

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

MASSACHUSETTS AUDUBON SOCIETY, INC.

CONTENTS  
JUNE 30, 2013 AND 2012

|   | <u>PAGES</u> |
|---|--------------|
| INDEPENDENT AUDITOR'S REPORT .....                      | 1 - 1A       |
| FINANCIAL STATEMENTS:                                   |              |
| Statements of Financial Position.....                   | 2            |
| Statements of Activities and Changes in Net Assets..... | 3            |
| Statements of Cash Flows.....                           | 4            |
| Notes to Financial Statements.....                      | 5 - 17       |



*Where Every Client Is A Valued Client*

Alexander, Aronson, Finning & Co., P. C.

21 East Main Street, Westborough, MA 01581-1461 (508) 366-9100  
Boston, MA (617) 205-9100 Wellesley, MA (781) 965-9100  
www.aafcpa.com FAX (508) 366-9789 info@aafcpa.com

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Auditing Committee of  
Massachusetts Audubon Society, Inc.:

We have audited the accompanying financial statements of Massachusetts Audubon Society, Inc. (a Massachusetts corporation, not for profit), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Massachusetts Audubon Society, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The Board of Directors and Auditing Committee of  
Massachusetts Audubon Society, Inc.  
Page II

*Other Matters – Predecessor Auditor*

The financial statements of Massachusetts Audubon Society, Inc. as of June 30, 2012, were audited by other auditors whose report dated November 12, 2012, expressed an unmodified opinion on those statements.

Alexander, Arora, Finney & Co PC

Wellesley, Massachusetts  
December 2, 2013

MASSACHUSETTS AUDUBON SOCIETY, INC.

STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2013 AND 2012

| ASSETS  | 2013          |                        |                        | 2012          |                        |                        |                |
|---|---------------|------------------------|------------------------|---------------|------------------------|------------------------|----------------|
|   | UNRESTRICTED  | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | UNRESTRICTED  | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL          |
| ASSETS:   |               |                        |                        |               |                        |                        |                |
| Cash and cash equivalents                               | \$ 554,270    | \$ 3,648,155           | \$ -                   | \$ 1,422,935  | \$ 2,396,666           | \$ -                   | \$ 3,819,601   |
| Investments   | 11,088,177    | 48,292,917             | 59,116,589             | 9,474,602     | 44,173,378             | 57,823,190             | 111,471,170    |
| Accounts receivable                                     | 665,573       | -                      | -                      | 638,447       | -                      | -                      | 638,447        |
| Pledges receivable, net of allowance and discount       | 144,664       | 1,239,741              | 188,136                | 162,324       | 952,546                | 48,432                 | 1,163,302      |
| Inventory   | 252,688       | -                      | -                      | 254,578       | -                      | -                      | 254,578        |
| Prepaid expenses  | 190,281       | -                      | -                      | 319,379       | -                      | -                      | 319,379        |
| Fine arts collection                                    | 1,368,422     | -                      | 25,000                 | 1,368,422     | -                      | 25,000                 | 1,393,422      |
| Due to/from other funds                                 | (3,501,591)   | 3,624,629              | (123,038)              | (2,337,033)   | 2,460,071              | (123,038)              | -              |
| Property and equipment, net of accumulated depreciation | 52,188,991    | -                      | 45,384,721             | 51,862,430    | -                      | 45,384,721             | 97,247,151     |
| Total assets  | \$ 62,951,475 | \$ 56,805,442          | \$ 104,591,408         | \$ 63,166,084 | \$ 49,982,661          | \$ 103,158,305         | \$ 216,307,050 |
| LIABILITIES AND NET ASSETS                              |               |                        |                        |               |                        |                        |                |
| LIABILITIES:  |               |                        |                        |               |                        |                        |                |
| Accounts payable and accrued expenses                   | \$ 1,505,000  | \$ -                   | \$ -                   | \$ 1,553,863  | \$ -                   | \$ -                   | \$ 1,553,863   |
| Deferred grants   | -             | -                      | -                      | -             | 192,415                | -                      | 192,415        |
| Amount received in advance for future services          | 3,082,086     | -                      | -                      | 2,749,112     | -                      | -                      | 2,749,112      |
| Split-interest liabilities                              | 4,732,931     | -                      | -                      | 5,051,902     | -                      | -                      | 5,051,902      |
| Long-term debt  | 180,055       | -                      | -                      | 180,055       | -                      | -                      | 180,055        |
| Total liabilities                                       | 9,500,072     | -                      | -                      | 9,534,932     | 192,415                | -                      | 9,727,347      |
| NET ASSETS  | 53,451,403    | 56,805,442             | 104,591,408            | 53,631,152    | 49,790,246             | 103,158,305            | 206,579,703    |
| Total liabilities and net assets                        | \$ 62,951,475 | \$ 56,805,442          | \$ 104,591,408         | \$ 63,166,084 | \$ 49,982,661          | \$ 103,158,305         | \$ 216,307,050 |

The accompanying notes are an integral part of these statements.

MASSACHUSETTS AUDUBON SOCIETY, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

|   | 2013         |               |                           |                           | 2012           |              |                           |                           |                |
|---|--------------|---------------|---------------------------|---------------------------|----------------|--------------|---------------------------|---------------------------|----------------|
|   | UNRESTRICTED |               | TEMPORARILY<br>RESTRICTED | PERMANENTLY<br>RESTRICTED | UNRESTRICTED   |              | TEMPORARILY<br>RESTRICTED | PERMANENTLY<br>RESTRICTED | TOTAL          |
|   | OPERATING    | OTHER         |                           |                           | OPERATING      | OTHER        |                           |                           |                |
| <b>PUBLIC SUPPORT:</b>                          |              |               |                           |                           |                |              |                           |                           |                |
| Gifts and grants                                | \$ 3,237,326 | \$ 1,771,965  | \$ 2,863,838              | \$ 1,095,456              | \$ 8,968,585   | \$ 2,655,098 | \$ 4,572,211              | \$ 304,271                | \$ 7,531,580   |
| Government grants                               | 761,335      | -             | 2,300                     | -                         | 763,635        | 670,465      | 289,711                   | -                         | 960,176        |
| Legacies and bequests                           | 369,577      | -             | -                         | 106,204                   | 475,781        | 356,491      | -                         | 484,905                   | 840,496        |
| Total public support                            | 4,368,238    | 1,771,965     | 2,866,138                 | 1,201,660                 | 10,208,001     | 3,682,054    | 4,861,922                 | 788,276                   | 9,332,252      |
| <b>REVENUE:</b>                                 |              |               |                           |                           |                |              |                           |                           |                |
| Gain (loss) on investments                      | -            | 393,053       | 8,632,081                 | 12,244                    | 9,037,378      | -            | (3,176,118)               | (71,142)                  | (4,027,014)    |
| Program income                                  | 7,614,363    | -             | 503,774                   | -                         | 8,118,137      | 7,052,026    | 546,081                   | -                         | 7,598,107      |
| Membership dues                                 | 3,362,275    | -             | -                         | -                         | 3,362,275      | 3,269,928    | -                         | -                         | 3,269,928      |
| Interest and dividends                          | 1,273,750    | -             | 72,504                    | -                         | 1,346,254      | 1,171,114    | 108,626                   | -                         | 1,279,740      |
| Contributed services                            | 252,714      | -             | -                         | -                         | 252,714        | 283,233      | -                         | -                         | 283,233        |
| Other revenue                                   | 3            | -             | 52,397                    | -                         | 52,400         | -            | 23,706                    | -                         | 23,706         |
| Withdrawal for spending rate                    | 3,868,615    | (248,625)     | (3,619,990)               | -                         | 3,910,166      | 3,910,166    | (3,600,510)               | -                         | -              |
| Fund special projects                           | 32,339       | (906,774)     | 874,435                   | -                         | 25,270         | 25,270       | 555,397                   | 266,713                   | -              |
| Net other interfund transfers                   | 749,474      | 11,124        | (979,797)                 | 219,199                   | (96,781)       | 738,718      | (661,937)                 | -                         | -              |
| Net assets released from program restrictions   | -            | 1,705,317     | (1,705,317)               | -                         | -              | 447,344      | (7,141,161)               | -                         | -              |
| Total revenue                                   | 17,153,533   | 954,095       | 3,830,087                 | 231,443                   | 22,169,158     | 16,917,799   | (13,345,916)              | 195,571                   | 8,427,700      |
| Total public support and revenue                | 21,521,771   | 2,726,060     | 6,696,225                 | 1,433,103                 | 32,377,159     | 20,599,853   | (8,483,994)               | 983,847                   | 17,759,952     |
| <b>EXPENSES:</b>                                |              |               |                           |                           |                |              |                           |                           |                |
| Program services                                | 18,433,356   | 1,980,824     | -                         | -                         | 20,414,180     | 17,538,282   | -                         | -                         | 20,374,587     |
| Administration and general                      | 2,177,435    | 401,420       | -                         | -                         | 2,578,855      | 2,164,867    | -                         | -                         | 2,927,987      |
| Development                                     | 1,396,453    | 58,092        | -                         | -                         | 1,454,545      | 1,310,101    | -                         | -                         | 1,314,441      |
| Fund depreciation                               | (116,091)    | 116,091       | -                         | -                         | -              | (106,387)    | -                         | -                         | -              |
| Net other interfund transfers                   | (435,595)    | 435,595       | -                         | -                         | -              | (397,236)    | -                         | -                         | -              |
| Total expenses                                  | 21,455,558   | 2,972,022     | -                         | -                         | 24,427,580     | 20,509,627   | -                         | -                         | 24,617,015     |
| <b>CHANGES IN SPLIT-INTEREST<br/>AGREEMENTS</b> |              |               |                           |                           |                |              |                           |                           |                |
| Changes in net assets                           | 66,213       | (245,962)     | 318,971                   | 1,433,103                 | 8,268,550      | 90,226       | (282,836)                 | 983,847                   | (7,139,899)    |
| NET ASSETS, beginning of year                   | 489,573      | 53,141,579    | 49,790,246                | 103,158,305               | 206,579,703    | 399,347      | 58,557,076                | 102,174,458               | 213,719,602    |
| NET ASSETS, end of year                         | \$ 555,786   | \$ 52,895,617 | \$ 56,805,442             | \$ 104,591,408            | \$ 214,848,253 | \$ 489,573   | \$ 49,790,246             | \$ 103,158,305            | \$ 206,579,703 |

The accompanying notes are an integral part of these statements.

MASSACHUSETTS AUDUBON SOCIETY, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

|  | <u>2013</u>         | <u>2012</u>         |
|--|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                     |                     |
| Changes in net assets  | \$ 8,268,550        | \$ (7,139,899)      |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: |                     |                     |
| Depreciation   | 1,910,044           | 2,649,406           |
| Gain on sale of property and equipment   | (7,733)             | -                   |
| Loss (gain) on investments   | (9,037,378)         | 4,027,014           |
| Changes in split-interest agreements   | (318,971)           | 282,836             |
| Allowance for uncollectible pledges  | 21,540              | (77,153)            |
| Amortization of pledge discount  | (115,940)           | (218,701)           |
| Changes in operating assets and liabilities:   |                     |                     |
| Accounts receivable  | (27,126)            | 192,229             |
| Pledges receivable   | (314,839)           | 1,761,734           |
| Inventory  | 1,890               | 8,434               |
| Prepaid expenses   | 129,098             | 59,072              |
| Accounts payable and accrued expenses  | (48,863)            | (386,937)           |
| Deferred grants  | (192,415)           | (9,610)             |
| Amounts received in advance for future services  | 332,974             | 279,470             |
| Net cash provided by operating activities  | <u>600,831</u>      | <u>1,427,895</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                     |                     |
| Purchase of property and equipment   | (2,246,964)         | (5,736,999)         |
| Proceeds from sale of property and equipment   | 18,092              | -                   |
| Proceeds from sale of investments  | 11,821,508          | 27,964,968          |
| Purchase of investments  | (9,810,643)         | (23,678,587)        |
| Net cash used in investing activities  | <u>(218,007)</u>    | <u>(1,450,618)</u>  |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                  | 382,824             | (22,723)            |
| <b>CASH AND CASH EQUIVALENTS, beginning of year</b>  | <u>3,819,601</u>    | <u>3,842,324</u>    |
| <b>CASH AND CASH EQUIVALENTS, end of year</b>  | <u>\$ 4,202,425</u> | <u>\$ 3,819,601</u> |

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

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

**OPERATIONS AND NONPROFIT STATUS**

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.

Mass Audubon is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). Mass Audubon is also exempt from state income taxes. Donors may deduct contributions made to Mass Audubon within the IRC requirements.

**SIGNIFICANT ACCOUNTING POLICIES**

Mass Audubon prepares its financial statements in accordance with generally accepted accounting standards (U.S. GAAP) and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification.

Revenue Recognition and Expense Allocation

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

Program income and camp fees are 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 statements of financial position.

Mass Audubon occasionally leases its facilities, camp and watercraft. Facility, camp and watercraft rental income is recognized when the events occur. Merchandise sales revenue is recognized as items are sold. All other income is recognized when earned.

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.

Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2013 AND 2012  
 (Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES  
 (Continued)

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Net Assets

**Unrestricted Net Assets:**

Unrestricted net assets represent funds available to carry on the operations of Mass Audubon and accounts for activities relating to Mass Audubon's property and equipment, net of related debt. Included in this amount are funds set aside by the Board of Directors for various purposes which are part of the endowment. Use of these funds requires Board approval.

Unrestricted net assets consist of the following at June 30:

|  | <u>2013</u>         | <u>2012</u>         |
|--|---------------------|---------------------|
| Operating and property and equipment                           | \$47,172,499        | \$47,773,542        |
| Board designated – other                                       | 5,001,651           | 5,580,955           |
| Board designated funds functioning as endowment (see Note 6)   | 1,947,540           | 1,434,910           |
| Depreciation on permanently restricted net assets (see Note 6) | <u>(670,287)</u>    | <u>(1,158,255)</u>  |
|  | <u>\$53,451,403</u> | <u>\$53,631,152</u> |

**Temporarily Restricted Net Assets:**

Mass Audubon receives contributions and grants that are designated by donors for specific purposes or for a specific time frame. These contributions 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 consist of the following as of June 30:

|   | <u>2013</u>         | <u>2012</u>         |
|---|---------------------|---------------------|
| Accumulated appreciation on permanently restricted endowment (see Note 6) | \$40,398,132        | \$36,162,213        |
| Purpose restricted  | 12,300,967          | 10,241,028          |
| Split-interest agreements   | <u>4,106,343</u>    | <u>3,387,005</u>    |
|   | <u>\$56,805,442</u> | <u>\$49,790,246</u> |

**Permanently Restricted Net Assets:**

Permanently restricted net assets include endowment funds accumulated from donor restricted gifts. Earnings from these gifts may be used for operations, 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.

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012  
(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

Mass Audubon follows the *Fair Value Measurements* standard. This standard defines fair value, establishes a framework for measuring fair value under U.S. GAAP, and mandates certain disclosures about fair value measurements. The fair value framework prioritizes the inputs and assumptions used to measure fair value into three levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 - Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs from markets that are not considered to be active.
- Level 3 - Inputs that are unobservable.

An asset or liability's level within the framework is based upon the least observable input that is significant to the fair value measurement. The methods used for valuing the qualifying assets and liabilities are not necessarily an indication of the risks associated with those assets or liabilities.

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.

Investments

Mass Audubon records investments at fair value (see Note 5). Marketable securities are recorded at fair market values as derived directly from quotations on major trading exchanges. Investments in life income funds, gift annuity funds and charitable remainder unitrusts 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 accordance with standards pertaining to *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* or fund type investments, Mass Audubon uses each fund's net asset value per share to calculate and report the fair value of its alternative investments. 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.

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Interest, dividends and mutual fund distributions are recorded when earned. Gains and losses are recognized as incurred upon sale or based on market value changes during the period (see Note 5). Unless otherwise restricted by the donor, investment return is available for operations and is reflected as unrestricted operating net assets in the accompanying 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.

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. There is no allowance for doubtful accounts as of June 30, 2013 and 2012.

Pledges Receivable and Reserve for Uncollectible Pledges

Pledges receivable at June 30, 2013 and 2012, consist of contributions committed to the annual fund and other initiatives (see Note 2). Pledges are recorded at their net present value when unconditionally committed. The reserve for uncollectible pledges is based on management's best estimate of the amount of uncollectible pledges. The reserve is based on past collection experience together with a review of the current status of the existing pledges. Account balances are charged off against the reserve when it is probable the pledge will not be recovered.

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.

Fine Arts Collection

Mass Audubon capitalizes fine arts collection items acquired by purchase or contribution. Collection items that are acquired by purchase are capitalized at cost. Donated collection items are capitalized at fair value at time of contribution.

Property, Equipment, Depreciation and Amortization

Property and equipment are 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   |
| Maintenance and program equipment       | 3 - 10 years  |
| Motor vehicles                          | 3 - 5 years   |

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012  
(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Equipment, Depreciation and Amortization (Continued)

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

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, 2013 and 2012, no such expenditures related to conservation restrictions and easements were incurred. 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, 2013 and 2012, were \$71,273 and \$69,497, 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 financial statements.

Subsequent Events

Subsequent events have been evaluated through December 2, 2013, which is the date the financial statements were issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

Uncertainty in Income Taxes

Mass Audubon follows the *Accounting for Uncertainty in Income Taxes* standard, which requires Mass Audubon to report uncertain tax positions, related interest and penalties, and to adjust its assets and liabilities related to unrecognized tax benefits and accrued interest and penalties accordingly. As of June 30, 2013 and 2012, Mass Audubon determined that there were no material unrecognized tax benefits to report. Mass Audubon does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

Information and tax returns filed for the prior three years remain subject to examination by the Internal Revenue Service and Massachusetts tax authorities.

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

(Continued)

(2) **PLEDGES RECEIVABLE**

Mass Audubon has pledge receivables, which are due as follows at June 30:

| <u>Fiscal Year</u>                       | <u>2013</u>        | <u>2012</u>        |
|--|--------------------|--------------------|
| Due in less than one year                | \$ 948,957         | \$ 766,438         |
| Due in one to five years                 | 757,492            | 602,486            |
| Thereafter                               | -                  | 22,686             |
|  | <u>1,706,449</u>   | <u>1,391,610</u>   |
| Less - discount                          | 51,143             | 167,083            |
|  | <u>1,655,306</u>   | <u>1,224,527</u>   |
| Less - reserve for uncollectible pledges | 82,765             | 61,225             |
|  | <u>\$1,572,541</u> | <u>\$1,163,302</u> |

Pledges receivable are primarily from foundations, corporations and individuals located throughout Massachusetts. Long-term pledges have been discounted using a discount factor of 5% at June 30, 2013 and 2012.

Approximately 18% of gross pledges receivable at June 30, 2013, were due from one donor.

Approximately 87% of gross pledges receivable at June 30, 2012, were due from six donors.

(3) **INVENTORY**

Inventory consists of the following at June 30:

|   | <u>2013</u>      | <u>2012</u>      |
|---|------------------|------------------|
| Retail merchandise at Lincoln gift shop | \$178,594        | \$175,090        |
| Publications                            | 46,328           | 50,004           |
| Other retail merchandise                | <u>27,766</u>    | <u>29,484</u>    |
|   | <u>\$252,688</u> | <u>\$254,578</u> |

(4) **PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of June 30:

|   | <u>2013</u>          | <u>2012</u>          |
|---|----------------------|----------------------|
| Land                                    | \$ 54,444,367        | \$ 54,444,367        |
| Buildings and improvements              | 34,661,250           | 34,409,310           |
| Capital assets in progress              | 22,936,800           | 21,189,190           |
| Office furniture and computer equipment | 2,534,393            | 2,428,796            |
| Maintenance and program equipment       | 870,354              | 845,174              |
| Motor vehicles                          | <u>1,946,854</u>     | <u>1,869,794</u>     |
|   | <u>117,394,018</u>   | <u>115,186,631</u>   |
| Less - accumulated depreciation         | 19,820,306           | 17,939,480           |
|   | <u>\$ 97,573,712</u> | <u>\$ 97,247,151</u> |

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

(Continued)

(4) PROPERTY AND EQUIPMENT (Continued)

Depreciation expense for the years ended June 30, 2013 and 2012, was \$1,910,044 and \$2,649,406, respectively.

(5) INVESTMENTS

Investments, which are stated at fair value in the accompanying statements of financial position, are as follows, by level within the valuation framework (see Note 1) as of June 30:

|                                       | <u>2013</u>         |                     |                     | <u>Total</u>         |
|---------------------------------------|---------------------|---------------------|---------------------|----------------------|
|                                       | <u>Level 1</u>      | <u>Level 2</u>      | <u>Level 3</u>      |                      |
| Mutual funds:                         |                     |                     |                     |                      |
| Large cap                             | \$11,403,021        | \$ -                | \$ -                | \$ 11,403,021        |
| Large/mid cap                         | 4,048,973           | -                   | -                   | 4,048,973            |
| Mid cap                               | 3,028,519           | -                   | -                   | 3,028,519            |
| International                         | 11,322,699          | -                   | -                   | 11,322,699           |
| Fixed income                          | 3,501,232           | -                   | -                   | 3,501,232            |
| Private equities:                     |                     |                     |                     |                      |
| Common stock - privately held company | -                   | -                   | 986,744             | 986,744              |
| Money market funds                    | 761,402             | -                   | -                   | 761,402              |
| Cash and cash equivalents             | 50,940              | -                   | -                   | 50,940               |
| Equities                              | 4,088,740           | -                   | -                   | 4,088,740            |
| Alternative investments:              |                     |                     |                     |                      |
| Fund of funds                         | -                   | -                   | 14,050,499          | 14,050,499           |
| Direct hedge funds                    | -                   | 3,083,498           | 3,277,410           | 6,360,908            |
| Commingled trust funds                | -                   | 33,060,325          | 5,000,000           | 38,060,325           |
| Limited partnerships                  | -                   | -                   | 11,994,407          | 11,994,407           |
| Other investments:                    |                     |                     |                     |                      |
| Planned giving assets                 | <u>8,839,274</u>    | <u>-</u>            | <u>-</u>            | <u>8,839,274</u>     |
|                                       | <u>\$47,044,800</u> | <u>\$36,143,823</u> | <u>\$35,309,060</u> | <u>\$118,497,683</u> |

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2013 AND 2012  
 (Continued)

(5) INVESTMENTS (Continued)

|                                       | 2012                |                     |                     | Total                |
|---------------------------------------|---------------------|---------------------|---------------------|----------------------|
|                                       | Level 1             | Level 2             | Level 3             |                      |
| Mutual funds:                         |                     |                     |                     |                      |
| Large cap                             | \$11,829,245        | \$ -                | \$ -                | \$ 11,829,245        |
| Large/mid cap                         | 4,816,749           | -                   | -                   | 4,816,749            |
| Mid cap                               | 4,802,410           | -                   | -                   | 4,802,410            |
| International                         | 11,357,341          | -                   | -                   | 11,357,341           |
| Fixed income                          | 3,610,809           | -                   | -                   | 3,610,809            |
| Private equities:                     |                     |                     |                     |                      |
| Common stock - privately held company | -                   | -                   | 974,500             | 974,500              |
| Money market funds                    | 750,272             | -                   | -                   | 750,272              |
| Cash and cash equivalents             | 151,230             | -                   | -                   | 151,230              |
| Equities                              | 3,362,361           | -                   | -                   | 3,362,361            |
| Alternative investments:              |                     |                     |                     |                      |
| Fund of funds                         | -                   | -                   | 12,503,925          | 12,503,925           |
| Direct hedge funds                    | -                   | 3,000,000           | 2,739,477           | 5,739,477            |
| Commingled trust funds                | -                   | 34,306,965          | -                   | 34,306,965           |
| Limited partnerships                  | -                   | -                   | 8,826,979           | 8,826,979            |
| Other investments:                    |                     |                     |                     |                      |
| Planned giving assets                 | 8,438,907           | -                   | -                   | 8,438,907            |
|                                       | <u>\$49,119,324</u> | <u>\$37,306,965</u> | <u>\$25,044,881</u> | <u>\$111,471,170</u> |

Planned giving assets consist of the following at June 30:

|                             | 2013               | 2012               |
|-----------------------------|--------------------|--------------------|
| Life income funds           | \$1,250,955        | \$1,214,445        |
| Gift annuities              | 2,766,000          | 2,675,240          |
| Charitable remainder trusts | 4,822,319          | 4,549,222          |
|                             | <u>\$8,839,274</u> | <u>\$8,438,907</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 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. Payments on gift annuity and charitable remainder trust 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 arrangements, based on future payments, is adjusted based on the donor life expectancies and on prevailing interest rates, which are considered Level 2 inputs (see page 7).

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2013 AND 2012  
 (Continued)

(5) INVESTMENTS (Continued)

Included in investments is an investment in a privately held company acquired as part of a bequest. Because no market price is available, this investment is carried at the donor's estate tax value as annually adjusted based on the change in equity of the company, which are considered Level 3 inputs (see page 7). The value at June 30, 2013 and 2012 was \$986,744 and \$974,500, respectively.

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

|   | <u>2013</u>         | <u>2012</u>         |
|---|---------------------|---------------------|
| Beginning balance   | \$25,044,881        | \$22,965,130        |
| Purchases of alternative investments                                    | 8,810,643           | 2,375,660           |
| Receipts from and liquidations of alternative investments               | (1,275,543)         | -                   |
| Net unrealized gains (losses) on investments in alternative investments | <u>2,729,079</u>    | <u>(295,909)</u>    |
| Ending balance  | <u>\$35,309,060</u> | <u>\$25,044,881</u> |

Investment management fees paid directly to managers are included in administration and general expenses in the accompanying 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.

As of June 30, 2013, Mass Audubon was committed to contribute approximately \$13,300,000 in additional capital to alternative investments throughout the terms of those investments, normally not to exceed fifteen years.

(6) ENDOWMENT

Mass Audubon's endowment consists of 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. 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 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.



MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012  
(Continued)

(6) ENDOWMENT (Continued)

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 the 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 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 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.

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

(Continued)

(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, the Mass Audubon Investment Committee reviews information showing the fair value for Mass Audubon's Fund (less outstanding loans and deferred contributions) at December 31<sup>st</sup> 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 31<sup>st</sup> 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 level that the donor or the UPMIFA requires Mass Audubon to retain as a fund for perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets and totaled \$670,287 and \$1,158,255 as of June 30, 2013 and 2012, respectively.

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

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total<br/>Endowment</u> |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------------|
| Endowment net assets,<br>June 30, 2011 | \$ 971,830          | \$41,757,759                      | \$56,764,737                      | \$ 99,494,326              |
| Investment gain (loss), net            | (896,827)           | (2,512,388)                       | (71,142)                          | (3,480,357)                |
| Contributions                          | 201,652             | -                                 | 788,276                           | 989,928                    |
| Appropriation of assets                | -                   | (3,083,158)                       | 266,713                           | (2,816,445)                |
| Sub-total                              | <u>(695,175)</u>    | <u>(5,595,546)</u>                | <u>983,847</u>                    | <u>(5,306,874)</u>         |
| Endowment net assets,<br>June 30, 2012 | <u>276,655</u>      | <u>36,162,213</u>                 | <u>57,748,584</u>                 | <u>94,187,452</u>          |
| Investment gain, net                   | 393,053             | 8,389,713                         | 12,244                            | 8,795,010                  |
| Contributions                          | 119,577             | -                                 | 1,201,660                         | 1,321,237                  |
| Appropriation of assets                | 487,968             | (4,153,794)                       | 219,199                           | (3,446,627)                |
| Sub-total                              | <u>1,000,598</u>    | <u>4,235,919</u>                  | <u>1,433,103</u>                  | <u>6,669,620</u>           |
| Endowment net assets,<br>June 30, 2013 | <u>\$1,277,253</u>  | <u>\$40,398,132</u>               | <u>\$59,181,687</u>               | <u>\$100,857,072</u>       |

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012  
(Continued)

(7) DEBT

Long-Term Debt

Mass Audubon has a \$180,055 non-interest bearing note payable. There are no required minimum payments and the balance of the note is due upon maturity in July, 2024. Annually, the lender may forgive a discretionary portion of the principal. There were no payments or forgiveness of principal during the years ended June 30, 2013 or 2012.

Note Payable to a Bank

At June 30, 2013, Mass Audubon has available up to \$100,000 (\$2,000,000 at June 30, 2012) on an unsecured line of credit agreement with a bank which expires on May 29, 2014. Borrowings under the line of credit bear interest at the London Interbank Offered Rate (LIBOR) Advantage Rate (2% at June 30, 2013), plus 2%. This agreement contains certain financial and non-financial covenants with which Mass Audubon must comply. Management is not aware of any violations of the covenants as of June 30, 2013 and 2012. At June 30, 2013 and 2012, no borrowings were outstanding under the line of credit agreement.

(8) RETIREMENT PLAN

Mass Audubon has a defined contribution pension plan pursuant to Internal Revenue Code Section 403(b) in which all 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 eligible compensation. The employee's elective deferral and Mass Audubon's matching contributions are subject to Internal Revenue Service limitations. For the years ended June 30, 2013 and 2012, Mass Audubon's contributions to the plan totaled approximately \$729,000 and \$663,000, respectively.

(9) CONTRIBUTED SERVICES

The value of donated services and the corresponding expenses included in the accompanying financial statements for the years ended June 30, 2013 and 2012, are \$252,714 and \$283,233, respectively, and consist of volunteer hours at sanctuaries and other departments.

In addition, each year almost fourteen thousand volunteers donate a total of more than 134,000 hours of time to Mass Audubon's environmental education, advocacy, research, and sanctuary program services. No amounts have been reflected in the accompanying financial statements for these volunteer services since the contributed services did not meet the criteria for recognition under U.S. GAAP (see page 9).

(10) COMMITMENTS

On January 1, 2001, Mass Audubon entered into a consulting agreement with a former president of Mass Audubon. 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.

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012  
(Continued)

(10) COMMITMENTS (Continued)

In June, 2012, Mass Audubon entered into an agreement with its most recent former president, effective December 31, 2012. The agreement provides for fifty-two weeks of pay at the base rate in effect at the time of separation, in addition to the continuance of other employee benefits. As per the agreement, the most recent former president agrees to provide transition support for up to one day per week for fifty-two weeks.

(11) CONCENTRATIONS OF 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.

(12) RECLASSIFICATIONS

Certain amounts in the June 30, 2012 financial statements have been reclassified to conform with the June 30, 2013 presentation.