certificate of deposit with a balance of \$291,009 and \$290,417 as of June 30, 2016 and 2015, respectively, is included in prepaid expenses and other assets in the accompanying consolidated statements of financial position and secures this letter of credit.

Audubon occupies other office space under long-term lease agreements with varying expiration dates through the year ended June 30, 2023. Future minimum annual rental commitments under operating leases are approximately as follows for years subsequent to June 30, 2016:

2017	\$ 1,105,000
2018	811,000
2019	744,000
2020	445,000
2021	367,000
Thereafter	<u>530,000</u>
	<u>\$ 4,002,000</u>

Rent credits and charges are accounted for on a straight-line basis over the life of the lease. Included in deferred rent, tuition, and other on the accompanying consolidated statements of financial position as of June 30, 2016 and 2015 is a liability of approximately \$4,675,000 and \$4,595,000, respectively, related to the tenant improvement credit and deferred rent under the straight-line method of accounting.

The minimum rental payments are subject to adjustments based on increases in real estate taxes, insurance and other operating expenses. Total rent expense for the years ended June 30, 2016 and 2015 amounted to approximately \$2,861,000 and \$2,810,000, respectively.

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

During the year ended June 30, 2012, Audubon began leasing personal computers on three-year leases. The future three-year total commitments were approximately \$234,000 and \$335,000 as of June 30, 2016 and 2015, respectively. Audubon has also entered into arrangements with multiple suppliers for office equipment such as copiers and postage meters. These leases have terms that range from 1 to 7 years with total lease costs of less than \$95,000 annually.

Audubon is in the process of developing and improving several nature centers, which are in various stages of completion. As of June 30, 2016 and 2015, Audubon had remaining commitments on construction and related agreements amounting to approximately \$0 and \$767,000, respectively.

Audubon is invested in several limited partnerships under which Audubon is committed to make capital contributions in future periods totaling approximately \$1,384,000 as of both June 30, 2016 and 2015.

Audubon is a defendant in various lawsuits. Audubon is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on Audubon's financial position, changes in net assets or cash flows.

Audubon receives significant federal grants which are subject to audit by federal agencies. Audubon is of the opinion that disallowances, if any, would not have a significant effect on Audubon's financial position, changes in net assets or cash flows.

10. PENSION AND OTHER RETIREMENT BENEFIT PLANS

Cash Balance Pension Plan

Effective January 1, 1998, Audubon changed its noncontributory, defined benefit trustee administered retirement plan (the "Prior Plan"), to a hybrid Cash Balance Pension Plan. All employees who were vested at the time of the change will receive the greater of the "Prior Plan" benefit or the cash balance benefit upon termination or retirement.

The Cash Balance Pension Plan (the "Cash Balance Plan") is a defined benefit pension plan covering substantially all employees of Audubon who were employed prior to June 30, 2010. Individuals who met the applicable age and service requirements while they were Audubon employees are entitled to vested pension benefits under the Cash Balance Plan. All employees hired before October 1, 2004 are always 100% vested in their benefits. Employees hired on or after October 1, 2004 become fully vested after completing three years of service with Audubon. Participants who were active as of January 1, 2000 and who had 5 years of service at December 31, 1997 were grandfathered and receive a benefit based on a final

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

average pay formula. Plan participants at January 1, 1998 who were not grandfathered had an opening balance established based on their accrued benefit at December 31, 1997. For the period between December 31, 1997 and June 30, 2010, the participant account was credited with an amount equal to 3% (4% for the 2000 plan year) of the participant's eligible earnings. In addition, interest is credited each year using the applicable interest rate, determined each January 1, based on short-term interest rates in effect at the end of the prior year. Benefits generally are available to employees upon retirement. The plan was frozen effective June 30, 2010. After that date, no new participants were accepted into the Plan. Compensation paid after June 30, 2010, is disregarded, but participants continue to accrue interest credits.

403(b) Plan

In addition to the Cash Balance Plan, Audubon maintains a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code, in which all employees, as defined, are eligible to participate. Participants may make voluntary contributions, subject to plan limitations. Effective July 1, 2010, Audubon changed its contribution to provide all eligible employees with a 4% contribution of eligible compensation subject to plan limitations and an additional matching contribution up to another 4% of eligible compensation subject to plan limitations. For the years ended June 30, 2016 and 2015, Audubon contributed approximately \$2,459,000 and \$2,313,000, respectively, to this retirement plan. Effective January 1, 2014, the vesting rules for employee contributions, both nonelective and matching, changed from being immediately vested to a three year graded schedule.

457(b) Plan

Audubon maintains a deferred compensation plan to provide certain employees with the benefit of additional tax-deferred retirement savings opportunities. The annual 457(b) deferral limitation for calendar years 2016 and 2015 was \$18,000. This plan is entirely funded by employee salary deferrals. Plan assets and liabilities pertaining to the 457(b) plan, which are immaterial to the accompanying consolidated financial statements, have not been recognized.

Retiree Medical and Life Plan

Audubon also maintains an unfunded group medical and life insurance plan. The medical plan is the primary provider of benefits up to age 65; after the age of 65, Medicare becomes the primary provider. In connection with this change, a new prior service credit base of \$1,448,781 was established at June 30, 2010 to account for the decrease in benefit obligation due to this plan change. The recognition of the prior service credit will be spread over the average remaining years of service of the participants remaining in the plan. Employees who separated from service after February 1, 2007 are no longer eligible for retiree life insurance coverage.

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

The following table sets forth the plan's funded status and benefit obligation at June 30, 2016 and 2015:

	2016		2015	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plan
Change in benefit obligation:				
Benefit obligation-beginning of year	\$ 37,801,698	\$ 2,044,703	\$ 39,617,740	\$ 2,475,950
Service cost	-	180,951	-	166,809
Interest cost	1,537,242	74,656	1,552,257	72,496
Participant contributions and retiree drug subsidy	-	159,926	-	107,166
Actuarial loss (gain)	2,004,189	(805,929)	676,196	(656,861)
Benefits paid and expenses	(2,735,084)	(173,597)	(1,188,550)	(120,857)
Settlements	-	-	(2,855,945)	-
Benefit obligation – end of year	<u>38,608,045</u>	<u>1,480,710</u>	<u>37,801,698</u>	<u>2,044,703</u>
Change in plan assets:				
Fair value of plan assets – beginning of year	27,831,949	-	30,046,309	-
Actual return	(1,010,961)	-	208,277	-
Employer contributions	991,000	13,671	1,205,599	13,691
Participant contributions and retiree drug subsidy	-	159,926	-	107,166
Benefits paid	(2,735,084)	(173,597)	(1,188,550)	(120,857)
Administrative expenses	-	-	-	-
Settlements	-	-	(2,439,686)	-
Fair value of plan assets – end of year	<u>25,076,904</u>	<u>-</u>	<u>27,831,949</u>	<u>-</u>
Funded status	<u>\$ (13,531,141)</u>	<u>\$ (1,480,710)</u>	<u>\$ (9,969,749)</u>	<u>\$ (2,044,703)</u>
Accumulated benefit obligation	<u>\$ 38,608,045</u>	<u>\$ 1,480,710</u>	<u>\$ 37,801,698</u>	<u>\$ 2,044,703</u>

Amounts recognized as a liability in the accompanying consolidated statements of financial position consisted of the following as of June 30, 2016 and 2015:

	2016		
	Cash Balance Plan	Retiree Medical and Life Plan	Total
Accrued benefit liability	<u>\$ (13,531,141)</u>	<u>\$ (1,480,710)</u>	<u>\$ (15,011,851)</u>
	2015		
	Cash Balance Plan	Retiree Medical and Life Plan	Total
Accrued benefit liability	<u>\$ (9,969,749)</u>	<u>\$ (2,044,703)</u>	<u>\$ (12,014,452)</u>

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

The following table provides the components of net periodic benefit cost for the plans for the years ended June 30, 2016 and 2015:

	2016		2015	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plan
Service cost	\$ 174,407	\$ 180,951	\$ 216,613	\$ 166,809
Interest cost	1,537,242	74,656	1,552,257	72,496
Expected return on plan assets	(1,791,509)	-	(1,928,513)	-
Amortization of prior service credit	-	(861,976)	-	(1,452,359)
Amortization of net loss	1,077,969	-	1,023,603	-
Settlement loss	-	-	647,182	-
Net periodic benefit cost (credit)	<u>\$ 998,109</u>	<u>\$ (606,369)</u>	<u>\$ 1,511,142</u>	<u>\$ (1,213,054)</u>

The components of the unfunded liability as of June 30, 2016 and 2015 but not yet reflected in net periodic benefit cost consisted of the following:

	2016		2015	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plan
Prior service credit	\$ -	\$ 1,734,627	\$ -	\$ 2,596,603
Accumulated (loss)/gain	<u>(13,586,676)</u>	<u>995,698</u>	<u>(10,032,393)</u>	<u>189,769</u>
Amounts recognized in unrestricted net assets	(13,586,676)	2,730,325	(10,032,393)	2,786,372
Cumulative employer contributions in excess of net periodic benefit cost	<u>55,535</u>	<u>(4,211,035)</u>	<u>62,644</u>	<u>(4,831,075)</u>
Net amount recognized in the statement of financial position	<u>\$ (13,531,141)</u>	<u>\$ (1,480,710)</u>	<u>\$ (9,969,749)</u>	<u>\$ (2,044,703)</u>

For the years ended June 30, 2016 and 2015, Audubon recognized pension and postretirement related changes other than net periodic costs of \$(3,610,330) and \$(888,273), respectively. Such amounts represent the change in the amounts reflected in unrestricted net assets for the years ended June 30, 2016 and 2015 and consist of \$(3,554,283) and \$(92,775) for the Cash Balance Plan, respectively, and \$(56,047) and \$(795,498) for the Retiree Medical and Life plan, respectively.

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Other changes in plan assets and benefit obligations recognized in the change in unrestricted net assets for the years ended June 30, 2016 and 2015 are as follows:

	2016		2015	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plan
Net loss/(gain) arising during period	\$ 4,632,252	\$ (805,929)	\$ 1,116,378	\$ (656,861)
Amortization of prior service credit	-	861,976	-	1,452,359
Amortization of actuarial loss	<u>(1,077,969)</u>	<u>-</u>	<u>(1,023,603)</u>	<u>-</u>
Change in unrestricted net assets	<u>\$ 3,554,283</u>	<u>\$ 56,047</u>	<u>\$ 92,775</u>	<u>\$ 795,498</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ 2,556,174</u>	<u>\$ (550,322)</u>	<u>\$ (1,418,367)</u>	<u>\$ (417,556)</u>

The estimated actuarial loss and prior service credit for the Cash Balance Plan that will be amortized from the unrestricted net asset balance into net periodic benefit cost over the next fiscal year are \$2,235,832 and \$0, respectively. The estimated actuarial loss and prior service credit for the Retiree Medical and Life Plan that will be amortized from the unrestricted net asset balance into net periodic benefit cost over the next fiscal year are \$0 and \$277,028, respectively.

The weighted average assumptions used to determine benefit obligations as of June 30, 2016 and 2015 consisted of the following:

	2016		2015	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plans
Discount rate	3.30 %	2.91 %	4.17 %	3.71 %
Rate of compensation increase	N/A	N/A	N/A	N/A

The weighted average assumptions used to determine net periodic benefit cost for the years ended June 30, 2016 and 2015 consisted of the following:

	2016		2015	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plans
Discount rate	4.17 %	3.71 %	4.01 %	3.51 %
Expected return on plan assets	6.50 %	N/A	6.50 %	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A
Medical cost trend rate	N/A	7.65 %	N/A	7.28 %

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

The assumed health care cost trend rate at June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>		<u>2015</u>	
	<u>Cash Balance Plan</u>	<u>Retiree Medical and Life Plan</u>	<u>Cash Balance Plan</u>	<u>Retiree Medical and Life Plan</u>
Health care cost trend rate assumed for next year	N/A	7.65 %	N/A	7.28 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	4.50 %	N/A	4.50 %
Year that the rate reaches the ultimate trend rate	N/A	2029	N/A	2029

Audubon expects to contribute approximately \$1,369,000 to its Cash Balance Plan and \$54,002 to its Retiree Medical and Life Plan during the year ending June 30, 2016.

Future benefit payments are expected to be as follows:

<u>Fiscal year ending June 30th</u>	<u>Cash Balance Plan</u>	<u>Retiree Medical and Life Plan</u>
2017	\$ 1,790,000	\$ 54,000
2018	1,702,000	71,000
2019	1,758,000	83,000
2020	1,893,000	77,000
2021	1,892,000	93,000
2022 through 2025	9,957,000	628,000
Total	<u>\$ 18,992,000</u>	<u>\$ 1,006,000</u>

The weighted average asset allocation of the Cash Balance Plan as of June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	3.25 %	2.32 %
Equities - domestic	23.33	35.72
Equities - international	30.91	26.88
Equities - global	12.09	0.00
Fixed income	13.12	0.00
Collective trust fund	0.00	24.28
Alternative investments	17.30	10.80
	<u>100.00 %</u>	<u>100.00 %</u>

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

The Cash Balance Plan's expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocations and estimates of future long-term returns by asset class.

The composition of the Cash Balance Plan's assets is intended to provide a long-term annualized investment return that will provide for future benefit payments. Volatility is reduced by asset class diversification. The target asset mix is periodically reviewed based on future expectations and performance and rebalanced as deemed necessary.

The fair value hierarchy defines three levels, as further described in Note 2. Cash Balance Plan assets measured at fair value at June 30, 2016 and 2015 are classified within the fair value hierarchy in the tables as follows:

	2016			
	Level 1	Level 2	Level 3	Total
Investments:				
Equities - domestic	\$ 5,850,414	\$ -	\$ -	\$ 5,850,414
Equities - international	7,751,425	-	-	7,751,425
Equities - global	3,031,366	-	-	3,031,366
Fixed income	3,289,405	-	-	3,289,405
Alternative investments	-	1,748,697	2,590,690	4,339,387
	<u>19,922,610</u>	<u>1,748,697</u>	<u>2,590,690</u>	<u>24,261,997</u>
Cash and cash equivalents				814,907
Total assets carried at fair value	<u>\$ 19,922,610</u>	<u>\$ 1,748,697</u>	<u>\$ 2,590,690</u>	<u>\$ 25,076,904</u>
	2015			
	Level 1	Level 2	Level 3	Total
Investments:				
Equities - domestic	\$ 9,942,673	\$ -	\$ -	\$ 9,942,673
Equities - international	7,480,961	-	-	7,480,961
Collective trust fund	-	6,756,442	-	6,756,442
Alternative investments	-	3,006,630	-	3,006,630
	<u>17,423,634</u>	<u>9,763,072</u>	<u>-</u>	<u>27,186,706</u>
Cash and cash equivalents				645,243
Total assets carried at fair value	<u>\$ 17,423,634</u>	<u>\$ 9,763,072</u>	<u>\$ -</u>	<u>\$ 27,831,949</u>

The following table presents a rollforward for Level 3 investments measured at fair value for the period from July 1, 2015 to June 30, 2016:

Balance at June 30, 2015	\$ -
Purchases	2,600,000
Redemptions	-
Unrealized losses	(9,310)
Balance at June 30, 2016	<u>\$ 2,590,690</u>

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

The Cash Balance Plan did not have any investments classified as Level 3 as of June 30, 2015.

The following table lists Audubon's Cash Balance Plan investments by major category, which are valued at NAV as of June 30, 2016 and 2015:

		2016					
Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Alternative investment - Fixed Income Hedge Funds	Seeks to exploit structural and technical inefficiencies in the market, especially in the short-end of the yield curve, and to enhance returns through the use of hedging, modest leverage and select longer-term return investments.	1	\$ 1,270,234	N/A	N/A	Shares may be redeemed semi-annually with 90 days notice.	N/A
Alternative investment - Fixed Income Hedge Funds	Seeks capital appreciation and current income by investing in financial instruments that are perceived to be inefficiently priced.	1	1,320,456	N/A	N/A	Shares may be redeemed semi-annually with 90 days notice.	N/A
Alternative investment - Open-ended Interval Fund	Seeks long-term growth of capital by investing primarily in equity securities of issuers in developing countries.	1	1,748,697	N/A	N/A	30 days written notice with a monthly frequency.	N/A
		<u>3</u>	<u>\$ 4,339,387</u>				
		2015					
Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Alternative investment - Limited partnership	The partnership is organized for the purpose of earning attractive rates of return through an investment program of "alternative investment strategies" including general or limited partnerships or other pooled vehicles and with managers of separately man	1	\$ 1,922,860	17	N/A	90 days written notice as of each June 30th and December 31st.	Restrictions for withdrawals of 90% or more.
Collective trust fund - Blackrock Institutional Trust Company	Fixed income fund	1	6,756,442	N/A	N/A	Daily	N/A
Alternative investment - Open-ended Interval Fund	Seeks long-term growth of capital by investing primarily in equity securities of issuers in developing countries.	1	1,083,770	N/A	N/A	30 days written notice with a monthly frequency.	N/A
		<u>3</u>	<u>\$ 9,763,072</u>				

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

11. CHARITABLE TRUST AGREEMENTS

Beneficial interests in charitable trusts consisted of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Held by third-party trustees	\$ 37,124,879	\$ 40,895,798
Held by Audubon as trustee:		
Charitable gift annuities	\$ 10,605,488	\$ 11,536,856
Pooled income fund	<u>1,555,245</u>	<u>1,587,787</u>
	<u>\$ 12,160,733</u>	<u>\$ 13,124,643</u>

Most assets held by third-party trustees are invested in diversified portfolios.

Assets held by Audubon as trustee are invested in diversified portfolios and are included within Audubon's investment portfolio as further described in Note 5 to the accompanying consolidated financial statements. The assets held by Audubon as trustee include additional amounts set aside by Audubon for state-mandated insurance reserves, which are maintained at the required level.

As trustee of certain trusts, Audubon has an obligation to make periodic payments to beneficiaries. Obligations under charitable trusts amounted to approximately \$7,944,000 and \$6,257,000 as of June 30, 2016 and 2015, respectively.