



**MASSACHUSETTS AUDUBON SOCIETY, INC.
AND WHETSTONE WOOD TRUST FUND**

**COMBINED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Contents
June 30, 2018 and 2017

	<u>Pages</u>
Independent Auditor’s Report	1 - 1A
Combined Financial Statements:	
Combined Statements of Financial Position	2
Combined Statements of Activities and Changes in Net Assets	3
Combined Statements of Cash Flows	4
Notes to Combined Financial Statements	5 - 19

Independent Auditor's Report

To the Board of Directors and Audit Committee of
Massachusetts Audubon Society, Inc. and
the Trustees of the Whetstone Wood Trust Fund:

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Massachusetts Audubon Society, Inc. (MAS) (a Massachusetts corporation, not for profit) and Whetstone Wood Trust Fund (WWTF) (a Massachusetts inter vivos trust, not for profit) (collectively, Mass Audubon) which comprise the combined statements of financial position as of June 30, 2018 and 2017, and the related combined statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined 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 combined financial statements referred to on page one present fairly, in all material respects, the combined financial position of Massachusetts Audubon Society, Inc. and Whetstone Wood Trust Fund as of June 30, 2018 and 2017, 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.

Alexander, Brown, Pinning & Co., P.C.

Westborough, Massachusetts
October 31, 2018

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Combined Statements of Financial Position
June 30, 2018 and 2017

Assets	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:								
Cash and cash equivalents	\$ 1,566,258	\$ 6,154,708	\$ -	\$ 7,720,966	\$ 8,893,357	\$ 2,270,125	\$ -	\$ 11,163,482
Accounts receivable	1,061,374	-	-	1,061,374	1,093,533	-	-	1,093,533
Current portion of pledges receivable, net of allowance	23,430	211,723	-	235,153	23,984	632,525	-	656,509
Inventory	205,674	-	-	205,674	197,856	-	-	197,856
Prepaid expenses	300,665	-	-	300,665	291,484	-	-	291,484
Total current assets	3,157,401	6,366,431	-	9,523,832	10,500,214	2,902,650	-	13,402,864
Investments	18,221,746	58,036,634	74,239,185	150,497,565	10,758,982	56,817,973	72,442,502	140,019,457
Pledges Receivable, net of current portion, allowance and discount	-	138,038	4,285	142,323	-	125,636	4,949	130,585
Due to (from) Other Funds	128,797	-	(128,797)	-	151,167	-	(151,167)	-
Fine Arts Collection	1,366,422	-	25,000	1,391,422	1,368,422	-	25,000	1,393,422
Land	13,247,826	-	46,526,368	59,774,194	13,243,939	-	46,524,235	59,768,174
Property and Equipment, net	46,063,218	-	-	46,063,218	40,868,070	-	-	40,868,070
Total assets	<u>\$ 82,185,410</u>	<u>\$ 64,541,103</u>	<u>\$ 120,666,041</u>	<u>\$ 267,392,554</u>	<u>\$ 76,890,794</u>	<u>\$ 59,846,259</u>	<u>\$ 118,845,519</u>	<u>\$ 255,582,572</u>
Liabilities and Net Assets								
Current Liabilities:								
Accounts payable and accrued expenses	\$ 2,080,595	\$ -	\$ -	\$ 2,080,595	\$ 2,264,424	\$ -	\$ -	\$ 2,264,424
Amount received in advance for future services	4,438,629	-	-	4,438,629	4,171,927	-	-	4,171,927
Current portion of split-interest agreement liabilities	393,691	-	-	393,691	363,305	-	-	363,305
Total current liabilities	6,912,915	-	-	6,912,915	6,799,656	-	-	6,799,656
Split-Interest Agreement Liabilities, net of current portion	3,550,658	-	-	3,550,658	3,509,626	-	-	3,509,626
Total liabilities	10,463,573	-	-	10,463,573	10,309,282	-	-	10,309,282
Net Assets:								
Unrestricted:								
Operating, property, equipment and fine arts	51,442,500	-	-	51,442,500	47,677,218	-	-	47,677,218
Board designated:								
Funds functioning as endowment	8,760,012	-	-	8,760,012	8,145,312	-	-	8,145,312
Other	11,647,771	-	-	11,647,771	11,027,882	-	-	11,027,882
Endowment funds with deficiencies	(128,446)	-	-	(128,446)	(268,900)	-	-	(268,900)
Total unrestricted	71,721,837	-	-	71,721,837	66,581,512	-	-	66,581,512
Temporarily restricted	-	64,541,103	-	64,541,103	-	59,846,259	-	59,846,259
Permanently restricted	-	-	120,666,041	120,666,041	-	-	118,845,519	118,845,519
Total net assets	71,721,837	64,541,103	120,666,041	256,928,981	66,581,512	59,846,259	118,845,519	245,273,290
Total liabilities and net assets	<u>\$ 82,185,410</u>	<u>\$ 64,541,103</u>	<u>\$ 120,666,041</u>	<u>\$ 267,392,554</u>	<u>\$ 76,890,794</u>	<u>\$ 59,846,259</u>	<u>\$ 118,845,519</u>	<u>\$ 255,582,572</u>

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

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Combined Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support:								
Gifts, grants and budgeted bequests	\$ 5,367,839	\$ 1,220,832	\$ -	\$ 6,588,671	\$ 4,771,390	\$ 890,109	\$ -	\$ 5,661,499
Investment return designated for current operations	5,700,762	-	-	5,700,762	5,368,628	-	-	5,368,628
Government grants	2,903,114	-	-	2,903,114	1,093,516	-	-	1,093,516
Bequests and legacies	1,045,759	-	424,835	1,470,594	1,920,002	-	473,088	2,393,090
Contributed services	289,645	-	-	289,645	334,345	-	-	334,345
Net assets released from program restrictions	284,002	(284,002)	-	-	1,009,385	(1,009,385)	-	-
Total public support	<u>15,591,121</u>	<u>936,830</u>	<u>424,835</u>	<u>16,952,786</u>	<u>14,497,266</u>	<u>(119,276)</u>	<u>473,088</u>	<u>14,851,078</u>
Earned Revenue:								
Program income	11,387,269	-	-	11,387,269	10,226,263	-	-	10,226,263
Membership dues	3,783,370	-	-	3,783,370	3,649,464	-	-	3,649,464
Other revenue	194,810	-	-	194,810	-	-	-	-
Total earned revenue	<u>15,365,449</u>	<u>-</u>	<u>-</u>	<u>15,365,449</u>	<u>13,875,727</u>	<u>-</u>	<u>-</u>	<u>13,875,727</u>
Total public support and earned revenue	<u>30,956,570</u>	<u>936,830</u>	<u>424,835</u>	<u>32,318,235</u>	<u>28,372,993</u>	<u>(119,276)</u>	<u>473,088</u>	<u>28,726,805</u>
Operating Expenses:								
Program services	22,657,462	-	-	22,657,462	22,113,384	-	-	22,113,384
Administration and general	2,939,216	-	-	2,939,216	3,358,328	-	-	3,358,328
Development	2,037,130	-	-	2,037,130	1,840,598	-	-	1,840,598
Total operating expenses	<u>27,633,808</u>	<u>-</u>	<u>-</u>	<u>27,633,808</u>	<u>27,312,310</u>	<u>-</u>	<u>-</u>	<u>27,312,310</u>
Changes in net assets from operations before depreciation	3,322,762	936,830	424,835	4,684,427	1,060,683	(119,276)	473,088	1,414,495
Depreciation	<u>2,736,181</u>	<u>-</u>	<u>-</u>	<u>2,736,181</u>	<u>2,504,852</u>	<u>-</u>	<u>-</u>	<u>2,504,852</u>
Changes in net assets from operations	<u>586,581</u>	<u>936,830</u>	<u>424,835</u>	<u>1,948,246</u>	<u>(1,444,169)</u>	<u>(119,276)</u>	<u>473,088</u>	<u>(1,090,357)</u>
Non-Operating Revenue (Expenses):								
Investment return	1,630,868	9,829,520	643,934	12,104,322	2,126,020	13,989,710	(32,630)	16,083,100
Capital grants	-	2,905,400	-	2,905,400	-	2,976,347	-	2,976,347
Contributions to endowment	-	-	467,726	467,726	-	-	1,707,036	1,707,036
Net assets released from capital restrictions	4,027,933	(4,027,933)	-	-	1,914,510	(1,914,510)	-	-
Net assets released from trust time restrictions	24,414	(24,414)	-	-	30,895	(30,895)	-	-
Write-off of pledges receivable	-	-	-	-	-	(35,196)	-	(35,196)
Write-off of capitalized marketing costs	-	-	-	-	(1,341,387)	-	-	(1,341,387)
Change in value of split interest agreements	-	(69,241)	-	(69,241)	-	(94,857)	-	(94,857)
Investment return designated for current operations	(1,349,517)	(4,351,245)	-	(5,700,762)	(1,171,678)	(4,196,950)	-	(5,368,628)
Total non-operating revenue (expenses)	<u>4,333,698</u>	<u>4,262,087</u>	<u>1,111,660</u>	<u>9,707,445</u>	<u>1,558,360</u>	<u>10,693,649</u>	<u>1,674,406</u>	<u>13,926,415</u>
Changes in net assets	4,920,279	5,198,917	1,536,495	11,655,691	114,191	10,574,373	2,147,494	12,836,058
Net Assets, beginning of year	66,581,512	59,846,259	118,845,519	245,273,290	59,910,433	56,374,251	116,152,548	232,437,232
Transfer of funds designated for special projects	220,046	(504,073)	284,027	-	366,927	(912,404)	545,477	-
Transfer of net assets	-	-	-	-	6,189,961	(6,189,961)	-	-
Net Assets, end of year	<u>\$ 71,721,837</u>	<u>\$ 64,541,103</u>	<u>\$ 120,666,041</u>	<u>\$ 256,928,981</u>	<u>\$ 66,581,512</u>	<u>\$ 59,846,259</u>	<u>\$ 118,845,519</u>	<u>\$ 245,273,290</u>

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

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Combined Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 11,655,691	\$ 12,836,058
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	2,736,181	2,504,852
Bad debt - uncollectible pledges	(951)	35,196
Unrealized and realized gains on investments	(11,319,874)	(15,165,961)
Write-off of capitalized marketing costs	-	1,341,387
Capital grants	(2,905,400)	(2,976,347)
Government grants used for land acquisition	(949,000)	-
Endowment contributions	(471,226)	(1,707,036)
Changes in split-interest agreements	465,109	486,573
Changes in operating assets and liabilities:		
Accounts receivable	32,159	183,051
Pledges receivable	410,569	(226,255)
Inventory	(7,818)	14,018
Prepaid expenses	(9,181)	135,044
Accounts payable and accrued expenses	(183,829)	206,067
Amounts received in advance for future services	266,702	(2,212)
	<u>(280,868)</u>	<u>(2,335,565)</u>
Net cash used in operating activities		
Cash Flows from Investing Activities:		
Purchase of property and equipment and land	(7,937,349)	(2,726,364)
Disposition of fine arts collection	2,000	-
Proceeds from sale of property and equipment	-	965,626
Proceeds from sale of investments	33,887,053	8,160,401
Purchase of investments	(33,184,422)	(8,667,262)
Gift annuity contributions	139,135	13,455
Payments to annuitants	(393,691)	(363,305)
	<u>(7,487,274)</u>	<u>(2,617,449)</u>
Net cash used in investing activities		
Cash Flows from Financing Activities:		
Capital grants	2,905,400	2,976,347
Government grants used for land acquisition	949,000	-
Endowment contributions	471,226	1,710,536
	<u>4,325,626</u>	<u>4,686,883</u>
Net cash provided by financing activities		
Net Change in Cash and Cash Equivalents	(3,442,516)	(266,131)
Cash and Cash Equivalents:		
Beginning of year	<u>11,163,482</u>	<u>11,429,613</u>
End of year	<u>\$ 7,720,966</u>	<u>\$ 11,163,482</u>

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

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Notes to Combined Financial Statements
June 30, 2018 and 2017

1. OPERATIONS AND NONPROFIT STATUS

Operations

Massachusetts Audubon Society, Inc. (MAS) was established in 1896 and is a state-wide environmental organization working in the areas of land conservation, education, research, and advocacy.

Whetstone Wood Trust Fund (WWTF) was established in 2003 for the purpose of acquiring and holding land for conservation (the Whetstone Wood Wildlife Sanctuary) in Franklin County, Massachusetts. MAS is the sole beneficiary of WWTF and all WWTF trustees are affiliated with MAS. MAS and WWTF are also affiliated through common management.

Nonprofit Status

MAS and WWTF are exempt from Federal income taxes as organizations (not private foundations) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). MAS and WWTF are also exempt from state income taxes. Donors may deduct contributions made to MAS and WWTF within the IRC requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

MAS and WWTF (collectively, Mass Audubon) prepare their combined financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Principles of Combination

The combined financial statements include the activities and net assets of Mass Audubon. All significant balances between classes of net assets and inter-company balances and transactions have been eliminated in the accompanying combined financial statements.

Revenue Recognition and Expense Allocation

Unrestricted gifts and grants are recorded as revenue when received or unconditionally committed. Restricted gifts and grants are recorded as temporarily or permanently restricted net assets if they are received with donor-imposed stipulations that limit their use. Transfers are made to unrestricted net assets as costs are incurred or as time restrictions or program restrictions have lapsed. Donor restricted gifts received and satisfied in the same period are included in unrestricted net assets.

Program income, including camp fees, is recorded as services are provided. Fees and deposits received in advance of services provided are recorded as amount received in advance for future services in the accompanying combined statements of financial position. MAS occasionally leases its facilities, camp, and watercraft and recognizes rental income when the events occur. Merchandise sales revenue is recognized as items are sold. Rental and merchandise sales revenue are included in program income in the accompanying combined statements of activities and changes in net assets.

MAS receives membership dues from its members. Membership dues are recognized as revenue on the membership start date each year.

All other revenue is recognized when earned.

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Notes to Combined Financial Statements
June 30, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition and Expense Allocation (Continued)

Expenses related directly to a program or function are distributed to that program or function, while other expenses are allocated to programs or functions based upon management's estimate of the percentage attributable to each program or function.

Expenses, including depreciation, are allocated as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Program services	\$ 25,238,721	\$ 24,453,224
Administration and general	3,046,111	3,472,591
Development	<u>2,085,157</u>	<u>1,891,347</u>
	<u>\$ 30,369,989</u>	<u>\$ 29,817,162</u>

Cash and Cash Equivalents

Management considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents, excluding such assets that are maintained as part of the investment portfolio (see Note 5).

Net Assets

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by Mass Audubon. Mass Audubon has grouped its unrestricted net assets into the following categories:

Operating, property, equipment and fine arts - consists of amounts relating to program and other operating activities that are currently available for operations and the activities relating to the property, equipment and fine arts collection of Mass Audubon.

Board designated funds functioning as endowment - consists of net assets which are part of the endowment set aside by the Board of Directors for various purposes. These funds may only be used with the approval of the Board of Directors (see Note 6).

Board designated other - consists of non-endowment net assets of Mass Audubon that have been set aside by its Board of Directors for various purposes. These funds may only be used with the approval of the Board of Directors.

Endowment funds with deficiencies - consists of the net assets that have fallen below the initial gift value of the individual donor-restricted endowment funds (see Note 6).

Temporarily Restricted Net Assets

Mass Audubon receives gifts and grants that are designated by donors for specific purposes or for a specific time frame. These gifts are recorded as temporarily restricted net assets until they are expended for their designated purposes, or the time restriction has lapsed. Temporarily restricted net assets also include the accumulated unspent appreciation on permanently restricted net assets in accordance with Massachusetts law.

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Notes to Combined Financial Statements
June 30, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Temporarily Restricted Net Assets (Continued)

Temporarily restricted net assets consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Accumulated appreciation on permanently restricted endowment (see Note 6)	\$ 51,975,814	\$ 47,653,695
Split-interest agreements (see Note 13)	4,794,027	4,318,513
Program restricted	3,854,847	2,764,832
Capital restricted	<u>3,916,415</u>	<u>5,109,219</u>
	<u>\$ 64,541,103</u>	<u>\$ 59,846,259</u>

Permanently Restricted Net Assets

Permanently restricted net assets include endowment funds (see Note 6) accumulated from donor-restricted gifts. Earnings from these gifts may be used for operations unless the gift instrument requires them to be added back to permanently restricted net assets, but the principal may not be spent. In accordance with Massachusetts law, all earnings, including interest and dividends, and appreciation of a donor-restricted endowment are temporarily restricted until appropriated by the Board of Directors, and are released to unrestricted net assets based on Mass Audubon's investment spending policy.

Also included in permanently restricted net assets is property required to be held in perpetuity for conservation purposes.

Fair Value Measurements

Mass Audubon follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that Mass Audubon would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

Mass Audubon uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of Mass Audubon. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Notes to Combined Financial Statements
June 30, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Investments

Mass Audubon records investments (see Note 5) at fair value. Marketable securities are recorded at fair values as derived directly from quotations on major trading exchanges. Split-interest planned giving instruments (see Note 13) are stated at fair value of the underlying investments. Alternative investments are generally non-marketable interests in limited partnerships or similar entities that hold marketable and non-marketable securities, real estate and other assets. In some cases, Mass Audubon has committed to make specified capital contributions and may be obligated to maintain its interests for specified terms. Asset valuations of alternative investments are estimated by each investment manager or derived from valuations by underlying fund managers. These estimated values may differ significantly from the values that would have been used had a ready market existed and those differences could be material.

Split-Interest Agreements

Split-interest planned giving instruments (see Note 13) are invested in international equity funds, U.S. large, mid and small cap equity funds, real estate investment trusts, and corporate and government fixed income funds which are considered Level 1 inputs. A related liability on planned giving arrangements, based on future payments, is adjusted based on the donor life expectancies and on prevailing interest rates, which are considered Level 3 inputs (see above).

All Other Assets and Liabilities

The carrying value of all other assets and liabilities does not differ materially from their estimated fair value and is considered Level 1 in the fair value hierarchy.

Investment Return

Interest, dividends and mutual fund distributions are recorded when earned. Gains and losses are recognized as incurred upon sale or based on fair value changes during the period (see Note 5). Unless otherwise restricted by the donor, investment return is available for operations and is included in unrestricted operating net assets in the accompanying combined financial statements. Mass Audubon's investment policy sets forth guidelines for prudent investment of funds, taking into account liquidity, risk and return characteristics appropriate for different categories of Mass Audubon's holdings.

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Notes to Combined Financial Statements
June 30, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Split-Interest Agreements

Charitable remainder trusts (see Note 13) were given to Mass Audubon on the condition that Mass Audubon bind itself to make periodic stipulated payments to the donor or other designated individuals at a stated percentage of the fair value of the trust. Gift annuities were given to Mass Audubon on the condition that Mass Audubon bind itself to make periodic stipulated payments to the donor or other designated individuals. Life income funds were contributed to Mass Audubon subject to the requirement that Mass Audubon periodically pay the income earned on these funds to the donor or other designated individuals. Payments terminate at a time specified in the life income, gift annuity and charitable remainder trust agreements, usually upon death of the donor or designated individual.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts, if any, is based on management's best estimate of the amount of probable credit losses in accounts receivable, specific identification of probable losses, and an estimate of additional losses based on historical write-off experience. There was no allowance for doubtful accounts as of June 30, 2018 and 2017.

Pledges Receivable and Allowance for Uncollectible Pledges

Pledges receivable (see Note 3) at June 30, 2018 and 2017, consist of contributions committed to the annual fund and other initiatives. Pledges are discounted to their net present value when unconditionally committed. The allowance for uncollectible pledges is based on past collection experience together with a review of the current status of the existing pledges. Pledge balances are charged off against the allowance when it is probable the pledge will not be recovered.

Inventory

Inventory (see Note 4) is stated at the lower of cost or net realizable value. Cost is determined on the weighted-average method.

Fine Arts Collection

Collection items that were acquired by purchase are capitalized at cost. Mass Audubon discontinued the practice of capitalizing fine arts collection items acquired by contribution. The fine arts collection is not depreciated.

Property and Equipment and Depreciation

Property and equipment (see Note 14) having a value of \$2,000 or more and a useful life of at least three years are capitalized. Property and equipment is recorded at cost when purchased or constructed and at fair value when donated. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 - 40 years
Office furniture and computer equipment	3 - 5 years
Motor vehicles	3 - 5 years
Maintenance and program equipment	3 - 10 years

Capital assets in progress are not depreciated until they are completed and placed into service.

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Notes to Combined Financial Statements
June 30, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation (Continued)

Depreciation expense for the years ended June 30, 2018 and 2017, was \$2,736,181 and \$2,504,852, respectively.

Purchased land is recorded at acquisition cost. Donated land is recorded at a nominal amount because management does not believe the cost and difficulties of obtaining appraisals would be beneficial, given that Mass Audubon generally does not sell donated properties. Land, whether purchased or donated, is not depreciated.

Advertising Costs

Mass Audubon expenses advertising costs as they are incurred. Total advertising costs for the years ended June 30, 2018 and 2017, were \$208,564 and \$47,210, respectively.

Contributed Services

Contributions of services (see Note 9) are recognized at their estimated fair value, if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Services of volunteers which do not meet these criteria are not recorded in the combined financial statements.

Bequests and Legacies

Mass Audubon is and may be named a beneficiary of various trusts and wills. The amounts to be received, if any, cannot be determined and, therefore, are only reflected in Mass Audubon's combined financial statements when the amounts are received or become known. The first \$250,000 of unrestricted bequests and legacies received during a fiscal year is budgeted for operations by the Board of Directors and the remaining portion is deposited into the Board Designated Endowment. All bequests and legacies are included in public support in the accompanying combined statements of activities and changes in net assets for the years ended June 30, 2018 and 2017.

Estimates

The preparation of combined financial statements in accordance with U.S. GAAP 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through October 31, 2018, which is the date the combined financial statements were available to be issued. The event that met the criteria for recognition or disclosure in the combined financial statements is disclosed in Note 15. There were no other events that met the criteria for recognition or disclosure in the accompanying combined financial statements.

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Notes to Combined Financial Statements
June 30, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Mass Audubon accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the combined financial statements regarding a tax position taken or expected to be taken in a tax return. Mass Audubon has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the combined financial statements at June 30, 2018 and 2017. Mass Audubon's information returns are subject to examination by the federal and state jurisdictions.

Combined Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major or central to the provision of program services are reported as operating revenue and operating expenses in the accompanying combined statements of activities and changes in net assets. Non-operating revenue (expenses) include endowment, capital, and investment activity.

3. PLEDGES RECEIVABLE

MAS has pledges receivable as follows at June 30:

	<u>2018</u>	<u>2017</u>
Due in less than one year	\$ 259,258	\$ 701,928
Due in one to five years	<u>166,207</u>	<u>159,065</u>
	425,465	860,993
Less - discount to net present value at pledge date	28,075	32,474
Less - allowance for uncollectible pledges	<u>19,914</u>	<u>41,425</u>
	<u>\$ 377,476</u>	<u>\$ 787,094</u>

Pledges receivable are primarily from foundations, corporations, and individuals located throughout Massachusetts. Pledges with permanent restrictions have been included in long-term pledges in the accompanying combined statements of financial position as of June 30, 2018 and 2017, regardless of the expected collection date. Long-term pledges have been discounted using a discount factor of 3% at June 30, 2018 and 2017. The allowance for uncollectible pledges is calculated as 5% of the net present value of pledges at June 30, 2018 and 2017.

4. INVENTORY

Inventory consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Retail merchandise at Lincoln gift shop	\$ 145,757	\$ 143,142
Other retail merchandise	52,819	44,836
Publications	<u>7,098</u>	<u>9,878</u>
	<u>\$ 205,674</u>	<u>\$ 197,856</u>

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Notes to Combined Financial Statements
June 30, 2018 and 2017

5. INVESTMENTS

Investments are classified by level within a fair value measurement framework (see Note 2) as follows, and are stated at corresponding fair values in the accompanying combined statements of financial position as of June 30:

	2018			Total
	Level 1	Level 2	Level 3	
Mutual funds:				
Large cap	\$ 21,726,869	\$ -	\$ -	\$ 21,726,869
International	18,904,441	-	-	18,904,441
All cap	5,618,787	-	-	5,618,787
Fixed income	2,433,918	-	-	2,433,918
Money market funds	740,807	-	-	740,807
Alternative investments:				
Commingled trust funds *	-	-	-	30,356,524
Limited partnerships *	-	-	-	25,098,144
Fund of funds *	-	-	-	18,960,184
Direct hedge funds *	-	-	-	17,919,515
Other investments:				
Planned giving assets	<u>8,738,376</u>	<u>-</u>	<u>-</u>	<u>8,738,376</u>
	<u>\$ 58,163,198</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 150,497,565</u>
	2017			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Large cap	\$ 19,782,493	\$ -	\$ -	\$ 19,782,493
International	13,450,146	-	-	13,450,146
Fixed income	5,776,245	-	-	5,776,245
Private equities:				
Common stock - privately held company	-	-	838,639	838,639
Money market funds	639,252	-	-	639,252
Alternative investments:				
Commingled trust funds *	-	-	-	41,357,429
Limited partnerships *	-	-	-	20,014,161
Fund of funds *	-	-	-	22,127,849
Direct hedge funds *	-	-	-	7,841,799
Other investments:				
Planned giving assets	<u>8,191,444</u>	<u>-</u>	<u>-</u>	<u>8,191,444</u>
	<u>\$ 47,839,580</u>	<u>\$ -</u>	<u>\$ 838,639</u>	<u>\$ 140,019,457</u>

* In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined statements of financial position.

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUNDNotes to Combined Financial Statements
June 30, 2018 and 2017**5. INVESTMENTS (Continued)**

Planned giving assets consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Charitable remainder trusts	\$ 4,598,545	\$ 4,454,647
Gift annuities	2,937,314	2,515,928
Life income funds	<u>1,202,517</u>	<u>1,220,869</u>
	<u>\$ 8,738,376</u>	<u>\$ 8,191,444</u>

Planned giving assets are invested in a variety of investment types, all of which are valued using Level 1 inputs (Note 2 and see page 12).

Also included in investments as of June 30, 2017 is an investment in a privately held company acquired as part of a bequest. Because no market price was available, this investment was carried at the donor's estate tax value as annually adjusted based on the change in equity of the company, which is considered a Level 3 input (see Note 2). The value at June 30, 2017 was \$838,639. During fiscal year 2018, all shares of this investment were repurchased by the privately held company. The realized gain from this transaction was \$643,934, which was included in permanently restricted investment return in the accompanying combined statement of activities and changes in net assets for the year ended June 30, 2018.

A reconciliation of the Level 3 investment activity was as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 838,639	\$ 871,269
Redemptions	(1,482,573)	
Realized gain on investments	643,934	-
Net unrealized loss on investments	<u>-</u>	<u>(32,630)</u>
Ending balance	<u>\$ -</u>	<u>\$ 838,639</u>

As of June 30, 2018, Mass Audubon was committed to contribute approximately \$4,600,000 in additional capital to alternative investments throughout the terms of those investments, normally not to exceed fifteen years.

The following is a summary of investment return for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Unrealized gains on investments	\$ 6,829,009	\$ 14,051,656
Realized gains on investments	4,490,865	1,114,305
Interest and dividends, net of fees	<u>784,448</u>	<u>917,139</u>
	<u>\$ 12,104,322</u>	<u>\$ 16,083,100</u>

Investment management fees paid directly to managers are included in administration and general expenses in the accompanying combined statements of activities and changes in net assets. Additional investment fees that were not paid directly to the managers have been netted against the return on certain investments. Investments are not insured and are subject to ongoing market fluctuations.

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Notes to Combined Financial Statements
June 30, 2018 and 2017

6. ENDOWMENT

The Mass Audubon Pooled Endowment Fund (the Fund) consists of approximately three hundred thirty individual funds established for a variety of purposes. The Fund includes donor-restricted endowment funds, the WWTF endowment funds, and funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, 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.

Mass Audubon 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 net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Mass Audubon Board of Directors.

Mass Audubon 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 Mass Audubon 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 Mass Audubon.
7. The investment policies of Mass Audubon.

Investment Return Objectives, Risk Parameters and Strategies

The Fund has been established over many years by many generous contributors. The Fund provides, from its current income and capital, a substantial portion of the resources used to support Mass Audubon's environmental and conservation programs and activities. Preservation of that capital, measured by real spending power, is critical to the present, as well as the future ability of Mass Audubon to accomplish its mission. The overall risk tolerance parameters and objectives established by Mass Audubon's Investment Committee are as follows:

- The foremost responsibility of the Investment Committee is to preserve the purchasing power of the Fund. Preservation shall be measured in terms of real spending power after adjustment for additions to and withdrawals from the Fund.
- Consistency of performance is of paramount importance.
- Moderate volatility of investment return (risk) of the Fund's assets will be tolerated with the expectation that assets will grow at a rate commensurate with the level of risk.
- Capital appreciation is needed by the Fund to keep ahead of inflation over the long run (a real rate of return over inflation).
- Downside market protection is more important than maximizing returns of the upside of the market.

The Investment Committee has established an asset allocation policy, investment guidelines and performance standards for the investment of the Fund's assets, in order to control risk and monitor investment performance. In recognition of the prudence required of fiduciaries, reasonable diversification is sought where possible. Experience has shown that financial markets and inflation rates are cyclical, and therefore, control of volatility is most likely to be achieved through diversification of asset classes, and, where appropriate, selection of managers of diverse investment styles.

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Notes to Combined Financial Statements
June 30, 2018 and 2017

6. ENDOWMENT (Continued)

Spending Policy

Spending from every donor-restricted endowment fund is governed by the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA). In January of each year, Mass Audubon's Investment Committee reviews information showing the fair value for the Fund (less outstanding loans and deferred contributions) at December 31st of the preceding year and for the three preceding calendar quarters and also reviews the amount of spending from the Fund in the current fiscal year. The spending amount for the next fiscal year is calculated by: 1) multiplying the current fiscal year spending amount from the Fund by one plus the percentage increase in the Consumer Price Index (CPI-U) for the then-ended calendar year and then by seventy percent and 2) by adding to this amount a second amount which is determined by multiplying a trailing average of the market value of the Fund at December 31st and the preceding three calendar quarters by a spending rate determined by the Investment Committee and then by thirty percent. In computing the average of the Fund to be used for the spending rate decision, net endowment additions for each of the four preceding calendar quarters will be added back. The Investment Committee recommends the amount so calculated for the next fiscal year to the Board of Directors, which then determines the spending rate. The Investment Committee determines the details of this policy and monitors its implementation.

Endowment Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the donor restricted contributions. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets and totaled \$128,446 and \$268,900 as of June 30, 2018 and 2017, respectively.

Endowment Activity

The following table summarizes activity of Mass Audubon's endowment:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Endowment net assets, June 30, 2016	\$ 5,030,041	\$ 38,990,702	\$ 69,603,313	\$ 113,624,056
Investment return	1,093,287	13,011,610	(32,630)	14,072,267
Contributions	1,824,264	-	2,180,124	4,004,388
Appropriation of assets	(71,180)	(151,667)	545,477	322,630
Investment return designated for current operations	-	(4,196,950)	-	(4,196,950)
Sub-total	<u>2,846,371</u>	<u>8,662,993</u>	<u>2,692,971</u>	<u>14,202,335</u>
Endowment net assets, June 30, 2017	<u>7,876,412</u>	<u>47,653,695</u>	<u>72,296,284</u>	<u>127,826,391</u>
Investment return	769,820	8,956,064	643,934	10,369,818
Contributions	1,057,239	-	890,428	1,947,667
Appropriation of assets	(1,071,905)	(282,700)	284,027	(1,070,578)
Investment return designated for current operations	-	(4,351,245)	-	(4,351,245)
Sub-total	<u>755,154</u>	<u>4,322,119</u>	<u>1,818,389</u>	<u>6,895,662</u>
Endowment net assets, June 30, 2018	<u>\$ 8,631,566</u>	<u>\$ 51,975,814</u>	<u>\$ 74,114,673</u>	<u>\$ 134,722,053</u>

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Notes to Combined Financial Statements
June 30, 2018 and 2017

7. NOTE PAYABLE TO A BANK

At June 30, 2018 and 2017, MAS has available up to \$100,000 on an unsecured line of credit agreement with a bank which expires on May 29, 2019. Borrowings under the line of credit bear interest at the London Interbank Offered Rate (LIBOR) Advantage Rate (2.07% and 1.17% at June 30, 2018 and 2017, respectively), plus 2%. This agreement contains certain financial and non-financial covenants with which MAS must comply. MAS is in compliance with the covenants as of June 30, 2018 and 2017. At June 30, 2018 and 2017, no borrowings were outstanding under the line of credit agreement.

8. RETIREMENT PLAN

MAS has a defined contribution pension plan pursuant to Internal Revenue Service (IRS) Section 403(b) in which all eligible employees can elect to defer a percentage of their compensation. MAS also contributes 4% of an employee's salary if the employee meets certain requirements.

In addition, MAS will match a portion of the employee's deferral up to 4% of eligible compensation. The employee's elective deferral and MAS matching contributions are subject to IRS limitations. For the years ended June 30, 2018 and 2017, MAS contributions to the plan totaled approximately \$878,000 and \$818,000, respectively.

9. CONTRIBUTED SERVICES

The value of donated services and the corresponding expenses included in the accompanying combined statements of activities and changes in net assets consist of volunteer hours at sanctuaries of \$289,645 and \$334,345, respectively, for the years ended June 30, 2018 and 2017.

In addition, each year more than fourteen thousand volunteers donate a total of more than 155,000 hours of time to MAS environmental education, advocacy, research, and sanctuary program services. No amounts have been reflected in the accompanying combined financial statements for these volunteer services, since the contributed services did not meet the criteria for recognition under U.S. GAAP (see page 10).

10. COMMITMENTS

On January 1, 2001, MAS entered into a consulting agreement with a former president of MAS. The agreement provided for two phases: the first, through June 30, 2008, established a monthly consulting fee and reimbursement for certain expenses in return for the former president's services for a fixed number of days per year; the second, which commenced on July 1, 2008, continues until the former president's death, and provides a monthly consulting fee in return for the former president's services for a reduced number of days per year.

11. CONCENTRATIONS

Credit Risk

Mass Audubon maintains its operating cash balances in two banks in Massachusetts, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. Mass Audubon has not experienced any losses in such accounts.

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Notes to Combined Financial Statements
June 30, 2018 and 2017

11. CONCENTRATIONS (Continued)

Funding

MAS receives funding under state and federal contracts. Payments to MAS are subject to audit by the appropriate government agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the combined financial position of Mass Audubon as of June 30, 2018 and 2017, or on its results of operations for the years then ended. As of June 30, 2018 and 2017, two government agencies represent 31% and 44% of accounts receivable, respectively.

Approximately 72% of gross pledges receivable at June 30, 2018, was due from four donors. Approximately 57% of gross pledges receivable at June 30, 2017, was due from three donors.

12. TRANSFERS RELATED TO SPECIAL PROJECTS

MAS engages donors in various capital campaigns in support of its wildlife sanctuaries. Upon completion of a capital campaign, any unexpended amounts are transferred to the endowment or used for operations, based on the campaign's specified purpose.

13. SPLIT-INTEREST AGREEMENTS

Mass Audubon is the beneficiary of various split-interest planned giving arrangements. These gifts are classified within the following categories:

Charitable gift annuities – A donor transfers assets to Mass Audubon in return for a promise to pay a specific annuity to a designated beneficiary for their lifetime. Under this arrangement, the obligation to make annuity payments is guaranteed by all assets of Mass Audubon. Upon the beneficiary's death, the annuity payment obligation ceases and the remaining balance is recorded as a gift. These funds have been discounted to their net present value based upon the donor's expected life and the IRS Federal rate for determining the present value of an annuity (3.40% and 2.40% at June 30, 2018 and 2017, respectively).

Pooled life income funds – A donor invests in a pooled investment fund. The income generated is paid to a designated beneficiary over their lifetime. Upon the beneficiary's death, the value of the donor's units in the fund is transferred to the unrestricted net assets of Mass Audubon, unless the donor has designated these funds for a permanently restricted purpose. The pooled income funds are included in temporarily restricted net assets at June 30, 2018 and 2017. These funds have been discounted to their net present value based upon the donor's expected life and a rate of (3.40% and 2.31% at June 30, 2018 and 2017, respectively).

Charitable remainder trusts – Charitable remainder trusts were given to Mass Audubon on the condition that Mass Audubon bind itself to make periodic stipulated payments to the donor or other designated individuals at a stated percentage of the fair value of the trust. Upon the beneficiary's death, the stipulated payment obligation ceases. These funds have been discounted to their net present value based upon the donor's expected life and the IRS Federal rate for determining the present value of an annuity (3.40% and 2.40% at June 30, 2018 and 2017, respectively).

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Notes to Combined Financial Statements
June 30, 2018 and 2017

13. SPLIT-INTEREST AGREEMENTS (Continued)

Split-interest agreements are comprised of the following as of June 30:

	2018			
	Charitable Gift Annuities	Pooled Income Funds	Charitable Remainder Trusts	Total
Asset	\$ 2,937,314	\$ 1,202,517	\$ 4,598,545	\$ 8,738,376
Obligations	<u>1,644,385</u>	<u>200,993</u>	<u>2,098,971</u>	<u>3,944,349</u>
Total net assets	<u>\$ 1,292,929</u>	<u>\$ 1,001,524</u>	<u>\$ 2,499,574</u>	<u>\$ 4,794,027</u>

	2017			
	Charitable Gift Annuities	Pooled Income Funds	Charitable Remainder Trusts	Total
Asset	\$ 2,515,928	\$ 1,220,869	\$ 4,454,647	\$ 8,191,444
Obligations	<u>1,539,604</u>	<u>167,793</u>	<u>2,165,534</u>	<u>3,872,931</u>
Total net assets	<u>\$ 976,324</u>	<u>\$ 1,053,076</u>	<u>\$ 2,289,113</u>	<u>\$ 4,318,513</u>

The changes in split-interest agreement liabilities for which Mass Audubon has used Level 3 inputs to determine fair value were as follows for the fiscal years ended June 30:

	2018	2017
Beginning Balance	\$ 3,872,931	\$ 3,749,663
Payments	(393,691)	(363,305)
Change in value	487,346	489,057
Releases due to death of beneficiary	<u>(22,237)</u>	<u>(2,484)</u>
Ending Balance	<u>\$ 3,944,349</u>	<u>\$ 3,872,931</u>

14. PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following as of June 30:

	2018	2017
Buildings and improvements	\$ 48,398,027	\$ 44,168,239
Capital assets in progress	13,121,876	9,698,738
Office furniture and computer equipment	722,821	659,845
Motor vehicles	1,249,831	1,059,346
Maintenance and program equipment	<u>655,869</u>	<u>630,927</u>
	64,148,424	56,217,095
Less - accumulated depreciation	<u>18,085,206</u>	<u>15,349,025</u>
Net property and equipment	<u>\$ 46,063,218</u>	<u>\$ 40,868,070</u>

MASSACHUSETTS AUDUBON SOCIETY, INC. AND WHETSTONE WOOD TRUST FUND

Notes to Combined Financial Statements
June 30, 2018 and 2017

15. SUBSEQUENT EVENT

In October 2018, Mass Audubon received approximately \$6.688 million in proceeds from the sale of California Compliance Offsets (CCOs), under the California Global Warming Solutions Act of 2006. CCOs are a tradeable compliance instrument created and issued by the California Air Resources Board (ARB), and represent a greenhouse gas reduction and are eligible for use in California to meet compliance obligations under the California cap on greenhouse gas emissions. The CCOs are a product of certain land owned by Mass Audubon which has been certified as meeting the requirements of a Forest Offset Project (the Project), as determined by the ARB. The Project must continue to meet these requirements for 100 years. In the event the Project fails to comply with these requirements, the Project either must replace the CCOs previously issued or pay monetary damages.

A third-party organization purchased the CCOs from Mass Audubon under an emissions reduction purchase agreement dated October 26, 2017. Recognition of the revenue is contingent upon delivery of the CCOs, which occurred in fiscal year 2019 and accordingly no amounts are accrued in the accompanying combined financial statements for the year ended June 30, 2018. Certain amounts under this agreement are subject to an invalidation period of eight years.