

POTOMAC VALLEY AUDUBON SOCIETY, INC.

FINANCIAL REPORT

JUNE 30, 2018 AND 2017

POTOMAC VALLEY AUDUBON SOCIETY, INC.

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors of
Potomac Valley Audubon Society, Inc.
Shepherdstown, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Potomac Valley Audubon Society, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

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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 Potomac Valley Audubon Society, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Ours, Lawyer, Lewis & Company, PLLC

Martinsburg, West Virginia
November 1, 2018

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 372,593	\$ 303,150
Accounts and Grants Receivable	14,428	12,022
Prepaid Expenses	11,960	12,198
TOTAL CURRENT ASSETS	398,981	327,370
PROPERTY AND EQUIPMENT		
Land, Buildings and Improvements	526,389	524,158
Furniture and Equipment	10,992	10,992
Less Accumulated Depreciation	(95,965)	(77,234)
PROPERTY AND EQUIPMENT, NET	441,416	457,916
OTHER ASSETS		
Beneficial Interest in Real Estate	151,009	178,127
Construction in Progress	12,902	4,877
Deposit on Website	7,000	-
Investment in Eastern WV Community Foundation	5,427	5,074
TOTAL OTHER ASSETS	176,338	188,078
TOTAL ASSETS	\$ 1,016,735	\$ 973,364
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 3,802	\$ 6,829
Payroll Liabilities	4,301	-
Security Deposit Held	500	500
TOTAL CURRENT LIABILITIES	8,603	7,329
NET ASSETS		
Unrestricted		
Board Designated	126,536	140,536
Undesignated	246,852	262,423
Temporarily Restricted	119,918	21,132
Permanently Restricted	514,826	541,944
TOTAL NET ASSETS	1,008,132	966,035
TOTAL LIABILITIES AND NET ASSETS	\$ 1,016,735	\$ 973,364

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

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Federal, State and Local Grants	\$ 36,886	\$ 24,700		\$ 61,586
In-kind Goods and Services	139,994	-		139,994
Contributions	107,986	88,000		195,986
Membership Dues	7,289	-		7,289
TOTAL SUPPORT	292,155	112,700	-	404,855
Program Fees	89,847		-	89,847
Special Events, Net of Expenses of \$10,284	24,916		-	24,916
Rental Income	6,000			6,000
Investment Income, Net	720	86	-	806
TOTAL REVENUE	121,483	86	-	121,569
Net Assets Released from Restrictions:				
Satisfaction of Purpose Restrictions	14,000	(14,000)	-	-
Expiration of Time Restrictions	-	-	-	-
Change in Value of Beneficial Interest	-	-	(27,118)	(27,118)
TOTAL SUPPORT, REVENUE AND RECLASSIFICATIONS	427,638	98,786	(27,118)	499,306
EXPENSES				
Program Services	426,095	-	-	426,095
Support Services:				
Management and General	20,503	-	-	20,503
Fundraising	10,611	-	-	10,611
TOTAL EXPENSES	457,209	-	-	457,209
CHANGE IN NET ASSETS	(29,571)	98,786	(27,118)	42,097
NET ASSETS				
Beginning of Year	402,959	21,132	541,944	966,035
End of Year	\$ 373,388	\$ 119,918	\$ 514,826	\$ 1,008,132

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

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Federal, State and Local Grants	\$ 18,182	\$ 2,000	\$ -	\$ 20,182
In-kind Goods and Services	37,960	-	-	37,960
Contributions	218,804	-	260,000	478,804
Membership Dues	6,273	-	-	6,273
TOTAL SUPPORT	281,219	2,000	260,000	543,219
Program Fees	78,591	-	-	78,591
Special Events, Net of Expenses of \$13,202	21,683	-	-	21,683
Rental Income	7,100			7,100
Investment Income, Net	870	13	-	883
TOTAL REVENUE	108,244	13	-	108,257
Net Assets Released from Restrictions:				
Satisfaction of Purpose Restrictions	8,500	(8,500)	-	-
Expiration of Time Restrictions	-	-	-	-
Change in Value of Beneficial Interest	-	-	(19,447)	(19,447)
TOTAL SUPPORT, REVENUE AND RECLASSIFICATIONS	397,963	(6,487)	240,553	632,029
EXPENSES				
Program Services	249,202	-	-	249,202
Support Services:				
Management and General	18,469	-	-	18,469
Fundraising	17,274	-	-	17,274
TOTAL EXPENSES	284,945	-	-	284,945
CHANGE IN NET ASSETS	113,018	(6,487)	240,553	347,084
NET ASSETS				
Beginning of Year	289,941	27,619	301,391	618,951
End of Year	\$ 402,959	\$ 21,132	\$ 541,944	\$ 966,035

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

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018			
	<u>Support Services</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
FUNCTIONAL EXPENSES				
COMPENSATION AND RELATED EXPENSES				
Salaries and Wages	\$ 151,338	\$ 5,891	\$ 3,927	\$ 161,156
Payroll Taxes	11,610	451	300	12,361
Employee Benefits	1,196	133		1,329
TOTAL COMPENSATION AND RELATED EXPENSES	<u>164,144</u>	<u>6,475</u>	<u>4,227</u>	<u>174,846</u>
Accounting Fees	4,475	1,119	-	5,594
Conferences and Training	330	385	-	715
Contract Labor	14,964	-	-	14,964
Depreciation	18,485	246	-	18,731
In-kind Goods and Services	136,954	-	3,040	139,994
Insurance	9,942	3,479	-	13,421
Land and Facility Management	9,347	-	-	9,347
Licenses and Fees	17,121	750	229	18,100
Postage and Shipping	181	361	550	1,092
Printing and Publication	3,369	333	2,565	6,267
Scholarships	-	-	-	-
Supplies	37,220	4,218	-	41,438
Transportation and Travel	4,187	655	-	4,842
Utilities	3,952	415	-	4,367
Website	1,424	2,067	-	3,491
TOTAL EXPENSES	<u>\$ 426,095</u>	<u>\$ 20,503</u>	<u>\$ 10,611</u>	<u>\$ 457,209</u>

The accompanying notes are an integral part of these financial statements

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2017			
	<u>Support Services</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
FUNCTIONAL EXPENSES				
COMPENSATION AND RELATED EXPENSES				
Salaries and Wages	\$ 111,931	\$ 6,317	\$ 4,211	\$ 122,459
Payroll Taxes	8,563	483	322	9,368
Employee Benefits	<u>1,394</u>	<u>155</u>		<u>1,549</u>
TOTAL COMPENSATION AND RELATED EXPENSES	<u>121,888</u>	<u>6,955</u>	<u>4,533</u>	<u>133,376</u>
Accounting Fees	4,470	1,117	-	5,587
Conferences and Training	883	2,892	-	3,775
Contract Labor	5,530	-	-	5,530
Depreciation	15,926	265	-	16,191
In-kind Goods and Services	28,510	-	9,450	37,960
Insurance	8,773	3,298	-	12,071
Land and Facility Management	12,089	-	-	12,089
Licenses and Fees	15,457	639	148	16,244
Postage and Shipping	966	247	629	1,842
Printing and Publication	4,916	351	2,514	7,781
Scholarships	-	-	-	-
Supplies	18,618	1,810	-	20,428
Transportation and Travel	5,448	301	-	5,749
Utilities	3,956	97	-	4,053
Website	<u>1,772</u>	<u>497</u>	<u>-</u>	<u>2,269</u>
TOTAL EXPENSES	<u>\$ 249,202</u>	<u>\$ 18,469</u>	<u>\$ 17,274</u>	<u>\$ 284,945</u>

The accompanying notes are an integral part of these financial statements

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 42,097	\$ 347,084
Adjustments to Reconcile Change in Net Assets to Net		
Cash Provided/(Used) by Operating Activities		
Depreciation and Amortization	18,731	16,191
Donated Equipment Included with Contributions	-	(1,231)
Donated Land & Buildings	-	(260,000)
Change in Value of Beneficial Interest	27,118	19,447
Changes in Operating Assets and Liabilities		
Prepaid Expenses	238	(3,098)
Accounts and Grants Receivable	(2,406)	(7,760)
Accounts Payable and Payroll Liabilities	1,274	6,826
Security Deposits Held	-	500
Total Adjustments	44,955	(229,125)
Net Cash Provided/(Used) by Operating Activities	87,052	117,959
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	(2,231)	(2,713)
Investment in Community Foundation	(353)	(462)
Construction in Progress	(8,025)	(4,877)
Deposit on Website	(7,000)	-
Net Cash Provided/(Used) by Investing Activities	(17,609)	(8,052)
NET CHANGE IN CASH	69,443	109,907
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	303,150	193,243
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 372,593	\$ 303,150

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

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Potomac Valley Audubon Society, Inc. ("Organization") is a not-for-profit corporation incorporated under the laws of West Virginia on August 2, 1982. The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization is a chapter of the National Audubon Society.

Mission and Nature of Activities

The Potomac Valley Audubon Society serves a largely rural, though rapidly growing area that includes Jefferson, Berkeley and Morgan counties in West Virginia and Washington County, Maryland. The organization is dedicated to preserving, restoring and enjoying the natural world through education and action. It owns two nature preserves, and also co-manages two additional nature preserves with The Nature Conservancy. The Organization offers educational programming for children and adults. Its programming for children includes school programs, after-school programs and a summer camp. Its programming for adults includes a West Virginia Master Naturalist Program training, workshops, lectures and field trips that are open to everyone in the community. No other local organization is providing the same range of services on the same scale.

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting. Under this method, support is recognized in the period in which it is earned or committed to the Organization while expenses are recognized in the period the liability is incurred.

Basis of Presentation

The financial statement presentation follows the requirements of the *Not-for-Profit Presentation of Financial Statements* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Under these standards, net assets and revenues, expenses, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations. These are resources over which the Board of Directors have discretionary control. Unrestricted net assets designated by the Board represent funds set aside by internal Board action. The funds include funds set aside to fund long term planning and future operating deficits. Board designated net assets of \$126,536 and \$140,536 as of June 30, 2018 and 2017, respectively, are included in cash and cash equivalents

Temporarily Restricted – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or with the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Permanently Restricted - Resources subject to a donor restriction that they be maintained permanently by the Organization. The permanently restricted net assets as of June 30, 2018 and 2017 consist of land donated by The Nature Conservancy, a Beneficial Interest in Property, and land and buildings donated by Craftworks. See Note 1, 2 and 7, for further details.

Support and Revenue

Contributions are generally available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give are recognized when the donor makes a promise to give to the Organization.

Contributions of donated services that create or enhance non-financial 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 are recorded at their fair values in the period received, if subject to reasonable estimation.

Grants

Grants received by the Organization to provide for operations represent exchange transactions whereby the Organization must provide services as outlined in the related grant agreement.

Grants and other contributions of cash and other assets are reported as temporarily 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 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. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Grants received by the Organization for property acquisitions are considered to be time restricted contributions.

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 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 expenditures during the report period. Accordingly, actual results could differ from those estimates.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase. For financial reporting purposes, management considers all certificates of deposits regardless of maturity, to be cash equivalents.

Concentration of Credit Risk

The Organization holds cash at various institutions. At times throughout the year, the amounts on deposit exceeded the federally insured limit. The Organization has evaluated this risk, and considers it to be a normal business risk.

Inventories

The Organization considers inventories of materials and supplies utilized in operations as expended at the time of purchase or donation. Therefore, they do not appear in the Organization's financial statements.

Land, Buildings, and Equipment

Purchases of land, buildings and equipment having a unit cost of \$500 or more and an estimated useful life of more than one year are capitalized at cost. Donated assets are capitalized at the estimated fair market value at time of receipt. Certain donated services are capitalized as improvements when those services enhance the value of the assets. It is not the Organization's policy to imply time restrictions expiring over the useful life of donated assets. In the absence of donor-imposed restrictions on the use of the assets, gifts of long lived assets are reported as unrestricted support.

Depreciation is calculated on all buildings and equipment using accelerated and straight-line methods based upon the estimated useful lives of the assets as follows:

Buildings and Improvements	25 Years
Land Improvements	15 Years
Furniture and Office Equipment	5 Years
All Other Equipment	3 Years

Donated Services and Noncash Gifts

During the years ended June 30, 2018 and 2017, the value of contributed goods and services meeting the requirements for recognition in the financial statements was \$105,257 and \$11,308, respectively. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services. The Organization received approximately 1,000 volunteer hours during the year ended June 30, 2018 which are valued at approximately \$25,000. The value has been calculated using the Independent Sector Volunteer Rate of \$24.69 per hour.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Donated Services and Noncash Gifts (Continued)

The Organization receives rent free space at various locations which it uses for meetings, programs and lectures. The in-kind value of the space is estimated to be \$34,737 and \$26,652 for the years ended June 30, 2018 and 2017, respectively.

Effective November 3, 2008 the Organization received, by way of gift, from The Nature Conservancy, two tracts of land totaling approximately 8.5 acres. The land which was valued at \$16,940 is located in Morgan County, WV and is part of the Eidolon Preserve which the Organization currently co-manages (See Note 2). As a condition of the gift, the land must forever be held for scientific, educational and aesthetic purposes and must be kept entirely in its natural state except for a set of specified improvements to facilitate educational programming.

The Organization on August 30, 2011 received, by way of gift, land totaling 45.726 acres located in Berkeley County, WV. The land which is known as Stauffer's Marsh was valued at \$86,879 and will be used as a preserve and bird sanctuary to further the Organization's mission. The property which is mostly wetlands is currently under a conservation easement with the USDA. The easement requires the Organization to maintain the property including the dam, inlet, waste weir, and spillway along with maintaining the native species of plants on the property.

On September 30, 2016, the Organization received a large donation of land and buildings which the Organization is calling Cool Spring Preserve. The donor, CraftWorks at Cool Spring, is closing as a non-profit and donated its assets including the land and buildings to the Organization. The property, which encompasses 12 acres of fields and woodland is located in Charles Town, WV. The property has four structures which include an energy-efficient main building, a barn for 3-season programming, a historic cottage with a small garage. The Organization established its headquarters there and will use the property for nature and conservation programming such as school programs, bird walks, summer day camps, and family events. The Organization has designated the land as a nature preserve, which means it will be protected and managed primarily to preserve its natural features and its flora and fauna. The property also includes nature trails that will be open to the public.

Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services that benefit from those costs.

Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (Code) and comparable State law, and contributions to it are tax deductible within the limitations as prescribed by the Code. The Organization has been classified as a publicly-supported organization which is not a private foundation under Section 509(a) of the Code.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

The Internal Revenue Service has not examined (audited) any income tax return of the Organization thus the previous three (3) years are subject to examination. The Organization has not taken any questionable tax positions with respect to unrelated business income tax or anything that would jeopardize its 501(c)(3) status.

Note 2 - Management Agreements

Yankauer Preserve

On January 17, 2018, the Organization entered into a five year agreement with The Nature Conservancy ("TNC") to co-manage the property known as the Yankauer Preserve located in Berkeley County, West Virginia. The agreement requires the Organization to maintain public liability insurance in the amount of \$1,000,000 per occurrence for claims of injury to individuals and \$500,000 per occurrence for all claims for damages to or loss of property occurring on the Preserve. The Organization is responsible for the day-to-day maintenance of the Preserve to fulfill the combined mission of the Organization and TNC. The agreement can be renewed for one (1) additional five (5) year term.

Eidolon Preserve

On October 16, 2006, the Organization entered into a five year agreement with The Nature Conservancy ("TNC") to co-manage the property known as the Eidolon Preserve located in Morgan County, West Virginia. The agreement requires the Organization to maintain public liability insurance in the amount of \$1,000,000 per occurrence for claims of injury to individuals and \$500,000 per occurrence for all claims for damages to or loss of property occurring on the Preserve. The Organization is responsible for the day-to-day maintenance of the Preserve to fulfill the combined mission of the Organization and TNC. The agreement was renewed on July 1, 2014 and shall expire on June 30, 2019.

The Organization entered into a contract with The Nature Conservancy ("TNC") whereby TNC would use Eidolon Nature Preserve endowment proceeds to reimburse the Organization for actual costs of materials, supplies and other out-of-pocket expenses incurred in connection with the management of the Eidolon Preserve. Reimbursements for these purposes would be governed by annual, full-year contracts that ran from July 1 through June 30 each year, with the amounts available for reimbursement each year depending upon endowment returns, and with any unused funds carrying over and remaining available to the Organization. Under the terms of the contract that was entered into for the period July 1, 2015 to June 30, 2016, the Organization was eligible for reimbursements of up to \$22,520 and sought and received reimbursements of \$2,694 and \$4,220 for the years ended June 30, 2018 and 2017, respectively.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Note 3 - Endowment Fund

The Organization is the beneficiary of the Potomac Valley Audubon Society endowment fund established in 2004 and held by the Eastern West Virginia Community Foundation. The fund is intended to be a perpetual endowment to support the environmental education efforts of the Organization. The Community Foundation maintains variance power over the fund (a) to modify any restriction or condition on the distribution of funds; (b) to replace any trustee, custodian or agent for breach of fiduciary duty; and (c) to replace any trustee, custodian or agent for failure to produce a reasonable rate of return of net income over a reasonable period of time, as determined by the Foundation's Board of Directors. Distributions from the fund are determined under the spending policy of the Foundation and can be made annually to the Organization. In the event the Organization has an emergency need, the Foundation upon written request of the Organization's Board of Directors may, in its discretion, make an excess distribution from the fund provided that only one such excess distribution may be made annually and at least \$5,000 must remain in the fund after such excess distribution. No distributions have been made from the fund and the Board of Directors has elected to reinvest all investment income from the fund until such time as the Board designates otherwise.

The Organization has contributed \$1,350 to this fund as of June 30, 2018 and 2017 which is reported as Endowment Held by Community Foundation in the Statements of Financial Position. The investment income, including gains and losses, are reported in the Statement of Activities net of investment expenses and administrative fees. The net investment income was \$353 and \$462 for the years ended June 30, 2018 and 2017, respectively.

Note 4 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	2018	2017
Specific Grant Programs	\$ 24,700	\$ 2,000
Conservation	75,083	-
Eidolon Preserve	7,089	7,089
Liz Neely Education Fund	9,002	7,999
Stauffer's Marsh	1,387	1,387
Scholarship Fund	2,657	2,657
Periods after June 30	-	-
Total Temporarily Restricted Net Assets	<u>\$ 119,918</u>	<u>\$ 21,132</u>

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Note 4 - Temporarily Restricted Net Assets (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	2018	2017
Purpose restrictions accomplished	\$ 14,000	\$ 8,500
Time restrictions expired	-	-
Total Restrictions Released	<u>\$ 14,000</u>	<u>\$ 8,500</u>

Note 5 - Significant Grant Funding

Appalachian Stewardship Foundation

The Organization developed and delivered a 4-session program (Power Up to Power Down) focused on renewable energy to fifth grade students in 17 classrooms in the Eastern Panhandle of West Virginia. The program was presented in all classes over four consecutive weeks in September and October 2016. For the year ended June 30, 2016 the Organization received \$10,000 under the grant agreement. The grant was fully expended during the year ended June 30, 2017.

Appalachian Stewardship Foundation

The grant agreement provides funding for a solar array at the Cool Spring Preserve. For the year ended June 30, 2018 the Organization received \$24,700 under the grant agreement. The Organization had not expended any of the funds as of June 30, 2018 and therefore the entire grant of \$24,700 is reported as Temporarily Restricted Net Assets.

WV Division of Highways

The Organization entered into a cooperative agreement with WVDOH for the installation of Composting Restrooms for the Yankauer Preserve. The agreement is on a cost reimbursement basis with a maximum ceiling of \$50,000. For the years ended June 30, 2018 and 2017 the Organization received \$0 and \$4,682, respectively under this agreement.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Note 5 - Significant Grant Funding (Continued)

Nora Roberts Foundation

The grant agreement provides funding for repair and replacement of books and supplies in Nature Explorer Backpacks that are available at seven local public libraries and Cacapon State Park Nature Center. The grant also provides funding for new backpacks, additional books for the StoryWalk program, Wee Naturalist Program support; Day Camp support; Spring Break program support and support for a pilot program for read-aloud nature books. The grant support allows the Organization to expand its programs, and to offer programs for free or for very low fees so all families may attend, regardless of their economic means. For the years ended June 30, 2018 and 2017, the Organization received \$16,000 and \$10,000, respectively under the grant agreement.

Note 6 - Agreement with National Conservation Training Center (NCTC)

The Organization entered into a memorandum of agreement with the U.S. Fish and Wildlife Service's NCTC on August 24, 2008. The agreement formalizes the relationship between the two organizations and provides rent free space for the Organization to hold regular meetings and in exchange the Organization will work and partner with NCTC on a variety of conservation-related events and activities. The agreement is effective for five years and may be renewed for successive five year terms at the discretion of both organizations. The current agreement continues through September 30, 2018. The in-kind value of the meeting space is estimated to be \$7,152 and \$5,652 for the years ended June 30, 2018 and 2017, respectively.

Note 7 - Gift Subject to Life Estate Interest

The Organization, by way of bequest, received a remainder interest in approximately 32 acres of land located in Jefferson County, WV on April 27, 2008. The deceased's last will and testament stipulates, the property is to be used for the purposes of holding and maintaining as a wildlife preserve, a wetlands preserve and as a home, nesting, and landing area for ducks and geese. Under terms of the bequest, the donor's beneficiaries will continue to have access to the property for the remainder of their lives. Based on the life expectancy of the beneficiaries and a 3.3% discount rate, the present value of future benefits to be received by the Organization was estimated to be \$127,157 which was recorded at June 30, 2010 as a permanently restricted Contribution in the Statement of Activities and a Beneficial Interest in Real Estate in the Statement of Financial Position.

The Beneficial Interest in Real Estate is valued annually at the date of the financial statements with the changes being recognized in the Statements of Activities. The value is determined using the same methodology that was used to calculate the beneficial interest updated for the change in interest rates and the beneficiaries' ages. The value of the beneficial interest was \$151,009 and \$178,127 as of June 30, 2018 and 2017, respectively. The change of (\$27,118) and (\$19,447) are recognized in the Statements of Activities for the years ended June 30, 2018 and 2017, respectively.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Note 8 - Fair Value Measurements

The Organization reports the Beneficial Interest in Real Estate at fair value in the accompanying Statements of Financial Condition. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement authoritative literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of the unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs are unobservable and have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its assets. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 inputs were available to the Organization, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

Level 3 – Fair Value Measurements

The Beneficial Interest in Real Estate is not actively traded and significant other observable inputs are not available. Thus, the fair value of the Beneficial Interest in Real Estate is determined using remainder tables based upon the life expectancy of the beneficiaries who have a life estate in the property and the prevailing interest rate.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Note 8 - Fair Value Measurements (Continued)

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at June 30, 2018 are as follows:

Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Beneficial Interest in Real Estate	\$ 151,009	\$ -	\$ 151,009

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at June 30, 2017 are as follows:

Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Beneficial Interest in Real Estate	\$ 178,127	\$ -	\$ 178,127

The reconciliation of the changes in the Beneficial Interest in Real Estate measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

<u>Beneficial Interest in Real Estate</u>	
June 30, 2016	\$ 197,571
Change in value of Beneficial Interest in Real Estate	(19,444)
June 30, 2017	178,127
Change in value of Beneficial Interest in Real Estate	(27,118)
June 30, 2018	\$ 151,009

The change in value of the Beneficial Interest in Real Estate of (\$27,118) and (\$19,447) is attributable to the revaluation of the Beneficial Interest based on applicable remainder tables and interest rates and is included in the change in permanently restricted net assets for the years ended June 30, 2018 and 2017, respectively.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Note 9 - Subsequent Events

U.S. Generally Accepted Accounting Principles (GAAP) requires organizations to evaluate events and transactions that occur after the statement of financial position date but before the date the financial statements are available to be issued. GAAP requires entities to recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the statement of financial position date, including the estimates inherent in the financial preparation process. Subsequent events that provide evidence about conditions that arose after the statement of financial position date should be disclosed if the financial statements would otherwise be misleading. The Organization has evaluated subsequent events through the date the financial statements were available to be issued on November 1, 2018 and have identified no additional items that require disclosure.