

Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

NATIONAL AUDUBON SOCIETY, INC.

For the years ended June 30, 2017 and 2016

NATIONAL AUDUBON SOCIETY, INC.

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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, 2017 and 2016, 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 Audubon’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, 2017 and 2016, 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.

Grant Thornton LLP

New York, New York
November 6, 2017

NATIONAL AUDUBON SOCIETY, INC.
Consolidated Statements of Financial Position
As of June 30, 2017 and 2016

ASSETS	2017	2016
Cash and cash equivalents	\$ 36,949,081	\$ 34,896,969
Other receivables, net (Note 4)	5,964,154	8,145,961
Prepaid expenses and other assets (Note 9)	2,926,266	2,747,968
Pledges receivable, net (Note 4)	19,204,867	10,658,123
Investments (Note 5)	237,599,637	215,505,530
Beneficial interest in charitable trusts (Notes 5 and 11)	40,007,492	37,124,879
Building and equipment, net (Note 6)	47,078,322	47,873,764
Land (Note 6)	100,022,281	99,278,203
Total assets	<u>\$ 489,752,100</u>	<u>\$ 456,231,397</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 8,585,520	\$ 8,614,880
Deferred rent, tuition and other (Note 9)	6,524,310	6,207,147
Funds held for others	2,774,376	2,771,103
Loans payable	-	100,000
Obligations under charitable trusts (Notes 5 and 11)	8,024,109	7,944,416
Pension and postretirement benefit liability (Note 10)	7,929,843	15,011,851
Total liabilities	<u>33,838,158</u>	<u>40,649,397</u>
 COMMITMENTS AND CONTINGENCIES (Notes 5 and 9)		
NET ASSETS		
Unrestricted (Note 2)	197,824,903	182,017,209
Temporarily restricted (Notes 2 and 3)	151,854,647	133,868,225
Permanently restricted (Note 3)	106,234,392	99,696,566
Total net assets	<u>455,913,942</u>	<u>415,582,000</u>
Total liabilities and net assets	<u>\$ 489,752,100</u>	<u>\$ 456,231,397</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, 2017

	<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)	\$ 57,386,223	\$ 19,676,466	\$ 124,350	\$ 77,187,039
Bequests	7,895,977	478,968	4,986,103	13,361,048
Earned income	9,149,354	-	-	9,149,354
Investment earnings on non-pooled funds, net (Note 5)	1,772,838	999	-	1,773,837
Investment earnings on pooled funds - appropriated, net (Note 5)	7,982,778	272,604	-	8,255,382
Royalties, net and other revenue	2,469,379	-	-	2,469,379
Net assets released from restrictions (Note 7)	<u>17,800,757</u>	<u>(17,800,757)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>104,457,306</u>	<u>2,628,280</u>	<u>5,110,453</u>	<u>112,196,039</u>
EXPENSES				
Conservation programs:				
Field conservation programs	61,346,019	-	-	61,346,019
National conservation programs	<u>23,761,710</u>	<u>-</u>	<u>-</u>	<u>23,761,710</u>
	<u>85,107,729</u>	<u>-</u>	<u>-</u>	<u>85,107,729</u>
Fundraising:				
Membership development	5,812,927	-	-	5,812,927
Other development	<u>9,111,670</u>	<u>-</u>	<u>-</u>	<u>9,111,670</u>
	14,924,597	-	-	14,924,597
Management and general	<u>4,500,150</u>	<u>-</u>	<u>-</u>	<u>4,500,150</u>
Total expenses	<u>104,532,476</u>	<u>-</u>	<u>-</u>	<u>104,532,476</u>
Changes in net assets from operations	(75,170)	2,628,280	5,110,453	7,663,563
NON-OPERATING ACTIVITIES				
Loss on sales of property	(14,072)	-	-	(14,072)
Transfers of net assets	4,318,447	(3,440,721)	(877,726)	-
Investment gain on pooled funds not appropriated, net (Note 5)	3,765,498	17,233,570	-	20,999,068
Charitable trust additions	-	579,362	-	579,362
Change in value of charitable trusts (Notes 3 and 5)	<u>-</u>	<u>985,931</u>	<u>2,305,099</u>	<u>3,291,030</u>
Changes in net assets before pension and postretirement related changes other than net periodic costs	7,994,703	17,986,422	6,537,826	32,518,951
Pension and postretirement related changes other than net periodic costs (Note 10)	<u>7,812,991</u>	<u>-</u>	<u>-</u>	<u>7,812,991</u>
Changes in net assets	15,807,694	17,986,422	6,537,826	40,331,942
Net assets, beginning of year	<u>182,017,209</u>	<u>133,868,225</u>	<u>99,696,566</u>	<u>415,582,000</u>
Net assets, end of year	<u>\$ 197,824,903</u>	<u>\$ 151,854,647</u>	<u>\$ 106,234,392</u>	<u>\$ 455,913,942</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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	10,662,522	-	-	10,662,522
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	893,321	-	-	893,321
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>98,821,090</u>	<u>3,254,655</u>	<u>543,910</u>	<u>102,619,655</u>
EXPENSES				
Conservation programs:				
Field conservation programs	53,563,976	-	-	53,563,976
National conservation programs	<u>24,779,529</u>	<u>-</u>	<u>-</u>	<u>24,779,529</u>
	<u>78,343,505</u>	<u>-</u>	<u>-</u>	<u>78,343,505</u>
Fundraising:				
Membership development	4,861,215	-	-	4,861,215
Other development	<u>9,478,782</u>	<u>-</u>	<u>-</u>	<u>9,478,782</u>
	14,339,997	-	-	14,339,997
Management and general	<u>4,758,532</u>	<u>-</u>	<u>-</u>	<u>4,758,532</u>
Total expenses	<u>97,442,034</u>	<u>-</u>	<u>-</u>	<u>97,442,034</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 Functional Expenses
For the year ended June 30, 2017

	Conservation Program Expenses			Fundraising Expenses			Management and General	Total
	Field Programs	National Programs	Total Program Expenses	Membership Development	Other Development	Total Development Expenses		
Salaries	\$ 24,923,099	\$ 7,805,898	\$ 32,728,997	\$ 1,036,361	\$ 4,589,109	\$ 5,625,470	\$ 1,597,825	\$ 39,952,292
Payroll taxes and fringe benefits (Note 10)	8,007,504	2,507,945	10,515,449	332,971	1,474,428	1,807,399	513,363	12,836,211
Travel and meetings	1,888,525	721,580	2,610,105	52,903	499,956	552,859	371,832	3,534,796
Postage and mailing	144,652	2,784,313	2,928,965	1,043,744	144,385	1,188,129	11,244	4,128,338
Grants and scholarships	7,649,937	741,047	8,390,984	5,568	5,103	10,671	9,885	8,411,540
Chapter grants and support	934,743	-	934,743	-	-	-	-	934,743
Professional services	5,523,769	3,353,248	8,877,017	997,349	1,031,396	2,028,745	222,933	11,128,695
Occupancy (Note 9)	1,971,459	540,074	2,511,533	245,264	210,431	455,695	745,761	3,712,989
Telephone and telecommunications	406,472	89,063	495,535	21,975	24,672	46,647	36,724	578,906
Maintenance and other rental fees	1,818,592	80,604	1,899,196	40,770	62,151	102,921	115,131	2,117,248
Supplies	1,423,031	682,633	2,105,664	91,181	106,197	197,378	182,116	2,485,158
Printing and promotion	355,436	2,040,719	2,396,155	833,604	164,732	998,336	228	3,394,719
Membership fulfillment	1,505	515,162	516,667	333,090	71,184	404,274	-	920,941
Magazine printing	-	365,017	365,017	-	-	-	-	365,017
Commissions	-	84,192	84,192	35,747	-	35,747	-	119,939
Service bureaus	1,841,367	428,137	2,269,504	154,210	174,461	328,671	174,271	2,772,446
Insurance	762,080	94,897	856,977	6,052	38,676	44,728	291,516	1,193,221
Taxes	183,408	7,685	191,093	6	1,010	1,016	-	192,109
Advertising	203,130	145,062	348,192	440,214	60,134	500,348	-	848,540
Licenses and fees	122,904	75,901	198,805	5,382	6,920	12,302	17,434	228,541
Depreciation and amortization	2,814,603	174,248	2,988,851	59,632	51,208	110,840	191,083	3,290,774
Other	369,803	524,285	894,088	76,904	395,517	472,421	18,804	1,385,313
Total expenses	<u>\$ 61,346,019</u>	<u>\$ 23,761,710</u>	<u>\$ 85,107,729</u>	<u>\$ 5,812,927</u>	<u>\$ 9,111,670</u>	<u>\$ 14,924,597</u>	<u>\$ 4,500,150</u>	<u>\$ 104,532,476</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	\$ 23,999,401	\$ 7,767,062	\$ 31,766,463	\$ 928,992	\$ 4,950,916	\$ 5,879,908	\$ 1,606,312	\$ 39,252,683
Payroll taxes and fringe benefits (Note 10)	6,165,279	1,995,304	8,160,583	238,651	1,271,856	1,510,507	412,650	10,083,740
Travel and meetings	1,895,019	712,444	2,607,463	33,108	629,501	662,609	383,659	3,653,731
Postage and mailing	159,970	3,956,956	4,116,926	896,636	138,958	1,035,594	19,894	5,172,414
Grants and scholarships	1,186,251	1,171,427	2,357,678	993	1,227	2,220	2,310	2,362,208
Chapter grants and support	967,264	4,034	971,298	-	-	-	-	971,298
Professional services	7,444,396	2,825,189	10,269,585	818,464	952,112	1,770,576	439,827	12,479,988
Occupancy (Note 9)	1,899,893	556,294	2,456,187	238,134	216,343	454,477	736,312	3,646,976
Telephone and telecommunications	417,594	87,513	505,107	30,183	36,452	66,635	56,381	628,123
Maintenance and other rental fees	2,140,249	77,882	2,218,131	24,325	69,051	93,376	77,329	2,388,836
Supplies	1,789,844	784,320	2,574,164	112,092	147,503	259,595	206,189	3,039,948
Printing and promotion	354,670	2,018,246	2,372,916	512,050	156,439	668,489	16,821	3,058,226
Membership fulfillment	225	572,006	572,231	343,484	135,409	478,893	-	1,051,124
Magazine printing	-	618,788	618,788	-	-	-	-	618,788
Commissions	-	226,369	226,369	25,568	-	25,568	-	251,937
Service bureaus	672,449	379,372	1,051,821	115,024	235,014	350,038	210,881	1,612,740
Insurance	914,948	108,962	1,023,910	47,170	78,166	125,336	337,223	1,486,469
Taxes	179,361	7,857	187,218	24	335	359	49	187,626
Advertising	296,848	40,955	337,803	332,664	80,420	413,084	-	750,887
Licenses and fees	176,551	132,353	308,904	14,534	18,456	32,990	28,505	370,399
Depreciation and amortization	2,752,126	168,985	2,921,111	54,577	50,965	105,542	185,877	3,212,530
Other	151,638	567,211	718,849	94,542	309,659	404,201	38,313	1,161,363
Total expenses	<u>\$ 53,563,976</u>	<u>\$ 24,779,529</u>	<u>\$ 78,343,505</u>	<u>\$ 4,861,215</u>	<u>\$ 9,478,782</u>	<u>\$ 14,339,997</u>	<u>\$ 4,758,532</u>	<u>\$ 97,442,034</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 40,331,942	\$ (19,208,026)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,290,774	3,212,530
Net realized and unrealized (gains) losses on investments	(27,123,786)	11,139,433
(Increase) decrease in beneficial interests in charitable trusts	(2,882,613)	3,770,919
Losses (gains) on sales of land, buildings and equipment	14,072	(3,504)
Increase in estimate of allowance for uncollectible pledges, and other receivables	510,181	275,781
Long-term contributions, bequests and additions to charitable trusts	(6,670,889)	(2,968,086)
Change in operating assets and liabilities:		
Increase in pledges and other receivables	(6,875,118)	(5,531,610)
(Increase) decrease in prepaid expenses and other assets	(178,298)	250,632
Increase in accounts payable, accrued expenses, funds held for others and obligations under charitable trusts	53,606	1,887,942
Increase (decrease) in deferred rent, tuition and other	317,163	(380,778)
(Decrease) increase in pension and postretirement benefit liability	(7,082,008)	2,997,399
Net cash used in operating activities	<u>(6,294,974)</u>	<u>(4,557,368)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(56,316,307)	(58,218,492)
Proceeds from sales of investments	61,345,986	63,551,505
Additions to land, buildings and equipment	(5,548,386)	(2,312,254)
Disposals of land, buildings and equipment	2,308,976	-
Proceeds from sales of land, buildings and equipment	(14,072)	3,504
Net cash provided by investing activities	<u>1,776,197</u>	<u>3,024,263</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on loan payable	(100,000)	(20,785)
Proceeds from contributions, bequests and charitable trusts restricted for:		
Endowment	5,110,453	543,910
Capital projects	981,074	1,817,433
Charitable trust additions	579,362	606,743
Net cash provided by financing activities	<u>6,570,889</u>	<u>2,947,301</u>
Net increase in cash and cash equivalents	2,052,112	1,414,196
Cash and cash equivalents, beginning of the year	<u>34,896,969</u>	<u>33,482,773</u>
Cash and cash equivalents, end of the year	<u>\$ 36,949,081</u>	<u>\$ 34,896,969</u>

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

NATIONAL AUDUBON SOCIETY, INC.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

1. ORGANIZATION AND NATURE OF ACTIVITIES

National Audubon Society, Inc. (“Audubon”) was incorporated in 1905. Audubon’s mission is to conserve and restore natural ecosystems, focusing on birds, other wildlife, and their habitats for the benefit of humanity and the earth’s biological diversity.

Audubon is a powerful distributed network of 23 state and regional offices, 41 nature centers, 23 sanctuaries, 454 independent chapters, and international partners throughout the hemisphere, with the knowledge and authenticity to care for birds, and the places they need, in communities across the country. Our work is a formidable combination of science, on the ground conservation, policy expertise, and community engagement that we leverage to tackle the some of the most pressing challenges that birds face today.

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 build resilient coastlines and to enhance 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 for 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, 2017 and 2016

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 454 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 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.
- ***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.

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- ***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, 2017 and 2016, Audubon incurred joint costs of approximately \$8,838,000 and \$9,325,000, respectively, for informational material and activities that included development appeals. Of those costs approximately \$2,707,000 and \$2,005,000 were allocated to fundraising and approximately \$6,131,000 and \$7,320,000 were allocated to program for the years ended June 30, 2017 and 2016, 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. The Subsidiaries had no income or expense for the fiscal years ended 2017 and 2016.

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”).

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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.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which exempts investments measured using the NAV practical expedient in ASC 820, *Fair Value Measurement*, from categorization within the fair value hierarchy. The guidance requires retrospective application and is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2015. For all other entities, the guidance was effective for fiscal years, and interim periods

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within those years, beginning after December 15, 2016. Early adoption is permitted. Management elected to early adopt the provisions of this new standard. Accordingly, the amendment was retrospectively applied resulting in investment funds with fair value of \$65,460,994 and \$70,843,925 as of June 30, 2017 and 2016, respectively, being excluded from the fair value hierarchy.

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 \$283,000 and \$300,000 as of June 30, 2017 and 2016, 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 2017 and 2016.

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

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Land

Land consists of approximately 105,705 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, 2017 and 2016 (see Note 3). Included in unrestricted net assets is land of approximately \$89,727,000 and \$88,983,000 as of June 30, 2017 and 2016, 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, 2017 and 2016 totaled approximately \$1,549,000 and \$143,000, respectively. Land sold or transferred to other organizations totaled \$805,000 during the year ended June 30, 2017. No land was sold during the year ended June 30, 2016.

Chapters

Audubon has 454 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 \$1,530,000 and \$1,020,000 as of June 30, 2017 and 2016, 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.

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

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Funds Held for Others

As of June 30, 2017 and 2016, funds held for others included approximately \$2,774,000 and \$2,724,000, respectively, in agency funds held for other organizations and independent Audubon chapters and \$0 and \$47,000, 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.
- 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.

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.

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 calculated an income tax provision that is immaterial for financial statement purposes. 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. Audubon has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

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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 2016 consolidated financial statements in order to conform to the fiscal 2017 presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as reflected in the fiscal 2016 financial statements.

Subsequent Events

Audubon has evaluated, for potential recognition and disclosure, events subsequent to the consolidated statement of financial position date of June 30, 2017 through November 6, 2017, 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.

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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 unrestricted net assets. As of June 30, 2017, there were no donor endowment funds whose fair value was below the original gift amount. 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.

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Changes in endowment net assets, excluding permanently restricted land of \$10,295,373 for the years ended June 30, 2017 and 2016 were as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (13,000)	\$ 42,445,694	\$ 89,401,193	\$ 131,833,887
Investment activity:				
Interest, dividends and realized gains	286,814	3,368,960	-	3,655,774
Unrealized losses on investments	872,694	12,755,909	-	13,628,603
Change in value of charitable trusts	-	-	2,305,099	2,305,099
Total investment activity	1,159,508	16,124,869	2,305,099	19,589,476
Amounts appropriated for expenditure	(192,680)	(4,027,362)	-	(4,220,042)
Contributions to endowments	237,236	5,000	124,350	366,586
Bequests	-	-	4,986,103	4,986,103
Board designated transfer	31,339,889	-	-	31,339,889
Transfers of net assets	3,356,051	(1,100,492)	(877,726)	1,377,833
Endowment net assets, end of year	\$ 35,887,004	\$ 53,447,709	\$ 95,939,019	\$ 185,273,732

	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	(12,000)	2,855,121	-	2,843,121
Unrealized losses on investments	-	(6,937,712)	-	(6,937,712)
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

During fiscal 2017, Audubon's board of directors a passed a resolution to consolidate certain board designated reserves into board designated endowments totaling approximately \$31,000,000.

Endowment net assets of \$185,273,732 and \$131,833,887 as of June 30, 2017 and 2016, respectively, are included within the investments and beneficial interest in charitable trusts in the accompanying consolidated statements of financial position.

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Temporarily restricted net assets as of June 30, 2017 and 2016 are available for the following:

	<u>2017</u>	<u>2016</u>
Purpose restrictions:		
Field conservation programs	\$ 140,706,850	\$ 124,876,494
National conservation programs	6,181,745	4,776,214
Time restrictions	4,966,052	4,215,517
	<u>\$ 151,854,647</u>	<u>\$ 133,868,225</u>

Temporarily restricted net assets above are further characterized by Audubon in the following manner as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Accumulated earnings on endowment funds	\$ 53,447,709	\$ 42,432,694
Funds restricted for property	3,877,817	7,045,200
Charitable trusts, net of obligations	4,966,052	4,215,517
Other time restricted funds	7,767,080	7,035,022
Other purpose restricted funds	81,795,989	73,139,792
	<u>\$ 151,854,647</u>	<u>\$ 133,868,225</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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Purpose restrictions:		
Field conservation programs	\$ 60,966,768	\$ 55,264,365
National conservation programs	10,254,819	10,079,146
General purposes	24,717,432	24,057,682
	<u>\$ 95,939,019</u>	<u>\$ 89,401,193</u>

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4. RECEIVABLES

Receivables consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Unconditional pledges receivable:		
Less than one year	\$ 12,776,279	\$ 7,549,663
One to five years	<u>7,388,638</u>	<u>3,480,960</u>
	20,164,917	11,030,623
Less: Allowance for uncollectible pledges	<u>(960,050)</u>	<u>(372,500)</u>
Total pledges receivable, net	19,204,867	10,658,123
Other receivables (net of allowance of \$569,963 and \$647,331 at June 30, 2017 and 2016, respectively)	<u>5,964,154</u>	<u>8,145,961</u>
	<u>\$ 25,169,021</u>	<u>\$ 18,804,084</u>

Audubon received new conditional pledges of approximately \$370,000 and \$390,000 during the years ended June 30, 2017 and 2016, respectively. Audubon has recorded revenue of approximately \$1,992,000 and \$3,238,000 for the years ended June 30, 2017 and 2016, respectively, the extent to which the conditions on the pledges have been met. As of June 30, 2017 and 2016, Audubon had conditional pledges outstanding of approximately \$281,000 and \$1,903,000, 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$ 13,575,917	\$ 15,904,129
Equities	122,604,748	102,124,469
Fixed Income	45,607,550	30,582,795
Real Assets and commodities	13,195,792	12,307,045
Bonds	-	2,182,858
Common Trust Funds	9,156,008	9,304,009
Equities - Long/Short	16,440,477	14,567,618
Fixed Income - Long/Short	11,604,125	24,325,401
Fixed Income - Private	987,996	-
Real Assets - Private	1,210,834	-
Private Equity	<u>3,216,190</u>	<u>4,207,206</u>
	<u>\$ 237,599,637</u>	<u>\$ 215,505,530</u>

As of June 30, 2017, concentrations of Audubon's investments in excess of 10% of the fair value of its portfolio included approximately 13% invested in the Janus Henderson Flexible Bond Fund and 11% in

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Vanguard Institutional Index Fund. As of June 30, 2016, concentrations included approximately 11% invested in the Vanguard Institutional Index Fund.

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 5,774,244	\$ 6,571,006
Net realized gains	4,193,765	1,907,914
Net unrealized gain (losses)	22,930,021	(13,047,347)
Investment fees	(612,281)	(578,584)
Net investment income (loss)	<u>\$ 32,285,749</u>	<u>\$ (5,147,011)</u>

Investment income is reported as follows in the accompanying consolidated statements of activities for the years ended June 30, 2017 and 2016:

	<u>2017</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains, and support:			
Investment earnings on non-pooled funds, net	\$ 1,772,838	\$ 999	\$ 1,773,837
Investment earnings on pooled funds - appropriated, net	7,982,778	272,604	8,255,382
Nonoperating items:			
Investment gains on pooled funds not appropriated, net	3,765,498	17,233,570	20,999,068
Unrealized gains included in change in value of charitable trusts	-	1,257,462	1,257,462
	<u>\$ 13,521,114</u>	<u>\$ 18,764,635</u>	<u>\$ 32,285,749</u>
	<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>

Included in investment income for the years ended June 30, 2017 and 2016 is approximately \$1,723,255 and \$2,323,515 related to assets held in trust, respectively, where Audubon is a designated income beneficiary.

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Assets and liabilities measured at fair value at June 30, 2017 and 2016 are classified in the tables below in one of the three levels as follows:

	2017			Total
	Level 1	Level 2	Level 3	
Assets carried at fair value:				
Investments:				
Equities	\$ 99,759,384	\$ -	\$ -	\$ 99,759,384
Fixed income	45,607,550	-	-	45,607,550
Real assets and commodities	13,195,792	-	-	13,195,792
	<u>158,562,726</u>	<u>-</u>	<u>-</u>	<u>158,562,726</u>
Cash and cash equivalents				13,575,917
Investments measured at NAV				<u>65,460,994</u>
Total investments				237,599,637
Beneficial interest in charitable trusts	-	-	40,007,492	40,007,492
Total assets carried at fair value	<u>\$ 158,562,726</u>	<u>\$ -</u>	<u>\$ 40,007,492</u>	<u>\$ 277,607,129</u>
Liabilities carried at fair value:				
Obligations under charitable trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,024,109</u>	<u>\$ 8,024,109</u>
Total liabilities carried at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,024,109</u>	<u>\$ 8,024,109</u>
2016				
	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
Investments:				
Equities	\$ 83,684,778	\$ -	\$ -	\$ 83,684,778
Fixed income	30,582,795	-	-	30,582,795
Real assets and commodities	12,307,045	-	-	12,307,045
Bonds	-	2,182,858	-	2,182,858
	<u>126,574,618</u>	<u>2,182,858</u>	<u>-</u>	<u>128,757,476</u>
Cash and cash equivalents				15,904,129
Investments carried at NAV				<u>70,843,925</u>
Total investments				215,505,530
Beneficial interest in charitable trusts	-	-	37,124,879	37,124,879
Total assets carried at fair value	<u>\$ 126,574,618</u>	<u>\$ 2,182,858</u>	<u>\$ 37,124,879</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>

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

Equities, Fixed Income, and Real Assets and Commodities

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

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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, 2017 and 2016:

2017							
Name/Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Equities	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	\$ 22,845,364	N/A	N/A	Redemptions are permitted on a monthly basis as of the first business day of each month with seven (7) days notice.	Redemptions ordinarily must equal or exceed \$1,000,000. Notice and minimum redemption requirements may be waived.
Fixed Income - Long/Short	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	5,069,885	N/A	N/A	Redemptions are available as of the last business day of the calendar quarter following the expiration of the applicable lock-up with 120 days notice.	Redemptions will be permitted after an investor's first two (2) years of investment.
Fixed Income - Long/Short	Seeks capital appreciation and current income by investing in financial instruments that are perceived to be inefficiently priced as a result of business, financial, or legal uncertainties.	1	5,401,396	N/A	N/A	Quarterly with 60 days notice	May redeem no more than 25% of the aggregate NAV of such shareholder's shares.
Private Equity	Venture capital and private equity	6	3,216,190	1-3 years 10 years	\$ 1,419,143	Illiquid	Not permitted to withdraw.
Equities - Long/Short	Seeks to enhance return by allocating primarily to fundamental long/short equity and opportunistic managers, protecting capital in down markets, and providing lower volatility compared to broad equity markets	1	16,440,477	N/A	N/A	Semi-annually with 90 days notice	N/A
Fixed Income - Long/Short	Objective is to achieve superior risk-adjusted returns through opportunistic investments across the credit spectrum.	1	1,078,039	N/A	N/A	Semi-annually with 90 days notice	N/A
Fixed Income - Long/Short	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, equities, and options.	1	54,805	N/A	N/A	Illiquid	Fund is winding down and cash proceeds are to be returned to shareholders over time by way of compulsory redemption.
Fixed Income - Private	Seeks to generate current income and capital appreciation by investing primarily in senior secured and one stop loans of U.S. middle-market companies.	1	618,493	6 years	2,400,000	Illiquid	Not permitted to withdraw.
Fixed Income - Private	Seeks to provide investors with attractive long-term results through investing principally in (i) performing, sub-performing, re-performing or non-performing loans and other private credit assets; (ii) structured products, securitizations and other asset-backed securities backed by assets of any type; (iii) residential and commercial real estate; and (iv) investments in public or private equity securities, equity linked securities and/or debt instruments of companies and other entities.	1	369,503	6 years	3,150,000	Illiquid	Not permitted to withdraw.
Real Assets - Private	Seeks to achieve its target returns by proactively sourcing and acquiring assets at attractive prices, implementing asset repositioning, development, and cash-flow optimization programs, and exiting primarily through sales to buyers seeking stabilized properties	1	1,210,834	7 years	2,312,827	Illiquid	Not permitted to withdraw.
Common trust funds	The objectives of the funds are to approximate the performance of various indices such as the S&P 500 Index, Russell 2000 Index, MSCI EAFE Index and S&P MidCap 400 Index.	10 25	9,156,008 \$ 65,460,994	N/A	N/A \$ 9,281,970	Daily/Monthly	N/A

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2016							
Name/Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Equities	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	Redemptions are permitted on a monthly basis as of the first business day of each month with seven (7) days notice.	Redemptions ordinarily must equal or exceed \$1,000,000. Notice and minimum redemption requirements may be waived.
Fixed Income - Long/Short	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	Redemptions are available as of the last business day of the calendar quarter following the expiration of the applicable lock-up period by giving 120 days notice.	Redemptions will be permitted after an investor's first two (2) years of investment.
Fixed Income - Long/Short	Seeks capital appreciation and current income by investing in financial instruments that are perceived to be inefficiently priced as a result of business, financial, or legal uncertainties.	1	11,825,681	N/A	N/A	Quarterly with 60 days notice	May redeem no more than 25% of the aggregate NAV of such shareholder's shares.
Private Equity	Venture capital and private equity	5	4,207,206	1-3 years	1,384,143	Illiquid	Not permitted to withdraw.
Equities - Long/Short	Seeks to enhance return by allocating primarily to fundamental long/short equity and opportunistic managers, protecting capital in down markets, and providing lower volatility compared to broad equity markets	1	14,567,618	N/A	N/A	Semi-annually with 90 days notice	N/A
Fixed Income - Long/Short	Objective is to achieve superior risk-adjusted returns through opportunistic investments across the credit spectrum.	1	980,943	N/A	N/A	Semi-annually with 90 days notice	N/A
Fixed Income - Long/Short	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, equities, and options.	1	41,845	N/A	N/A	Illiquid	Fund is winding down and cash proceeds are to be returned to shareholders over time by way of compulsory redemption.
Common trust funds	The objectives of the funds are to approximate the performance of various indices such as the 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
		<u>21</u>	<u>\$ 70,843,925</u>		<u>\$ 1,384,143</u>		

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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, 2017 and 2016.

	Beneficial Interest in Charitable Trusts	Obligations Under Charitable Trusts
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	37,124,879	7,944,416
New agreements	1,038,029	579,362
Payments to annuitants	-	(808,558)
Change in fair value of trust assets	2,638,539	-
Change in value due to actuarial valuations	<u>(793,955)</u>	<u>308,889</u>
Balance at June 30, 2017	<u>\$ 40,007,492</u>	<u>\$ 8,024,109</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.

6. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consisted of the following at June 30, 2017 and 2016:

	2017	2016
Buildings and building improvements	\$ 46,672,436	\$ 45,894,395
Equipment	12,511,146	11,500,963
Leasehold improvements	25,092,128	25,040,179
Construction in progress (see Note 9)	2,417,172	2,397,993
Artwork	<u>403,753</u>	<u>383,753</u>
	87,096,635	85,217,283
Less: Accumulated depreciation and amortization	<u>(40,018,313)</u>	<u>(37,343,519)</u>
Buildings and equipment, net	<u>\$ 47,078,322</u>	<u>\$ 47,873,764</u>
Land	<u>\$ 100,022,281</u>	<u>\$ 99,278,203</u>

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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>2017</u>	<u>2016</u>
Program restrictions:		
Field conservation programs	\$ 17,077,760	\$ 15,120,080
National conservation programs	637,869	1,571,894
Time restrictions	85,128	97,009
	<u>\$ 17,800,757</u>	<u>\$ 16,788,983</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 \$2,321,525 and \$219,139 for the years ended June 30, 2017 and 2016, respectively, and is reflected in the accompanying consolidated financial statements as contribution revenue and applicable functional expenses or capitalized asset as appropriate.

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, 2017:

	<u>Base Rent</u>	<u>Operating Expenses</u>	<u>Total</u>
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
2022	1,310,000	586,000	1,896,000
Thereafter	<u>7,674,000</u>	<u>4,235,000</u>	<u>11,909,000</u>
	<u>\$ 14,176,000</u>	<u>\$ 6,630,000</u>	<u>\$ 20,806,000</u>

As of June 30, 2017 and 2016, 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 \$291,523 and \$291,009 as of June 30, 2017 and 2016, respectively, is included in prepaid expenses and other assets in the accompanying consolidated statements of financial position and secures this letter of credit.

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Audubon occupies other office space under long-term lease agreements with varying expiration dates through the year ended June 30, 2025. Future minimum annual rental commitments under operating leases are approximately as follows for years subsequent to June 30, 2017:

2018	\$ 1,287,000
2019	1,086,000
2020	749,000
2021	669,000
2022	624,000
Thereafter	<u>187,000</u>
	<u>\$ 4,602,000</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, 2017 and 2016 is a liability of approximately \$4,708,000 and \$4,675,000, 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, 2017 and 2016 amounted to approximately \$2,921,000 and \$2,861,000, respectively.

During the year ended June 30, 2012, Audubon began leasing personal computers on three-year leases. The future three-year total commitments were approximately \$208,932 and \$234,000 as of June 30, 2017 and 2016, 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 \$120,000 annually.

Audubon is in the process of developing and improving several nature centers, which are in various stages of completion. As of June 30, 2017 and 2016, Audubon had remaining commitments on construction and related agreements amounting to approximately \$890,000 and \$0, respectively.

Audubon is invested in several limited partnerships under which Audubon is committed to make capital contributions in future periods totaling approximately \$9,282,000 and \$1,384,000 as of June 30, 2017 and 2016, respectively.

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.

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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 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, 2017 and 2016, Audubon contributed approximately \$2,552,000 and \$2,459,000, 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 2017 and 2016 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.

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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.

The following table sets forth the plan's funded status and benefit obligation at June 30, 2017 and 2016:

	2017		2016	
	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	\$ 38,608,045	\$ 1,480,710	\$ 37,801,698	\$ 2,044,703
Service cost	-	145,076	-	180,951
Interest cost	1,242,077	42,303	1,537,242	74,656
Participant contributions and retiree drug subsidy	-	76,774	-	159,926
Actuarial loss (gain)	(2,801,523)	(394,730)	2,004,189	(805,929)
Benefits paid and expenses	(2,352,163)	(86,858)	(2,735,084)	(173,597)
Benefit obligation - end of year	<u>34,696,436</u>	<u>1,263,275</u>	<u>38,608,045</u>	<u>1,480,710</u>
Change in plan assets:				
Fair value of plan assets - beginning of year	25,076,904	-	27,831,949	-
Actual return	3,936,127	-	(1,010,961)	-
Employer contributions	1,369,000	10,084	991,000	13,671
Participant contributions and retiree drug subsidy	-	76,774	-	159,926
Benefits paid	(2,352,163)	(86,858)	(2,735,084)	(173,597)
Fair value of plan assets - end of year	<u>28,029,868</u>	<u>-</u>	<u>25,076,904</u>	<u>-</u>
Funded status	<u>\$ (6,666,568)</u>	<u>\$ (1,263,275)</u>	<u>\$ (13,531,141)</u>	<u>\$ (1,480,710)</u>
Accumulated benefit obligation	<u>\$ 34,696,436</u>	<u>\$ 1,263,275</u>	<u>\$ 38,608,045</u>	<u>\$ 1,480,710</u>

Amounts recognized as a liability in the accompanying consolidated statements of financial position consisted of the following as of June 30, 2017 and 2016:

	2017		
	Cash Balance Plan	Retiree Medical and Life Plan	Total
Accrued benefit liability	<u>\$ (6,666,568)</u>	<u>\$ (1,263,275)</u>	<u>\$ (7,929,843)</u>

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	2016		
	Cash Balance Plan	Retiree Medical and Life Plan	Total
Accrued benefit liability	\$ (13,531,141)	\$ (1,480,710)	\$ (15,011,851)

The following table provides the components of net periodic benefit cost for the plans for the years ended June 30, 2017 and 2016:

	2017		2016	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plan
Service cost	\$ 345,032	\$ 145,076	\$ 174,407	\$ 180,951
Interest cost	1,242,077	42,303	1,537,242	74,656
Expected return on plan assets	(1,623,225)	-	(1,791,509)	-
Amortization of prior service credit	-	(196,225)	-	(861,976)
Amortization of net loss/ (gain)	2,235,832	(80,803)	1,077,969	-
Net periodic benefit cost (credit)	<u>\$ 2,199,716</u>	<u>\$ (89,649)</u>	<u>\$ 998,109</u>	<u>\$ (606,369)</u>

The components of the unfunded liability as of June 30, 2017 and 2016 but not yet reflected in net periodic benefit cost consisted of the following:

	2017		2016	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plan
Prior service credit	\$ -	\$ 1,538,402	\$ -	\$ 1,734,627
Accumulated (loss)/gain	(5,891,387)	1,309,625	(13,586,676)	995,698
Amounts recognized in unrestricted net assets	(5,891,387)	2,848,027	(13,586,676)	2,730,325
Cumulative employer contributions in excess of net periodic benefit cost	(775,181)	(4,111,302)	55,535	(4,211,035)
Net amount recognized in the statement of financial position	<u>\$ (6,666,568)</u>	<u>\$ (1,263,275)</u>	<u>\$ (13,531,141)</u>	<u>\$ (1,480,710)</u>

For the years ended June 30, 2017 and 2016, Audubon recognized pension and postretirement related changes other than net periodic benefit (costs) of \$7,812,991 and \$(3,610,330), respectively. Such amounts represent the change in the amounts reflected in unrestricted net assets for the years ended June 30, 2017 and 2016 and consist of \$7,695,289 and \$(3,554,283) for the Cash Balance Plan, respectively, and \$117,702 and \$(56,047) for the Retiree Medical and Life plan, respectively.

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Other changes in plan assets and benefit obligations recognized in the change in unrestricted net assets for the years ended June 30, 2017 and 2016 are as follows:

	2017		2016	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plan
Net loss/(gain) arising during period	\$ (5,459,457)	\$ (394,730)	\$ 4,632,252	\$ (805,929)
Amortization of prior service credit	-	277,028	-	861,976
Amortization of actuarial loss	(2,235,832)	-	(1,077,969)	-
Change in unrestricted net assets	\$ (7,695,289)	\$ (117,702)	\$ 3,554,283	\$ 56,047
Total recognized in net periodic benefit cost and unrestricted net assets	\$ (5,495,573)	\$ (207,351)	\$ 2,556,174	\$ (550,322)

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 \$561,889 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 \$234,204, respectively.

The weighted average assumptions used to determine benefit obligations as of June 30, 2017 and 2016 consisted of the following:

	2017		2016	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plans
Discount rate	3.61 %	3.36 %	3.30 %	2.91 %
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, 2017 and 2016 consisted of the following:

	2017		2016	
	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 %
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	8.00 %	N/A	7.65 %

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The assumed health care cost trend rate at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>		<u>2016</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	8.00 %	N/A	7.65 %
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	2031	N/A	2029

Audubon expects to contribute approximately \$1,000,000 to its Cash Balance Plan and \$46,420 to its Retiree Medical and Life Plan during the year ending June 30, 2017.

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>
2018	\$ 1,828,000	\$ 66,000
2019	1,699,000	76,000
2020	1,827,000	92,000
2021	1,827,000	93,000
2022	1,894,000	106,000
2023 through 2026	9,753,000	880,000
Total	<u>\$ 18,828,000</u>	<u>\$ 1,313,000</u>

The weighted average asset allocation of the Cash Balance Plan as of June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	1.46 %	3.25 %
Equities	70.03	66.33
Fixed Income	11.27	13.12
Equities - Long/Short	7.04	6.97
Fixed Income - Long/Short	10.20	10.33
	<u>100.00 %</u>	<u>100.00 %</u>

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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, 2017 and 2016 are classified within the fair value hierarchy in the tables as follows:

	2017			Total
	Level 1	Level 2	Level 3	
Investments:				
Equities	\$ 19,628,055	\$ -	\$ -	\$ 19,628,055
Fixed income	<u>3,159,433</u>	<u>-</u>	<u>-</u>	<u>3,159,433</u>
	<u>22,787,488</u>	<u>-</u>	<u>-</u>	<u>22,787,488</u>
Cash and cash equivalents				410,040
Investments measured at NAV				<u>4,832,340</u>
Total assets carried at fair value	<u>\$ 22,787,488</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,029,868</u>
	2016			Total
	Level 1	Level 2	Level 3	
Investments:				
Equities	\$ 16,633,205	\$ -	\$ -	\$ 16,633,205
Fixed income	<u>3,294,360</u>	<u>-</u>	<u>-</u>	<u>3,294,360</u>
	<u>19,927,565</u>	<u>-</u>	<u>-</u>	<u>19,927,565</u>
Cash and cash equivalents				809,952
Investments measured at NAV				<u>4,339,387</u>
Total assets carried at fair value	<u>\$ 19,927,565</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,076,904</u>

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The following table lists Audubon's Cash Balance Plan investments by major category, which are valued at NAV as of June 30, 2017 and 2016:

2017							
Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
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	\$ 1,375,566	N/A	N/A	Redemptions are available as of the last business day of the calendar quarter following the expiration of the applicable lock-up period by giving 120 days notice.	Redemptions will be permitted after an investor's first two (2) years of investment.
Fixed Income Hedge Funds	Seeks capital appreciation and current income by investing in financial instruments that are perceived to be inefficiently priced as a result of business, financial, or legal uncertainties.	1	1,483,258	N/A	N/A	Quarterly with 60 days notice	May redeem no more than 25% of the aggregate NAV of such shareholder's shares.
Limited Partnership	Seeks to enhance return by allocating primarily to fundamental long/short equity and opportunistic managers, protecting capital in down markets, and providing lower volatility compared to broad equity markets	1	1,973,516	N/A	N/A	Semi-annually with 90 days notice	N/A
		<u>3</u>	<u>\$ 4,832,340</u>				
2016							
Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
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	Redemptions are available as of the last business day of the calendar quarter following the expiration of the applicable lock-up period by giving at least one hundred and twenty (120) days notice to the investment manager.	Redemptions will be permitted after an investor's first two (2) years of investment.
Fixed Income Hedge Funds	Seeks capital appreciation and current income by investing in financial instruments that are perceived to be inefficiently priced as a result of business, financial, or legal uncertainties.	1	1,320,456	N/A	N/A	Quarterly with 60 days notice	May redeem no more than 25% of the aggregate NAV of such shareholder's shares.
Limited Partnership	Seeks to enhance return by allocating primarily to fundamental long/short equity and opportunistic managers, protecting capital in down markets, and providing lower volatility compared to broad equity markets	1	1,748,697	N/A	N/A	Semi-annually with 90 days notice	N/A
		<u>3</u>	<u>\$ 4,339,387</u>				

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11. CHARITABLE TRUST AGREEMENTS

Beneficial interests in charitable trusts consisted of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Held by third-party trustees	<u>\$ 40,007,492</u>	<u>\$ 37,124,879</u>
Held by Audubon as trustee:		
Charitable gift annuities	\$ 11,459,926	\$ 10,605,488
Pooled income fund	<u>1,531,035</u>	<u>1,555,245</u>
	<u>\$ 12,990,961</u>	<u>\$ 12,160,733</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 \$8,024,000 and \$7,944,000 as of June 30, 2017 and 2016, respectively.