

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2011 AND 2010**

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors and  
Auditing Committee  
Massachusetts Audubon Society, Inc.  
Lincoln, Massachusetts

We have audited the accompanying statements of financial position of Massachusetts Audubon Society, Inc. (a Massachusetts non-profit organization) as of June 30, 2011 and 2010, and the related statements of activities, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Massachusetts Audubon Society, Inc. management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Massachusetts Audubon Society, Inc. has consistently followed the practice of recording donated land at a nominal amount because management does not believe the cost and difficulties of obtaining appraisals would be beneficial, given that the organization generally does not sell donated properties. U.S. generally accepted accounting principles require that such donated property be recorded at its fair value at the date of receipt. It was not practicable to determine the effects of this departure from U.S. generally accepted accounting principles on the financial statements.

In our opinion, except for the effects of recording donated land at a nominal amount as discussed in the third paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Massachusetts Audubon Society, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.



Tonneson + Co

November 14, 2011

tonneson + co  
Certified Public Accountants & Consultants

MASSACHUSETTS AUDUBON SOCIETY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

	2011		2010	
	<u>ASSETS</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,870,048	\$ 1,972,276	\$ -	\$ 3,842,324
Investments	6,771,113	56,283,279	56,730,173	119,784,565
Accounts receivable	830,676	-	-	830,676
Pledges receivable	407,642	2,016,991	204,549	2,629,182
Inventory	343,602	-	-	343,602
Prepaid expenses	297,861	-	-	297,861
Fine arts collection	1,368,422	-	25,000	1,393,422
Property and equipment, net	48,774,837	-	45,384,721	94,159,558
Interfund balances	(3,085,636)	3,255,621	(169,985)	-
<b>TOTAL ASSETS</b>	<b>\$ 57,578,565</b>	<b>\$ 63,528,167</b>	<b>\$ 102,174,458</b>	<b>\$ 223,281,190</b>
			<b>\$ 52,546,063</b>	<b>\$ 54,221,805</b>
				<b>\$ 101,721,740</b>
				<b>\$ 208,489,608</b>
	<u>LIABILITIES AND NET ASSETS</u>			
Accounts payable and accrued expenses	\$ 1,777,370	\$ -	\$ -	\$ 1,777,370
Deferred grants	-	202,025	-	202,025
Amount received in advance for future services	2,469,642	-	-	2,469,642
Reserve for unemployment benefits	163,430	-	-	163,430
Split-interest agreement liabilities	-	4,769,066	-	4,769,066
Long-term debt	180,055	-	-	180,055
Total liabilities	4,590,497	4,971,091	-	9,561,588
Total net assets	52,988,068	58,557,076	102,174,458	213,719,602
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 57,578,565</b>	<b>\$ 63,528,167</b>	<b>\$ 102,174,458</b>	<b>\$ 223,281,190</b>
			<b>\$ 52,546,063</b>	<b>\$ 54,221,805</b>
				<b>\$ 101,721,740</b>
				<b>\$ 208,489,608</b>

See Notes to Financial Statements.

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**STATEMENTS OF ACTIVITIES**

**YEARS ENDED JUNE 30, 2011 AND 2010**

	2011						2010			
	Unrestricted Operating	Unrestricted Other	Temporarily Restricted	Permanently Restricted	Total	Unrestricted Operating	Unrestricted Other	Temporarily Restricted	Permanently Restricted	Total
<b>Public Support and Revenue</b>										
Public Support:										
Gifts and grants	\$ 2,471,904	\$ -	\$ 3,194,684	\$ 329,020	\$ 5,995,608	\$ 2,751,602	\$ -	\$ 4,230,761	\$ 276,384	\$ 7,258,747
Government contracts	704,551	-	124,316	-	828,867	1,083,669	-	66,221	-	1,149,890
Legacies and bequests	234,155	-	-	-	234,155	581,866	-	-	65,785	647,651
Total public support	3,410,610	-	3,319,000	329,020	7,058,630	4,417,137	-	4,296,982	342,169	9,056,288
Revenue:										
Memberships dues	3,172,859	-	-	-	3,172,859	3,162,073	-	-	-	3,162,073
Program income	6,888,743	-	331,968	-	7,220,711	6,509,733	-	761,879	-	7,271,612
Gain on investments	-	2,371,004	15,643,252	5,485	18,019,741	-	1,380,558	6,892,058	46,225	8,318,841
Interest and dividends	1,413,604	-	78,241	-	1,491,845	2,001,722	-	114,907	-	2,116,629
Contributed services	278,238	-	-	-	278,238	317,948	-	-	-	317,948
Other revenue	-	-	55,876	-	55,876	-	-	11,586	-	11,586
Withdrawal for spending rate	3,710,743	(287,766)	(3,422,977)	-	-	3,158,866	(222,447)	(2,936,419)	-	-
Fund special projects	23,113	(1,085,277)	966,449	95,715	-	-	(510,104)	510,104	-	-
Net other interfund transfers	172,170	354,069	(548,737)	22,498	-	(281,091)	6,448	79,117	195,526	-
Net assets released from restrictions:										
Satisfaction of program restrictions:	573,326	6,483,736	(7,057,062)	-	-	514,913	4,529,163	(5,044,076)	-	-
Total revenue	16,232,796	7,835,766	6,047,010	123,698	30,239,270	15,384,164	5,183,618	389,156	241,751	21,198,689
Total public support and revenue	19,643,406	7,835,766	9,366,010	452,718	37,297,900	19,801,301	5,183,618	4,686,138	583,920	30,254,977
<b>Expenses</b>										
Program and member services expenses	16,711,484	1,693,270	-	-	18,404,754	16,495,429	1,900,295	-	-	18,395,724
Administration and general expenses	2,157,778	942,698	-	-	3,100,476	2,161,574	414,834	-	-	2,576,408
Development expenses	1,075,129	53,196	-	-	1,128,325	1,236,207	4,084	-	-	1,240,291
Fund depreciation	(108,147)	108,147	-	-	-	(205,605)	205,605	-	-	-
Net interfund transfers	(193,128)	193,128	-	-	-	(219,396)	219,396	-	-	-
Total expenses	19,643,116	2,990,439	-	-	22,633,555	19,468,209	2,744,214	-	-	22,212,423
Changes in split-interest agreements	-	-	(565,201)	-	(565,201)	-	-	627,460	-	627,460
Add surplus unrestricted bequests to endowment	(946)	946	-	-	-	(333,302)	333,302	-	-	-
Change in net assets	(656)	4,846,273	8,800,809	452,718	14,099,144	(210)	2,772,706	5,313,598	583,920	8,670,014

See Notes to Financial Statements.

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**STATEMENTS OF CHANGES IN NET ASSETS**

**YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>Unrestricted</u>		<u>Temporarily</u>	<u>Permanently</u>	
	<u>Operating</u>	<u>Other</u>	<u>Restricted</u>	<u>Restricted</u>	<u>Total</u>
<b>BALANCE AT JULY 1, 2009</b>	\$ 400,213	\$ 44,969,742	\$ 44,442,669	\$ 101,137,820	\$ 190,950,444
Change in net assets	<u>(210)</u>	<u>2,772,706</u>	<u>5,313,598</u>	<u>583,920</u>	<u>8,670,014</u>
<b>BALANCE AT JUNE 30, 2010</b>	400,003	47,742,448	49,756,267	101,721,740	199,620,458
Change in net assets	<u>(656)</u>	<u>4,846,273</u>	<u>8,800,809</u>	<u>452,718</u>	<u>14,099,144</u>
<b>BALANCE AT JUNE 30, 2011</b>	<u>\$ 399,347</u>	<u>\$ 52,588,721</u>	<u>\$ 58,557,076</u>	<u>\$ 102,174,458</u>	<u>\$ 213,719,602</u>

See Notes to Financial Statements.

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED JUNE 30, 2011 AND 2010**

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 14,099,144	\$ 8,670,014
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,138,687	1,733,832
Gain on investments	(18,019,741)	(8,318,841)
Changes in split-interest agreements	594,280	(598,381)
Allowance for uncollectible pledges	(48,871)	(90,051)
Amortization of pledge discount	(127,172)	(19,328)
Change in certain assets and liabilities:		
Accounts receivable	1,016,782	(156,485)
Pledges receivable	1,104,589	476,609
Inventory	(51,319)	1,797
Prepaid expenses	(96,937)	54,548
Accounts payable and accrued expenses	204,747	(316,625)
Deferred grant revenue	(64,182)	(29,888)
Amounts received in advance for future services	20,956	289,731
Reserve for unemployment benefits	(38,818)	26,094
	<u>(267,855)</u>	<u>1,723,026</u>
Net cash provided by (used in) operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(4,988,613)	(3,905,329)
Proceeds from sale of investments	45,568,708	36,509,883
Purchase of investments	(41,759,544)	(34,494,991)
	<u>(1,179,449)</u>	<u>(1,890,437)</u>
Net cash used in investing activities		
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,447,304)	(167,411)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>5,289,628</u>	<u>5,457,039</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 3,842,324</u>	<u>\$ 5,289,628</u>

See Notes to Financial Statements.

# MASSACHUSETTS AUDUBON SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

### YEARS ENDED JUNE 30, 2011 AND 2010

#### Note 1 - Summary of Significant Accounting Policies

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

The Internal Revenue Service has recognized Mass Audubon as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code which provides for the exemption of organizations that are organized and operated exclusively for religious, charitable, scientific, literary or educational purposes and whose net earnings do not inure to the benefit of any private shareholder or individual. Gifts to Mass Audubon are tax deductible.

**Estimates** - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Financial Statement Presentation** - In accordance with U.S. generally accepted accounting principles, Mass Audubon is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**Contributions** - In accordance with U.S. generally accepted accounting principles, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

**Recognition of Donor Restrictions** - Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the same reporting period. All other donor-restricted support is reported as an increase in temporarily restricted net assets or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Fine Arts Collection** - Mass Audubon capitalizes fine arts collection items acquired by purchase or contribution in accordance with U.S. generally accepted accounting principles. Collection items that are acquired by purchase or contribution are capitalized at cost.

**Contributed Services** - In accordance with U.S. generally accepted accounting principles, contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) 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 financial statements.

**Cash Equivalents** - Cash equivalents consist of highly liquid investments with original maturities of 90 days or less. Cash equivalents are carried at cost which approximates market.

**Concentration of Credit Risk** - Financial instruments which potentially subject Mass Audubon to concentration of credit risk consist principally of temporary cash investments. Mass Audubon places its temporary cash investments in high quality financial institutions. Mass Audubon's non-interest bearing operating cash account is fully insured by the Federal Deposit Insurance Corporation ("FDIC") through December 31, 2012. Amounts held in interest bearing money market accounts are not covered by FDIC insurance.

**Inventory** - Inventory is stated at the lower of cost or market. Cost is determined on the weighted-average method and market is generally based on net realizable value.

# MASSACHUSETTS AUDUBON SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

### YEARS ENDED JUNE 30, 2011 AND 2010

#### Note 1 - Summary of Significant Accounting Policies (Continued)

**Pledges Receivable** - Unconditional promises to give are recognized as revenue or gains in the period received and as assets or decreases of liabilities, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The allowance for doubtful accounts is determined by applying a percentage against total pledges receivable, based upon management's judgment concerning the future collectability of the receivables.

**Investments** - Investments in stocks, bonds, mutual funds, money market funds and limited partnerships are accounted for in accordance with U.S generally accepted accounting principles. Such investments are stated at market value. Investments in life income funds, gift annuities funds and charitable remainder unitrusts are stated at the market value of the underlying investments. Unless specific prohibitive clauses are contained in the gift instruments, funds for investment have been combined into one of two investment pools, general investment and life income trusts. All gains and losses arising from the sale, collection, or other disposition of investments and other non-cash assets and unrealized gains and losses on investments are reflected in the statement of activities.

**Endowment Funds with Deficiencies** - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Uniform Prudent Management of Institutional Funds Act requires Mass Audubon to retain as a fund for perpetual duration. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets and amount to \$513,710 and \$1,866,553 as of June 30, 2011 and 2010, respectively.

**Property and Equipment** - Buildings, furniture, equipment and motor vehicles are carried at cost less depreciation. Mass Audubon computes depreciation using the straight-line method calculated to amortize the cost of the assets over their estimated useful lives. Depreciation expense amounted to \$1,138,687 and \$1,733,832 for the years ended June 30, 2011 and 2010, 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. The cost of purchasing conservation restrictions and easements is not capitalized but is expensed. For the years ended June 30, 2011 and 2010, no such expenditures related to conservation restrictions and easements were incurred.

Donated buildings and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Mass Audubon reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Mass Audubon reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**Accounting for Uncertain Tax Positions** - U.S. generally accepted accounting principles provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. U.S generally accepted accounting principles require an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination by a tax authority.

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2011 AND 2010**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

These determinations have been reviewed according to guidance in U.S. generally accepted accounting principles related to accounting for uncertainty in income taxes which was adopted by Mass Audubon on July 1, 2009. As of June 30, 2011, Mass Audubon has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Mass Audubon is no longer subject to examination by Federal or State tax authorities for years prior to fiscal year 2008.

**Financial State Presentation** - Certain reclassifications have been made to the 2010 financial statements in order to conform to the presentation for 2011.

**Subsequent Events** - The date to which events occurring after June 30, 2011 have been evaluated for possible adjustment to the financial statements or disclosure is the date of the Independent Auditors' Report, which is the date the financial statements were available to be issued.

**Note 2 - Restrictions on Assets**

Temporarily restricted net assets consisted of the following at June 30, 2011 and 2010:

	<b><u>2011</u></b>		<b><u>2010</u></b>
Accumulated appreciation on permanently restricted net assets	\$ 41,757,759	\$	32,965,183
Funds for future operations of specific Mass Audubon programs	<u>16,799,317</u>		<u>16,791,084</u>
	<u>\$ 58,557,076</u>	\$	<u>49,756,267</u>

Permanently restricted net assets consist of property required to be held for conservation purposes and the original gift value of investments to be held indefinitely as endowment, the income from which is available to support certain operations of Mass Audubon.

**Note 3 - Pledges Receivable**

Pledges receivable scheduled to be received over future periods consist of the following amounts as of June 30, 2011 and 2010:

	<b><u>2011</u></b>		<b><u>2010</u></b>
Within one year	\$ 1,679,625	\$	2,340,006
One to two years	771,567		1,087,893
Two to three years	326,534		542,016
Three to four year	177,618		160,000
Four to five years	165,000		105,000
Thereafter	<u>33,000</u>		<u>23,018</u>
	3,153,344		4,257,933
Less: discounts to net present value	(385,784)		(512,956)
Less: allowance for uncollectible pledges	<u>(138,378)</u>		<u>(187,249)</u>
	<u>\$ 2,629,182</u>	\$	<u>3,557,728</u>

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2011 AND 2010**

**Note 3 - Pledges Receivable (Continued)**

Pledges receivable are primarily from foundations, corporations and individuals located throughout Massachusetts. A discount rate of 5% was used to calculate the net present value of pledges receivable at June 30, 2011 and 2010.

**Note 4 - Inventory**

Inventory as of June 30, 2011 and 2010 consists of the following:

	<u>2011</u>		<u>2010</u>
Retail merchandise at Lincoln shop	\$ 167,192	\$	139,361
Publications	56,757		57,217
Mailroom supplies and prepaid postage	37,086		30,307
Information technology equipment	31,998		8,133
Other retail merchandise	29,425		37,122
Field dress	21,144		20,143
	<u>\$ 343,602</u>	\$	<u>292,283</u>

**Note 5 - Property and Equipment, Net**

Property and equipment, at cost less accumulated depreciation as of June 30, 2011 and 2010 is as follows:

	<u>2011</u>		<u>2010</u>
Land	\$ 54,444,367	\$	53,436,749
Buildings and improvements	34,428,127		25,751,490
Capital assets in progress	15,651,244		20,275,143
Office furniture and computer equipment	2,355,288		2,234,720
Maintenance and program equipment	781,559		691,023
Motor vehicles	1,789,047		1,639,709
	<u>109,449,632</u>		<u>104,028,834</u>
Less accumulated depreciation	<u>(15,290,074)</u>		<u>(13,719,202)</u>
	<u>\$ 94,159,558</u>	\$	<u>90,309,632</u>

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2011 AND 2010**

**Note 6 - Investments**

Investments as of June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
U.S. corporate stocks and mutual funds	\$ 41,803,886	\$ 37,714,309
U.S. corporate and government bonds	8,970,369	8,333,390
International mutual funds	26,754,863	29,098,885
Limited partnerships	21,919,488	19,700,822
Money market funds	11,485,546	2,875,486
Life income funds	1,164,626	1,074,523
Gift annuities	2,878,095	2,576,551
Charitable remainder trusts	4,807,692	4,224,567
	<u>\$ 119,784,565</u>	<u>\$ 105,598,533</u>

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 agreements, usually upon death of the donor or designated individual. 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. Charitable remainder unitrusts 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 market value of the trust. Payments on gift annuity and unitrust agreements terminate at a time specified in the agreements. The aforementioned planned giving instruments 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. A related liability on planned giving agreements, based upon future payments, is adjusted based upon donor life expectancies and on prevailing interest rates.

Included in U.S. corporate stocks and mutual funds is an investment in a privately held company acquired by bequest. Because no market price is available, this investment is carried at the donor's estate tax value as annually adjusted based on the equity of the company. The value at June 30, 2011 and 2010 was \$1,045,642 and \$1,040,156 respectively.

During the year ended June 30, 2009, Mass Audubon implemented the requirements of U.S. generally accepted accounting principles for its financial assets and liabilities. The adoption of U.S. generally accepted accounting principles did not have a material impact on Mass Audubon's financial position or results of operations. U.S. generally accepted accounting principles refines the definition of fair value, expands disclosure requirements about fair value measurements, and establishes specific requirements as well as guidelines for a consistent framework to measure fair value. U.S. generally accepted accounting principles defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. Further, U.S. generally accepted accounting principles requires Mass Audubon to maximize the use of observable market inputs, minimize the use of unobservable market inputs, and disclose in the form of an outlined hierarchy the details of such fair value measurements. U.S. generally accepted accounting principles specifies a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Mass Audubon's market assumptions.

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2011 AND 2010**

**Note 6 - Investments (Continued)**

This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than those included in Level 1. For example, quoted prices for similar assets in active markets or quoted prices for identical assets in inactive markets.

Level 3 - Unobservable inputs reflecting management's own assumptions about the inputs used in estimating the value of the asset.

The following table summarizes Mass Audubon's financial assets measured at fair value on a recurring basis in accordance with U.S. generally accepted accounting principles as of June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Public equities:			
Large cap	\$ 13,875,330	\$ -	\$ -
Large/Mid cap	5,712,245	-	-
Mid cap	17,612,015	-	-
Small cap	3,558,654	-	-
International	26,754,863	-	-
Private equities:			
Common stock - privately held company	-	-	1,045,642
Bond investments:			
Income	8,970,369	-	-
Short-term investments:			
Money market funds	11,485,546	-	-
Alternative investments:			
Limited partnerships	-	-	21,919,488
Other investments			
Planned giving assets	8,850,413	-	-
Total investments	\$ 96,819,435	\$ -	\$ 22,965,130
Planned giving liabilities	\$ -	\$ 4,769,066	\$ -
Total liabilities	\$ -	\$ 4,769,066	\$ -

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2011 AND 2010**

**Note 6 - Investments (Continued)**

The following table summarizes Mass Audubon's financial assets measured at fair value on a recurring basis in accordance with U.S. generally accepted accounting principles as of June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Public equities:			
Large cap	\$ 13,175,889	\$ -	\$ -
Large/Mid cap	9,911,231	-	-
Mid cap	13,587,033	-	-
International	23,607,468	-	-
Private equities:			
Common stock - privately held company	-	-	1,040,156
Bond investments:			
Income	13,824,807	-	-
Short-term investments:			
Money market funds	2,875,486	-	-
Alternative investments:			
Limited partnerships	-	-	19,700,822
Other investments			
Planned giving assets	<u>7,875,641</u>	<u>-</u>	<u>-</u>
Total investments	\$ 84,857,555	\$ -	\$ 20,740,978
Planned giving liabilities	\$ -	\$ 4,199,331	\$ -
Total liabilities	\$ -	\$ 4,199,331	\$ -

Alternative investments include investments valued at fair value based upon market prices and net asset values and other investments which values have been estimated by the general partner in absence of readily ascertainable market values. Those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and differences could be material.

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that Mass Audubon has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs.

The following is the changes in Level 3 assets measured at fair value for the years ended June 30, 2011 and 2010:

Balance, beginning of year	\$ 20,740,978	\$ 21,650,048
Purchases, sales and settlements, net	(1,393,100)	(2,427,426)
Realized and unrealized gain, net	<u>3,617,252</u>	<u>1,518,356</u>
Balance, end of year	\$ <u>22,965,130</u>	\$ <u>20,740,978</u>

# MASSACHUSETTS AUDUBON SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

### YEARS ENDED JUNE 30, 2011 AND 2010

#### Note 7 - Endowment

Mass Audubon's endowment consists of approximately two hundred seventy-nine individual funds established for a variety of purposes. Mass Audubon's endowment includes 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.

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 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.

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 Mass Audubon Pooled Endowment Fund ("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 future ability of Mass Audubon to accomplish its mission. The overall risk tolerance parameters and objectives established by the Mass Audubon 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 on the upside of the market.

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2011 AND 2010**

**Note 7 - Endowment (Continued)**

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 will be 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.

**Spending Policy** - Spending from every restricted endowment fund which is not a Board-restricted fund is governed by the Massachusetts Uniform Prudent Management of Institutional Funds Act. In January of each year, the Mass Audubon Investment Committee reviews information showing the market value for Mass Audubon's Pooled Endowment Fund (less outstanding loans and deferred contributions) at December 31 of the preceding year and for the three preceding calendar quarters and also reviews the amount of spending from the Pooled Endowment 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 Pooled Endowment 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 Pooled Endowment Fund at December 31 and the preceding three quarters by a spending rate determined by the Investment Committee and then by thirty percent. In computing the average of the Pooled Endowment Fund to be used for the spending rate decision, net endowment additions for each of the four 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 details of this policy and monitors its implementation.

The endowment net asset composition by type of fund as of June 30, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ (513,710)	\$ 41,757,759	\$ 56,730,173	\$ 97,974,222
Board designated endowment funds	1,485,540	-	-	1,485,540
	<u>\$ 971,830</u>	<u>\$ 41,757,759</u>	<u>\$ 56,730,173</u>	<u>\$ 99,459,762</u>

The endowment net asset composition by type of fund as of June 30, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ (1,866,553)	\$ 32,965,183	\$ 55,933,169	\$ 87,031,799
Board designated endowment funds	1,146,824	-	-	1,146,824
	<u>\$ (719,729)</u>	<u>\$ 32,965,183</u>	<u>\$ 55,933,169</u>	<u>\$ 88,178,623</u>

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2011 AND 2010**

**Note 7 - Endowment (Continued)**

The changes in endowment net assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, June 30, 2009	(908,352)	29,744,055	55,141,619	\$ 83,977,322
Investment gain, net	987,069	6,012,580	46,225	7,045,874
Contributions	-	-	566,910	566,910
Appropriations of cumulative gains/losses	<u>(798,446)</u>	<u>(2,791,452)</u>	<u>178,415</u>	<u>(3,411,483)</u>
Endowment Net Assets, June 30, 2010	(719,729)	32,965,183	55,933,169	88,178,623
Investment gain, net	1,352,843	13,199,179	5,485	14,557,507
Contributions	338,716	-	720,183	1,058,899
Appropriations of cumulative gains/losses	<u>-</u>	<u>(4,406,603)</u>	<u>71,336</u>	<u>(4,335,267)</u>
Endowment Net Assets, June 30, 2011	\$ <u>971,830</u>	\$ <u>41,757,759</u>	\$ <u>56,730,173</u>	\$ <u>99,459,762</u>

**Note 8 - Defined Contribution Retirement Plan**

Mass Audubon has in place a 403(b) retirement plan in which eligible employees can elect to defer a percentage of their compensation. Mass Audubon also contributes 4% of an employee's salary if the employee meets certain requirements. In addition, Mass Audubon will match a portion of the employee's deferral up to 4% of compensation. The employee's elective deferral and Mass Audubon's matching contribution are subject to Internal Revenue Service limitations. For the years ended June 30, 2011 and 2010, Mass Audubon's contributions to the plan amounted to approximately \$663,000 and \$626,000, respectively.

**Note 9 - Long-Term Debt**

A summary of long-term debt at June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Non-interest bearing note payable due on July 1, 2024	\$ <u>180,055</u>	\$ <u>180,055</u>
Less current portion	<u>-</u>	<u>-</u>
Total long-term debt	\$ <u>180,055</u>	\$ <u>180,055</u>

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2011 AND 2010**

**Note 10 - Contributed Services**

The value of donated services and the corresponding expenses included in the accompanying financial statements for the years ended June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Volunteer hours at sanctuaries	\$ <u>278,238</u>	\$ <u>317,948</u>
Total contributed services	\$ <u><u>278,238</u></u>	\$ <u><u>317,948</u></u>

In addition, each year over eight thousand volunteers donate a total of more than 130,000 hours of time to Mass Audubon's environmental education, advocacy, research and sanctuary program services. No amounts have been reflected in the financial statements for these volunteer services since the contributed services did not meet the criteria for recognition under U.S. generally accepted accounting principles. (Reference is made to Note 1 - Contributed Services.)

**Note 11 - Commitments**

**Employment and Consulting Agreements** - On January 1, 2001, Massachusetts Audubon entered into a consulting agreement with its former president. 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.

**Note 12 - Statement of Cash Flows Supplemental Notes**

Cash paid for interest during the years ended June 30, 2011 and 2010 amounted to \$926 and \$830, respectively.

## INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION

Board of Directors and  
Auditing Committee  
Massachusetts Audubon Society, Inc.  
Lincoln, Massachusetts

Our report on our audit of the basic financial statements of Massachusetts Audubon Society, Inc. as of June 30, 2011 and 2010 for the years then ended appears on page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information contained on pages 18 and 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Tonnison + Co

Wakefield, Massachusetts  
November 14, 2011

MASSACHUSETTS AUDUBON SOCIETY, INC.

SCHEDULE OF FUNCTIONAL REVENUE  
(UNRESTRICTED OPERATING FUND ONLY)

YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)

	Program Services				Support Services			Total Revenues	
	Sanctuary & Environmental Education	Science & Conservation	Advocacy	Member Services	Program Services	Administration and General	Development	Support Services	Total
Admissions	\$ 308,024	\$ -	\$ -	\$ -	\$ 308,024	\$ -	\$ -	\$ -	\$ 308,024
Bird seed sales	11,945	-	-	-	11,945	-	-	-	11,945
Day and residential camp	2,817,853	-	-	-	2,817,853	-	-	-	2,817,853
Facility and camp rental	346,418	(1,000)	12,000	-	357,418	200	-	200	357,618
Gain on sale	540	-	-	-	540	75	-	75	615
Gifts and grants	1,791,723	126,194	82,522	1,050	2,001,489	1,035,701	8,040	1,043,741	3,045,230
Government contracts	588,047	24,643	42,561	-	655,251	49,300	-	49,300	704,551
Investment income	3,679,131	324,664	1,341	-	4,005,136	1,119,211	-	1,119,211	5,124,347
Legacies/bequests (unrestricted)	-	-	-	-	-	234,155	-	234,155	234,155
Membership dues	167,210	20	-	8,740	175,970	2,996,809	82	2,996,891	3,172,861
Merchandise sales (margin)	318,163	(138)	-	218,180	536,205	-	-	-	536,205
Natural history tours (margin)	-	-	-	83,526	83,526	-	-	-	83,526
Non-school program revenues	1,474,125	222,402	-	5,651	1,702,178	-	-	-	1,702,178
Royalties and honoraria	1,709	6,273	283	13,432	21,697	100	-	100	21,797
School program revenues	731,778	-	-	-	731,778	-	-	-	731,778
Special events	296,087	12,979	-	-	309,066	1,755	-	1,755	310,821
Watercraft rental	6,381	-	-	450	6,831	-	-	-	6,381
Contributed services	275,388	2,400	-	-	278,238	-	-	-	278,238
Transfers	446,170	84,404	7,023	(165,287)	372,310	(109,527)	(67,500)	(177,027)	195,283
Total revenues	\$ 13,260,692	\$ 802,841	\$ 145,730	\$ 165,742	\$ 14,375,005	\$ 5,327,779	\$ (59,378)	\$ 5,268,401	\$ 19,643,406
									\$ 19,801,301

See Independent Auditors' Report on Accompanying Information

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**SCHEDULE OF FUNCTIONAL EXPENSES  
(UNRESTRICTED OPERATING FUND ONLY)**

**YEAR ENDED JUNE 30, 2011**

**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)**

	Program Services				Support Services			Total Expenses	
	Sanctuary & Environmental Educational	Science & Conservation	Advocacy	Member Services	Total Program Services	Administration and General	Development	Total Support Services	
Salary and wages	\$ 8,389,304	\$ 481,832	\$ 307,218	\$ 721,838	\$ 9,900,192	\$ 3,314,983	\$ 719,047	\$ 2,034,030	\$ 11,934,222
Fringe benefits	1,901,587	129,930	84,324	186,677	2,302,513	357,924	196,999	554,923	2,857,436
Change in accrued vacation	(5,776)	(1,690)	158	8,415	1,107	10,591	(11,042)	(451)	656
Total salaries and benefits	10,285,115	610,072	391,700	916,935	12,203,812	1,683,498	905,004	2,588,502	14,792,314
Advertising and promotion	37,742	55	-	22,251	60,048	370	1,265	1,635	61,683
Animal and bird feed	24,024	-	-	-	24,024	-	-	-	24,024
Automobile	159,033	22	-	-	159,056	15,738	-	15,738	174,794
Awards and scholarship*	13,995	2,128	50	230	16,313	7,063	2,931	9,994	26,307
Bank charges	2,077	316	-	332	2,825	16,742	6,602	23,345	26,170
Building and grounds maintenance	162,203	25	316	3,580	166,124	12,405	-	12,405	178,529
Data processing	69,520	4,800	3,561	5,352	83,233	17,927	6,036	23,963	107,199
Depreciation	336,886	29,971	9,652	8,286	384,795	42,143	5,307	47,450	432,245
Electric	126,838	85	1,555	545	129,023	15,135	-	15,135	144,158
Field dress	21,825	-	25	289	22,149	124	46	170	22,319
Food	165,697	500	836	2,120	169,063	24,313	11,039	35,362	204,425
General insurance	244,734	7,776	588	10,550	263,648	28,151	8,000	36,151	299,799
Heat	148,747	-	617	1,692	151,056	13,884	-	13,884	164,940
Interest	683	-	-	240	923	3	-	3	926
Meetings, conference and training	21,326	1,004	348	909	23,587	12,516	2,135	14,651	38,238
Membership premiums	1,050	-	-	63,366	64,416	10	10	50	64,466
Office supplies	55,018	1,504	1,595	9,204	67,311	19,626	6,386	26,012	93,243
Permit, licenses and taxes	34,861	310	1,591	-	36,762	394	5	499	37,261
Photographic supplies	1,622	15	-	1,575	3,212	-	-	-	3,212
Postage and freight	60,434	379	100	294,082	354,995	16,244	25,259	31,503	396,498
Printing and copies	128,586	798	1,580	295,345	426,309	(23,486)	43,283	19,797	446,106
Professional and consultant fees	244,693	22,856	100	195,845	462,794	140,223	18,570	158,793	621,587
Program supplies and materials	183,089	1,543	15	7,471	192,118	6,141	4,667	10,808	202,926
Rent	11,622	7,001	22,359	32,947	103,929	(5,308)	2,800	(2,508)	101,421
Rental of vehicles and watercraft	109,465	-	-	-	109,465	-	2,677	2,677	112,142
Service contracts	147,610	2,575	4,583	15,699	170,467	78,023	12,469	90,492	260,959
Subscription and library	15,792	272	8,287	5,511	29,862	4,294	4,492	8,786	37,263
Telephone	83,407	1,787	8,757	1,044	94,995	23,269	631	23,900	118,895
Travel	103,309	6,237	12,980	2,523	124,159	18,255	5,174	23,429	147,588
Water	32,081	37	44	688	32,850	2,246	-	2,248	35,098
Contributed services	275,388	2,400	-	450	278,238	-	-	-	278,238
Total	13,637,302	704,469	170,562	1,899,151	16,311,484	2,170,043	1,025,129	3,245,172	19,900,676
Transfers and fund depreciation	(109,252)	(60,606)	(2,169)	(5,375)	(177,402)	(55,184)	(68,689)	(123,873)	(301,275)
Allocation of administration and general expense (deduction)	2,375,989	115,133	84,282	333,476	2,908,880	(2,921,145)	-	(2,921,145)	(12,265)
Total expenses	\$ 15,904,039	\$ 758,996	\$ 552,675	\$ 2,227,252	\$ 19,442,962	\$ (806,286)	\$ 1,006,440	\$ 200,154	\$ 19,643,116
									\$ 19,893,209

See Independent Auditors' Report on Accompanying Information.