

AUDUBON SOCIETY OF PORTLAND, OREGON

Audited Financial Statements

For the Year Ended June 30, 2017



McDONALD JACOBS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Audubon Society of Portland, Oregon

We have audited the accompanying financial statements of Audubon Society of Portland, Oregon (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Audubon Society of Portland, Oregon as of June 30, 2017, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Audubon Society of Portland, Oregon's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 5, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McDonald Jacoby, P.C.

Portland, Oregon
October 18, 2017

AUDUBON SOCIETY OF PORTLAND, OREGON
STATEMENT OF FINANCIAL POSITION
June 30, 2017
(With comparative totals for 2016)

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 271,579	\$ 333,010
Grants and accounts receivable	107,633	163,794
Inventory	213,258	195,538
Prepaid expenses	125,035	89,915
Investments	4,612,099	4,556,057
Property and equipment, net	1,616,415	1,426,670
Conservation property	2,003,110	2,003,110
 TOTAL ASSETS	 \$ 8,949,129	 \$ 8,768,094
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 142,509	\$ 113,308
Accrued expenses	121,953	145,876
Deferred revenue	450,914	415,000
Total liabilities	715,376	674,184
Net assets:		
Unrestricted:		
Available for operations	334,286	543,312
Board designated	534,516	492,919
Conservation property and net property and equipment	2,099,368	1,909,623
Total unrestricted	2,968,170	2,945,854
Temporarily restricted	4,262,246	4,176,660
Permanently restricted	1,003,337	971,396
 Total net assets	 8,233,753	 8,093,910
 TOTAL LIABILITIES AND NET ASSETS	 \$ 8,949,129	 \$ 8,768,094

See notes to financial statements.

AUDUBON SOCIETY OF PORTLAND, OREGON
STATEMENT OF ACTIVITIES
For the year ended June 30, 2017
(With comparative totals for 2016)

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue:					
Contributions and grants	1,000,993	\$ 603,466	\$ -	\$ 1,604,459	\$ 1,490,393
Donated assets, materials and services	169,048	-	-	169,048	163,141
Memberships	296,402	-	-	296,402	263,223
Program service revenue	1,029,761	-	-	1,029,761	922,732
Special events revenue, net of direct costs of \$62,465 for 2017 and \$69,903 for 2016	206,318	-	-	206,318	168,259
Sales, net of cost of goods sold of \$396,151 for 2017 and \$433,586 for 2016	256,026	-	-	256,026	235,200
Investment income	277,194	29,840	-	307,034	89,342
Change in perpetual trust	-	-	31,941	31,941	(32,621)
Other income	7,108	-	-	7,108	7,887
Net assets released from restrictions:					
Satisfaction of purpose and time restrictions	547,720	(547,720)	-	-	-
Total support and revenue	<u>3,790,570</u>	<u>85,586</u>	<u>31,941</u>	<u>3,908,097</u>	<u>3,307,556</u>
Expenses:					
Program services:					
Conservation	950,266	-	-	950,266	911,165
Education	1,458,299	-	-	1,458,299	1,192,264
Nature Store	192,841	-	-	192,841	208,025
Membership and publications	231,672	-	-	231,672	205,060
Sanctuary	314,534	-	-	314,534	290,440
Total program services	<u>3,147,612</u>	<u>-</u>	<u>-</u>	<u>3,147,612</u>	<u>2,806,954</u>
Management and general	291,014	-	-	291,014	253,625
Fundraising	329,628	-	-	329,628	309,300
Total expenses	<u>3,768,254</u>	<u>-</u>	<u>-</u>	<u>3,768,254</u>	<u>3,369,879</u>
 Increase (decrease) in net assets	 22,316	 85,586	 31,941	 139,843	 (62,323)
Net assets:					
Beginning of year	<u>2,945,854</u>	<u>4,176,660</u>	<u>971,396</u>	<u>8,093,910</u>	<u>8,156,233</u>
End of year	<u>\$ 2,968,170</u>	<u>\$ 4,262,246</u>	<u>\$ 1,003,337</u>	<u>\$ 8,233,753</u>	<u>\$ 8,093,910</u>

See notes to financial statements.

AUDUBON SOCIETY OF PORTLAND, OREGON
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2017
(With comparative totals for 2016)

	Program Services							2016 Total
	Membership and		Total Program Services	Management and		2017 Total	2016 Total	
	Nature Store	Publications Sanctuary		General	Fundraising			
Conservation	Education							
\$ 548,083	\$ 591,405	\$ 96,909	\$ 118,010	\$ 377,092	\$ 123,718	\$ 1,979,871	\$ 1,952,027	
Professional and contract services	166,298	193,797	20,275	28,390	108,242	566,502	267,844	
Operating expenses	13,204	29,771	15,139	2,216	79,358	161,824	160,047	
Facilities	4,623	4,588	10,083	54,933	49,674	129,164	136,746	
Communications	13,989	29,228	51,403	484	19,363	146,992	127,843	
Materials and supplies	41,218	68,139	1,259	10,832	22,055	173,133	238,745	
Transportation and travel	20,766	450,123	143	2,889	2,043	506,876	400,504	
Volunteer and membership	395	224	8,756	32	18,162	28,481	17,467	
Depreciation	-	-	-	-	75,411	75,411	68,656	
Administration and facilities allocation	141,690	91,024	27,705	96,748	(460,386)	67,745	-	
Total expenses	\$ 950,266	\$ 1,458,299	\$ 231,672	\$ 314,534	\$ 291,014	\$ 3,768,254	\$ 3,369,879	

See notes to financial statements.

AUDUBON SOCIETY OF PORTLAND, OREGON
STATEMENT OF CASH FLOWS
For the year ended June 30, 2017
(With comparative totals for 2016)

	2017	2016
Cash flows from operating activities:		
Cash receipts:		
Contributions, grants and events	\$ 1,929,403	\$ 1,633,239
Sales	652,177	715,079
Program services, memberships, and other income	1,369,185	1,258,176
Investment income	94,200	82,553
Total receipts	4,044,965	3,689,047
Cash disbursements:		
Payroll and related expenses	(1,975,950)	(1,971,760)
Other operating expenses	(2,054,023)	(1,761,197)
Total cash disbursements	(4,029,973)	(3,732,957)
Net cash provided by (used in) operating activities	14,992	(43,910)
Cash flows from investing activities:		
Purchase of property and equipment	(265,156)	(197,630)
Purchase of investments	(119,799)	(291,320)
Proceeds from investments	308,532	447,306
Net cash used in investing activities	(76,423)	(41,644)
Cash flows from financing activities:		
Cash restricted for endowment	-	1,915
Principal payments on note payable	-	(36,346)
Net cash used in financing activities	-	(34,431)
Net decrease in cash and cash equivalents	(61,431)	(119,985)
Cash and cash equivalents - beginning of year	333,010	452,995
Cash and cash equivalents - end of year	\$ 271,579	\$ 333,010

See notes to financial statements.

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

I. THE ORGANIZATION

Audubon Society of Portland, Oregon (ASoP or the Organization) is a nonprofit organization founded in 1902. ASoP promotes the enjoyment, understanding and protection of native birds, other wildlife and their habitats with a focus on the local area and the Pacific Northwest. ASoP is affiliated with the National Audubon Society but is financially and structurally independent. ASoP's support is provided by a combination of contributions and memberships, grants, program revenues and Nature Store sales.

Contribution revenue can fluctuate significantly from year to year depending on bequests received. To mitigate the impact on operations for this unpredictability, management has chosen to apply a portion of prior bequest revenue to subsequent operating budgets. This approach results in manageable deficits during years with reduced revenue from bequests, while allowing management to plan more consistent year-to-year expenditures and optimal use of resources. The Organization maintains substantial operating reserves to ensure funding for those deficit years.

ASoP's facilities include the Nature Store, administrative offices, the Wildlife Care Center, and the Sanctuary. ASoP also owns the Marmot Cabin and Sanctuary located near Sandy, Oregon and Ten Mile Creek Sanctuary on the Oregon coast.

ASoP's programs are as follows:

Conservation: Promotes the conservation of native birds, wildlife and their habitats in Oregon and the Pacific Northwest, as well as conservation of healthy urban watersheds for wildlife and people in the Metropolitan-Portland region. Maintains and operates the Wildlife Care Center (WCC) to provide medical care and rehabilitation of injured or orphaned native birds and other native wildlife. WCC also houses federally-permitted non-releasable birds for educational purposes.

Education: Provides guided tours in the Sanctuary, as well as hands-on natural history programs, local, regional, national and international field trips and tours, nature center exhibits, and programs for local school and community groups.

Nature Store: Sells items that help promote the enjoyment, understanding and protection of the natural world.

Membership and Publications: Distributes a newsletter, "Warbler", and offers programs and classes to members and the general public.

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2017

1. THE ORGANIZATION, Continued

Sanctuary: Showcases a 150-acre, free-to-the-public Nature Sanctuary for native flora and fauna. It has over four miles of forested hiking trails available to the general public.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

ASoP reports information regarding its financial position and activities according to three classes of net assets based on the existence or absence of donor-imposed restrictions as follows:

- Unrestricted net assets represent net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met by actions of ASoP or the passage of time.
- Permanently restricted net assets represent net assets subject to donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of ASoP.

Cash and Cash Equivalents

For purposes of the statement of cash flows, ASoP considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents.

Grants and Accounts Receivable

Grants and accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that losses on balances outstanding at year-end will be immaterial.

Inventory

Inventory consists primarily of merchandise held for sale by ASoP's Nature Store and is carried at the lower of cost or market value. Cost is determined using an average cost method.

Investments

Investments are carried at fair value.

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment purchased are recorded at cost. Donated assets are reflected as contributions at their estimated values on the date received.

Depreciation

Depreciation of buildings, equipment and furniture is calculated using the straight-line method over the estimated useful lives of the assets which range from 3 to 40 years.

Program Service Revenue and Deferred Revenue

Program service revenue is recognized in the period the program is conducted. Funds received in advance are recorded as deferred revenue.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Memberships are recorded as revenue when received.

Donated Assets, Materials and Services

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

ASoP recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

AUDUBON SOCIETY OF PORTLAND, OREGON
 NOTES TO FINANCIAL STATEMENTS, Continued
 June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Donated Assets, Materials and Services, Continued

During the years ended June 30, 2017 and 2016, donated assets, materials and services consisted of the following:

	2017	2016
Materials and supplies	\$ 41,511	\$ 86,132
Legal services-management	48,779	-
Veterinary services - conservation	78,758	77,009
Total donated assets, materials and services	\$ 169,048	\$ 163,141

In addition, many individuals volunteer a substantial amount of time and perform a variety of tasks that assist the Organization with programs, development and administrative duties. These volunteer services represent approximately 51,600 hours of donated time for 2017 and 47,500 hours for 2016 and are not recognized as contributions in the financial statements since the recognition criteria were not met. Using an average value of volunteer time adopted by The Independent Sector, for Oregon, management estimates the fair value of those services for 2017 to be approximately \$741,600* for programs, \$126,700* for management and \$207,200* for development (*unaudited).

Contributions of Long-Lived Assets

Contributions of equipment and other long-lived assets without donor-imposed stipulations concerning the use of such assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire equipment or other long-lived assets with such donor stipulations are reported as temporarily restricted revenue. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

ASoP uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. During the years ended June 30, 2017 and 2016, advertising expenses approximated \$46,000 and \$42,000, respectively.

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Unemployment Insurance

The Organization is self-insured for unemployment and makes periodic payments to a trust company in an amount equal to estimated future claims. Deposits to the trust are recorded as an asset and claims filed but not yet paid are recorded as a liability.

Income Tax Status

Audubon Society of Portland, Oregon is a nonprofit corporation exempt from federal and state income tax under section 501(c)(3) of the Internal Revenue Code and applicable state law. No provision for income taxes is made in the accompanying financial statements because ASoP has no activities subject to unrelated business income tax.

The Organization follows the provisions of FASB ASC Topic, *Accounting for Uncertainty in Income Taxes*. Management has evaluated the Organization's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Organization has evaluated all subsequent events through October 18, 2017, the date the financial statements were available to be issued.

Summarized Financial Information for 2016

The financial information as of June 30, 2016 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2017

3. GRANTS AND ACCOUNTS RECEIVABLE

Grants and accounts receivable are unsecured and consist of grants, bequests, pledges and other receivables. Grants and accounts receivable are as follows at June 30:

	<u>2017</u>	<u>2016</u>
Grants and pledges receivable within one year	\$ 101,534	\$ 151,145
Contracts and accounts receivable	<u>6,099</u>	<u>12,649</u>
Total grants and accounts receivable	<u>\$ 107,633</u>	<u>\$ 163,794</u>

4. INVESTMENTS

Investments are carried at fair value and consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Securities held in perpetual trust:		
Cash and cash equivalents	\$ 15,454	\$ 14,617
Fixed income fund	66,179	72,799
Equity mutual funds	64,219	100,798
Equity securities	<u>400,600</u>	<u>326,296</u>
	546,452	514,510
Beneficial interest in assets held by Oregon		
Community Foundation (OCF)	484,049	435,818
Cash and cash equivalents	186,937	182,073
Certificates of deposit	371,694	511,827
Fixed income securities	14,722	32,957
Mutual funds	<u>3,008,245</u>	<u>2,878,872</u>
Total investments	<u>\$ 4,612,099</u>	<u>\$ 4,556,057</u>

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2017

4. INVESTMENTS, Continued

Investment income consists of the following for the years ended June 30, 2017 and 2016:

	2017	2016
Interest and dividends	\$ 94,200	\$ 82,553
Realized and unrealized gains	212,834	6,789
 Total investment income	 \$ 307,034	 \$ 89,342

Beneficial interest in assets held by OCF

The Organization established a fund that is held by the Oregon Community Foundation (OCF), an Oregon charitable organization. The Organization's funds are pooled with other assets managed by OCF and the Organization's fund is pooled with other assets managed by OCF which are invested in a mixture of equities, fixed-income instruments, alternative investment classes, and cash, which are reflected at fair value. Under the terms of the agreement, variance power has been granted to OCF, however, the Organization is the beneficiary of the fund and the transfer is reciprocal in nature. Accordingly, OCF recognizes the fund as a liability on its statement of financial position.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2017 and 2016:

	2017	2016
Land	\$ 366,673	\$ 366,673
Buildings	1,906,456	1,894,481
Furniture and equipment	237,329	217,529
Library collection	14,500	14,500
Construction in process	363,113	129,732
	2,888,071	2,622,915
Less accumulated depreciation	1,271,656	1,196,245
 Property and equipment, net	 \$ 1,616,415	 \$ 1,426,670

Estimated costs to complete the Marmot construction project are \$1.3 million.

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2017

6. CONSERVATION PROPERTY

In August 2008, ASoP entered into an agreement with the National Audubon Society (NAS) to receive, conserve, and manage land on the Oregon coast, valued at \$1,520,157, as a wildlife sanctuary, known as Ten Mile Creek Sanctuary. The property is subject to a conservation easement between NAS, as grantor, and McKenzie River Trust, as grantee. Other conservation property includes the Hilltop property acquired in July 2007 for \$482,953.

7. BOARD DESIGNATED NET ASSETS

Board designated net assets consist of unrestricted net assets designated by the Board as a reserve fund for special purposes and/or the long-term benefit of ASoP as follows:

	2017	2016
Board designated reserve (Note 10)	\$ 484,049	\$ 435,818
Condor program	50,467	57,101
Total board designated net assets	\$ 534,516	\$ 492,919

The reserve fund is intended to be permanent; however, the reserve fund may be utilized in the event of an emergency, opportunity, or unanticipated income shortfall. See Note 10 for further discussion.

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of time and purpose-restricted net assets as follows:

	2017	2016
Earnings on endowment (Note 10)	\$ 39,797	\$ 25,037
Various programs	2,702,292	2,631,466
Land held for conservation	1,520,157	1,520,157
Total temporarily restricted net assets	\$ 4,262,246	\$ 4,176,660

AUDUBON SOCIETY OF PORTLAND, OREGON
 NOTES TO FINANCIAL STATEMENTS, Continued
 June 30, 2017

9. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets include a perpetual trust received in 2003. The assets are held in trust and administered by a bank. The donor restrictions stipulated that the annual income earned on the trust, determined by the greater of the actual earnings or 5% of the asset value, be released for the care of wild birds and for public education regarding birds. In the event the 5% distribution exceeds actual earnings, the corpus will be reduced accordingly.

In August 2009, ASoP entered into an agreement with the National Audubon Society (NAS) to receive, conserve, and manage land on the Oregon coast as a wildlife sanctuary, known as Ten Mile Creek Sanctuary (Note 8). NAS also contributed \$190,000 to be held in an endowment for management and maintenance of the property (easement funding). In the event that ASoP conveys the property to a third party, the balance of the easement funding will also be transferred to such third party. Additional contributions totaling \$13,095 were received for the endowment but are not part of the easement funding. See Note 10 for further discussion of the endowment.

In 2010, the Organization established the sanctuary stewardship endowment fund. Contributions are held in perpetuity, with investment earnings added to the permanent endowment until the fund reaches \$250,000 (which occurred in 2015), after which time, earnings will support stewardship of the sanctuary.

Permanently restricted net assets are summarized as follows at June 30, 2017 and 2016:

	2017	2016
Perpetual trust	\$ 546,451	\$ 514,510
Ten Mile Creek Sanctuary endowment (Note 10)	203,095	203,095
Sanctuary stewardship endowment (Note 10)	253,791	253,791
Total permanently restricted net assets	\$ 1,003,337	\$ 971,396

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2017

10. ENDOWMENT FUNDS

Audubon Society of Portland, Oregon's endowment consists of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions or board designations.

Interpretation of Relevant Law

The Board of Directors of Audubon Society of Portland, Oregon has interpreted Oregon's enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act) as requiring the preservation of the fair value 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, the Organization classifies as permanently restricted net assets (a) the original value of 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 the Organization in a manner consistent with the standard of prudence prescribed by the Act.

Interpretation of Relevant Law, Continued

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2017

10. ENDOWMENT FUNDS, Continued

Investment Return Objectives, Risk Parameters and Strategies

The Organization has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to fund cash flow needs.

Spending Policy:

The Organization has not yet established a policy for spending for the sanctuary stewardship endowment. Spending for the Ten Mile Creek Sanctuary endowment is in accordance with the endowment agreement.

Under the terms of the agreement with OCF, OCF shall distribute not less than annually, a percentage of the fair value of the funds as determined by the board of directors of OCF. However, in no event will the percentage be less than a reasonable rate of return. OCF may make additional distributions from the funds to the Organization upon a majority vote of all of the directors of the Organization, if, in the sole judgment of the board of OCF, the requested distribution is consistent with the objectives and purposes of the Organization.

Composition of endowment net assets at June 30, 2017 and 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2017				
Donor-restricted	\$ -	\$ 39,797	\$ 456,886	\$ 496,683
Board-designated	484,049	-	-	484,049
	<u>\$ 484,049</u>	<u>\$ 39,797</u>	<u>\$ 456,886</u>	<u>\$ 980,732</u>
June 30, 2016				
Donor-restricted	\$ -	\$ 25,037	\$ 456,886	\$ 481,923
Board-designated	435,818	-	-	435,818
	<u>\$ 435,818</u>	<u>\$ 25,037</u>	<u>\$ 456,886</u>	<u>\$ 917,741</u>

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2017

10. ENDOWMENT FUNDS, Continued

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Balance – June 30, 2015	\$ 456,388	\$ 13,508	\$ 454,971	\$ 924,867
Contributions	-	-	1,915	1,915
Investment income, net	953	11,074	-	12,027
Realized/ unrealized gain (loss)				
on investments	(2,052)	455	-	(1,597)
Appropriated for expenditure	<u>(19,471)</u>	<u>-</u>	<u>-</u>	<u>(19,471)</u>
Balance – June 30, 2016	435,818	25,037	456,886	917,741
Investment income, net	(473)	10,937	-	10,464
Realized/ unrealized gain				
on investments	68,819	18,903	-	87,722
Appropriated for expenditure	<u>(20,115)</u>	<u>(15,080)</u>	<u>-</u>	<u>(35,195)</u>
Balance – June 30, 2017	<u>\$ 484,049</u>	<u>\$ 39,797</u>	<u>\$ 456,886</u>	<u>\$ 980,732</u>

II. RETIREMENT PLAN

ASoP has a 401(k) salary deferral retirement plan available to eligible employees. Participants may make contributions through a salary reduction agreement. ASoP's contribution to the plan is discretionary and based on the approval of the Board of Directions. ASoP contributed approximately \$41,600 and \$26,900 to the plan for the years ended June 30, 2017 and 2016, respectively.

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June 30, 2017

12. CONCENTRATIONS OF CREDIT RISK

ASoP maintains its cash balances in several financial institutions located in Portland. The balances in each financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2017 and 2016, uninsured cash balances approximate \$33,100 and \$76,700, respectively.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

13. FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

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NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2017

13. FAIR VALUE MEASUREMENTS, Continued

Fair values of assets measured on a recurring basis at June 30, 2017 and 2016 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
2017				
Fixed income securities	\$ 14,722	\$ -	\$ 14,722	\$ -
Mutual funds - balanced	3,008,247	3,008,247	-	-
Investments held in perpetual trust:				
Fixed income mutual fund	66,179	66,179	-	-
Equity mutual funds	64,219	64,219	-	-
Equity securities	400,600	400,600	-	-
Beneficial interest in assets held by OCF	484,049	-	-	484,049
	<u>\$ 4,038,016</u>	<u>\$ 3,539,245</u>	<u>\$ 14,722</u>	<u>\$ 484,049</u>
2016				
Fixed income securities	\$ 32,957	\$ -	\$ 32,957	\$ -
Mutual funds - balanced	2,878,872	2,878,872	-	-
Investments held in perpetual trust:				
Fixed income mutual fund	72,799	72,799	-	-
Equity mutual funds	100,798	100,798	-	-
Equity securities	326,296	326,296	-	-
Beneficial interest in assets held by OCF	435,818	-	-	435,818
	<u>\$ 3,847,540</u>	<u>\$ 3,378,765</u>	<u>\$ 32,957</u>	<u>\$ 435,818</u>

Fair values for equity securities and mutual funds are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for investments in fixed income securities are provided by custodians and are based on pricing models that incorporate available trade, bid and other market information.

Investments held at OCF in pooled funds are valued at the net asset value per unit as provided by OCF trustees. Net asset value is based on fair value of the underlying assets of the funds using quoted market prices when available determined using a market approach. Quoted market prices are not available for certain alternative investment classes, such as limited partnership investments. The valuations for limited partnership investments are based on the net asset value of OCF's ownership interest in the partners' capital which includes assumptions and methods that were prepared by the general partners of the limited partnerships and were reviewed by OCF.

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NOTES TO FINANCIAL STATEMENTS, Continued
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15. FAIR VALUE MEASUREMENTS, Continued

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

Beneficial interest in assets held by OCF:

	<u>2017</u>	<u>2016</u>
Beginning of year	\$ 435,818	\$ 456,388
Investment income, net of fees	(473)	953
Change in value (included in unrestricted net assets)	68,819	(2,052)
Disbursements	<u>(20,115)</u>	<u>(19,471)</u>
End of year	<u>\$ 484,049</u>	<u>\$ 435,818</u>

14. SUPPLEMENTAL CASH FLOW INFORMATION

The following represents a reconciliation of the change in net assets (as reported on the statement of activities) to net cash provided by (used in) operating activities (as reported on the statement of cash flows):

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 139,843	\$ (62,323)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	75,411	68,656
Net realized/unrealized gain on investments	(212,834)	(6,789)
Change in perpetual trust	(31,941)	32,621
Contributions restricted for endowment	-	(1,915)
(Increase) decrease in:		
Grants and accounts receivable	56,161	(93,401)
Inventory	(17,720)	23,109
Prepaid expenses	(35,120)	(18,063)
Increase (decrease) in:		
Accounts payable and accrued expenses	5,278	(50,139)
Deferred revenue	<u>35,914</u>	<u>64,334</u>
Net cash provided by (used in) operating activities	<u>\$ 14,992</u>	<u>\$ (43,910)</u>