

MASSACHUSETTS AUDUBON SOCIETY, INC.

**FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

MASSACHUSETTS AUDUBON SOCIETY, INC.

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JUNE 30, 2014 AND 2013**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Massachusetts Audubon Society, Inc. (a Massachusetts corporation, not for profit) which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alexander, Aronson, Finning & Co., P.C.
Wellesley, Massachusetts
October 29, 2014

MASSACHUSETTS AUDUBON SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

	2014			2013		
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 3,046,851	\$ 4,000,911	\$ 7,047,762	\$ 554,270	\$ 3,648,155	\$ 4,202,425
Accounts receivable	703,212	-	703,212	665,573	-	665,573
Current portion of pledges receivable, net of allowance	42,305	798,025	840,330	16,210	767,556	783,766
Inventory	236,913	-	236,913	252,688	-	252,688
Prepaid expenses	197,256	-	197,256	190,281	-	190,281
Total current assets	4,226,537	4,798,936	9,025,473	1,679,222	4,415,711	6,094,331
INVESTMENTS						
	4,518,779	65,375,109	63,614,454	11,088,177	48,292,917	59,116,589
PLEDGES RECEIVABLE, net of current portion, allowance and discount						
	70,542	711,686	901,693	128,454	472,185	188,136
DUE TO/FROM OTHER FUNDS						
	1,056,332	(931,294)	(125,038)	(3,501,591)	3,624,629	(125,038)
FINE ARTS COLLECTION						
	1,368,422	-	1,393,422	1,368,422	-	25,000
PROPERTY AND EQUIPMENT:						
Land	9,969,760	-	55,354,481	9,059,646	-	45,384,721
Buildings and improvements	40,604,823	-	40,604,823	34,661,250	-	34,661,250
Capital assets in progress	19,265,719	-	19,265,719	22,916,800	-	22,916,800
Office furniture and computer equipment	2,656,764	-	2,656,764	2,534,393	-	2,534,393
Motor vehicles	2,045,735	-	2,045,735	1,946,854	-	1,946,854
Maintenance and program equipment	886,573	-	886,573	870,354	-	870,354
Leas - accumulated depreciation	(75,470,374)	-	(10,814,093)	(72,699,297)	-	(117,394,018)
Net property and equipment	21,898,891	-	21,898,891	19,820,306	-	19,820,306
	55,530,481	-	96,913,204	52,188,991	-	97,573,712
Total assets	\$ 64,771,095	\$ 69,952,437	\$ 243,744,134	\$ 62,951,475	\$ 56,805,442	\$ 224,348,725
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Accounts payable and accrued expenses	\$ 1,225,097	\$ -	\$ 1,225,097	\$ 1,505,000	\$ -	\$ 1,505,000
Amount received in advance for future services	3,386,324	-	3,386,324	3,082,086	-	3,082,086
Current portion of split-interest liabilities	435,717	-	435,717	477,327	-	477,327
Total current liabilities	5,047,138	-	5,047,138	5,064,413	-	5,064,413
LONG-TERM DEBT						
	180,055	-	180,055	180,055	-	180,055
SPLIT-INTEREST LIABILITIES, net of current portion						
	3,866,165	-	3,866,165	4,235,604	-	4,235,604
Total liabilities	9,093,358	-	9,093,358	9,500,072	-	9,500,072
NET ASSETS:						
Unrestricted:						
Operating, property, equipment and fine arts	47,919,360	-	47,919,360	47,174,499	-	47,174,499
Board designated:						
Funds functioning as endowment	2,437,158	-	2,437,158	1,947,540	-	1,947,540
Other	5,491,278	-	5,491,278	5,001,651	-	5,001,651
Depreciation on permanently restricted net assets	(170,059)	-	(170,059)	(670,287)	-	(670,287)
Total unrestricted	55,677,737	-	55,677,737	53,451,403	-	53,451,403
Temporarily restricted	-	69,952,437	69,952,437	-	56,805,442	56,805,442
Permanently restricted	-	109,020,602	109,020,602	-	104,591,408	104,591,408
Total net assets	55,677,737	69,952,437	234,650,776	53,451,403	56,805,442	214,848,253
Total liabilities and net assets	\$ 64,771,095	\$ 69,952,437	\$ 243,744,134	\$ 62,951,475	\$ 56,805,442	\$ 224,348,725

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, 2014 AND 2013

	2014			2013				
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
PUBLIC SUPPORT:								
Gifts, grants and budgeted bequests	\$ 4,304,065	\$ 1,099,410	\$ -	\$ 5,403,475	\$ 3,469,666	\$ 112,357	\$ -	\$ 3,582,023
Investment return designated for current operations	4,874,538	-	-	4,874,538	4,893,740	-	-	4,893,740
Government grants	1,329,780	178,015	-	1,507,795	761,335	2,300	-	763,635
Contributed services	336,494	-	-	336,494	252,714	-	-	252,714
Net assets released from program restrictions	1,544,881	(1,544,881)	-	-	1,705,317	(1,705,317)	-	-
Total public support	12,389,758	(267,456)	-	12,122,302	11,082,772	(1,590,660)	-	9,492,112
EARNED REVENUE:								
Program income	8,087,814	433,173	-	8,520,987	7,614,363	503,774	-	8,118,137
Membership dues	3,396,060	-	-	3,396,060	3,362,275	-	-	3,362,275
Other revenue	19	-	-	19	3	52,397	-	52,400
Total earned revenue	11,483,893	433,173	-	11,917,066	10,976,641	556,171	-	11,532,812
Total public support and earned revenue	23,873,651	165,717	-	24,039,368	22,059,413	(1,034,489)	-	21,024,924
OPERATING EXPENSES:								
Program services	20,633,396	-	-	20,633,396	20,414,180	-	-	20,414,180
Administration and general	2,856,340	-	-	2,856,340	2,578,855	-	-	2,578,855
Development	1,607,383	-	-	1,607,383	1,434,545	-	-	1,434,545
Total operating expenses	25,097,119	-	-	25,097,119	24,427,580	-	-	24,427,580
Changes in net assets from operations	(1,223,468)	165,717	-	(1,057,751)	(2,368,167)	(1,034,489)	-	(3,402,656)
NON-OPERATING REVENUE (EXPENSE):								
Investment return	1,541,231	16,127,282	26,493	17,695,006	1,666,803	8,704,585	12,244	10,383,632
Capital grants	-	3,192,509	-	3,192,509	-	4,541,106	-	4,541,106
Legacies and bequests	517,747	-	2,549,048	3,066,795	119,577	-	106,204	225,781
Contributions to endowment	-	-	1,349,453	1,349,453	-	-	1,095,456	1,095,456
Net assets released from capital restrictions	3,052,963	(3,052,963)	-	-	1,789,625	(1,789,625)	-	-
Investment return designated for current operations	(904,234)	(3,970,304)	-	(4,874,538)	(1,273,750)	(3,619,990)	-	(4,893,740)
Total non-operating revenue (expense)	4,207,707	12,296,524	3,924,994	20,429,225	2,302,255	7,836,076	1,213,904	11,352,235
CHANGES IN SPLIT-INTEREST AGREEMENTS								
Changes in net assets	2,984,239	12,893,290	3,924,994	19,802,523	(65,912)	7,120,558	1,213,904	8,268,550
NET ASSETS, beginning of year	53,451,403	56,805,442	104,591,408	214,848,253	53,631,152	49,790,246	103,158,305	206,579,703
Transfer of funds designated for special projects	(757,905)	253,705	504,200	-	(113,837)	(105,362)	219,199	-
NET ASSETS, end of year	\$ 55,677,737	\$ 69,952,437	\$ 109,020,602	\$ 234,650,776	\$ 53,451,403	\$ 56,805,442	\$ 104,591,408	\$ 214,848,253

The accompanying notes are an integral part of these statements.

MASSACHUSETTS AUDUBON SOCIETY, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 19,802,523	\$ 8,268,550
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,078,830	1,910,044
Gain on sale of property and equipment	(1,262)	(7,733)
Gain on investments	(16,871,760)	(9,037,378)
Capital campaign contributions	(3,192,509)	(4,541,106)
Endowment contributions	(1,349,453)	(1,095,456)
Changes in split-interest agreements	(68,025)	(263,050)
Allowance for uncollectible pledges	(967)	21,540
Amortization of pledge discount	(13,462)	(115,940)
Changes in operating assets and liabilities:		
Accounts receivable	(37,639)	(27,126)
Pledges receivable	(155,053)	(314,839)
Inventory	15,775	1,890
Prepaid expenses	(6,975)	129,098
Accounts payable and accrued expenses	(279,903)	(48,863)
Amounts received in advance for future services	304,238	332,974
Deferred grants	-	(192,415)
Net cash provided by (used in) operating activities	<u>224,358</u>	<u>(4,979,810)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(3,422,451)	(2,246,964)
Proceeds from sale of property and equipment	3,391	18,092
Proceeds from sale of investments	21,956,339	11,821,508
Purchase of investments	(20,095,238)	(9,810,643)
Payments to annuitants	(363,024)	(55,921)
Net cash used in investing activities	<u>(1,920,983)</u>	<u>(273,928)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital campaign contributions	3,192,509	4,541,106
Endowment contributions	1,349,453	1,095,456
Net cash provided by financing activities	<u>4,541,962</u>	<u>5,636,562</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,845,337	382,824
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,202,425</u>	<u>3,819,601</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 7,047,762</u>	<u>\$ 4,202,425</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cost basis of property and equipment disposed of or sold	<u>\$ 2,374</u>	<u>\$ 39,577</u>

The accompanying notes are an integral part of these statements.

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

(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 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 (ASC).

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 receives membership fees from various members. Membership fees are recognized as revenue on the membership start date each year.

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, 2014 AND 2013
 (Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Unrestricted Net Assets:

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

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

Board designated funds functioning as an endowment - consist of net assets which are part of the endowment set aside by the Board of Directors for various purposes. Use of these funds may only be used with the approval of the Board of Directors (see Note 5).

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

Depreciation on permanently restricted net assets - consists of the net assets that fall below the fair value of the individual donor-restricted endowment funds (see Note 5).

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 also include the accumulated unspent appreciation on permanently restricted net assets in accordance with Massachusetts law.

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

	<u>2014</u>	<u>2013</u>
Accumulated appreciation on permanently restricted endowment (see Note 5)	\$52,096,785	\$40,470,636
Program restricted	8,872,752	8,367,098
Capital restricted	4,000,911	3,861,365
Split-interest agreements (see Page 8)	<u>4,981,989</u>	<u>4,106,343</u>
	<u>\$69,952,437</u>	<u>\$56,805,442</u>

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

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 unless the gift instrument requires them to be added back to permanently restricted net assets, but the principal may not be spent. In accordance with Massachusetts law, all earnings, including interest and dividends, and appreciation of a donor-restricted endowment are temporarily restricted until appropriated by the Board of Directors, and are released to unrestricted net assets based on Mass Audubon's investment spending policy. Also included in permanently restricted net assets is property required to be held in perpetuity for conservation purposes.

Fair Value Measurements

ASC Topic, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standards establish a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. Instruments which are generally included in this category include equity and debt securities publicly traded on an exchange.
- Level 2 - Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

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

Cash and Cash Equivalents

Management considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents, excluding such assets that are maintained as part of the investment portfolio (see Note 4).

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Mass Audubon records investments at fair value (see Note 4). 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.

Interest, dividends and mutual fund distributions are recorded when earned. Gains and losses are recognized as incurred upon sale or based on fair value changes during the period (see Note 4). 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.

Split Interest Agreements

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. Gift annuities were given to Mass Audubon on the condition that Mass Audubon bind itself to make periodic stipulated payments to the donor or other designated individuals. Life income funds were contributed to Mass Audubon subject to the requirement that Mass Audubon periodically pay the income earned on these funds to the donor or other designated individuals. Payments terminate at a time specified in the life income, gift annuities and charitable remainder trust agreements, usually upon death of the donor or designated individual. 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, 2014 AND 2013
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts, if any, is based on management's best estimate of the amount of probable credit losses in accounts receivable, specific identification of probable losses, and an estimate of additional losses based on historical write-off experience. There was no allowance for doubtful accounts as of June 30, 2014 and 2013.

Pledges Receivable and Reserve for Uncollectible Pledges

Pledges receivable at June 30, 2014 and 2013, 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 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 (see Note 3) 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. Fine arts collections are not depreciated.

Property, Equipment, Depreciation and Amortization

Property and equipment having a value of \$1,000 or more and a useful life of at least three years are capitalized. 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
Motor vehicles	3 - 5 years
Maintenance and program equipment	3 - 10 years

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

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Equipment, Depreciation and Amortization (Continued)

Depreciation expense for the years ended June 30, 2014 and 2013, was \$2,078,830 and \$1,910,044, 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, 2014 and 2013, 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, 2014 and 2013, were \$93,757 and \$72,662, respectively.

Contributed Services

Contributions of services (see Note 8) 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.

Bequests and Legacies

Mass Audubon is and may be named principal beneficiary of various trusts and wills. The amounts to be received, if any, cannot be determined and, therefore, are only reflected in Mass Audubon's financial statements when the amounts are received or become known. The first \$250,000 of unrestricted bequests and legacies received are budgeted for operations by the Board of Directors annually and the remaining portion is deposited to the Board Designated Endowment and is included in non-operating revenue in the accompanying statements of activities and changes in net assets for the years ended June 30, 2014 and 2013.

Subsequent Events

Subsequent events have been evaluated through October 29, 2014, 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.

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Mass Audubon accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. Mass Audubon has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2014 and 2013. Mass Audubon's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

(2) **PLEDGES RECEIVABLE**

Mass Audubon has pledges receivable, which are due as follows at June 30:

<u>Fiscal Year</u>	<u>2014</u>	<u>2013</u>
Due in less than one year	\$ 937,637	\$ 948,957
Due in one to five years	902,077	757,492
Thereafter	21,788	-
	<u>1,861,502</u>	<u>1,706,449</u>
Less - discount	<u>37,681</u>	<u>51,143</u>
	1,823,821	1,655,306
Less - reserve for uncollectible pledges	<u>81,798</u>	<u>82,765</u>
	<u>\$1,742,023</u>	<u>\$1,572,541</u>

Pledges receivable are primarily from foundations, corporations and individuals located throughout Massachusetts. Pledges with permanent restrictions have been included in long-term pledges in the accompanying statements of financial position as of June 30, 2014 and 2013. Long-term pledges have been discounted using discount factors of 3% and 5% at June 30, 2014 and 2013, respectively.

(3) **INVENTORY**

Inventory consists of the following at June 30:

	<u>2014</u>	<u>2013</u>
Retail merchandise at Lincoln gift shop	\$166,934	\$178,594
Publications	40,291	46,328
Other retail merchandise	<u>29,688</u>	<u>27,766</u>
	<u>\$236,913</u>	<u>\$252,688</u>

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(4) INVESTMENTS (Continued)

Planned giving assets consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Charitable remainder trusts	\$5,328,331	\$4,822,319
Gift annuities	2,687,968	2,766,000
Life income funds	<u>1,267,572</u>	<u>1,250,955</u>
	<u>\$9,283,871</u>	<u>\$8,839,274</u>

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, 2014 and 2013, was \$1,013,237 and \$986,744, respectively.

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

	<u>2014</u>	<u>2013</u>
Beginning balance	\$35,309,060	\$25,044,881
Purchases of investments	4,041,038	8,810,643
Receipts from and liquidations of investments	(1,622,621)	(1,275,543)
Net unrealized gains on investments in investments	<u>5,548,856</u>	<u>2,729,079</u>
Ending balance	<u>\$43,276,333</u>	<u>\$35,309,060</u>

As of June 30, 2014, Mass Audubon was committed to contribute approximately \$9,400,000 in additional capital to alternative investments throughout the terms of those investments, normally not to exceed fifteen years.

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

	<u>2014</u>	<u>2013</u>
Unrealized gains on investments	\$14,556,691	\$ 7,852,198
Realized gains on investments	2,315,069	1,185,180
Interest and dividends, net of fees	<u>823,246</u>	<u>1,346,254</u>
	<u>\$17,695,006</u>	<u>\$10,383,632</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.

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(5) ENDOWMENT

Mass Audubon's endowment consists of three hundred and six 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.

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.

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(5) ENDOWMENT (Continued)

Investment Return Objectives, Risk Parameters and Strategies (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 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 31st of the preceding year and for the three preceding calendar quarters and also reviews the amount of spending from the Fund in the current fiscal year. The spending amount for the next fiscal year is calculated by: 1) multiplying the current fiscal year spending amount from the Fund by one plus the percentage increase in the Consumer Price Index (CPI-U) for the then-ended calendar year and then by seventy percent and 2) by adding to this amount a second amount which is determined by multiplying a trailing average of the market value of the Fund at December 31st and the preceding three calendar quarters by a spending rate determined by the Investment Committee and then by thirty percent. In computing the average of the Fund to be used for the spending rate decision, net endowment additions for each of the four preceding calendar quarters will be added back. The Investment Committee recommends the amount so calculated for the next fiscal year to the Board of Directors, which then determines the spending rate. The Investment Committee determines the details of this policy and monitors its implementation.

Endowment Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the 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 \$170,059 and \$670,287 as of June 30, 2014 and 2013, respectively.

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014 AND 2013
 (Continued)

(5) **ENDOWMENT** (Continued)

Endowment Funds with Deficiencies (Continued)

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Endowment net assets, June 30, 2012	\$ 276,655	\$36,162,213	\$57,748,584	\$ 94,187,452
Investment gain, net	393,053	8,462,217	12,244	8,867,514
Contributions	119,577	-	1,201,660	1,321,237
Appropriation of assets	487,968	(983,804)	219,199	(276,637)
Investment return designated for current operations	<u>-</u>	<u>(3,169,990)</u>	<u>-</u>	<u>(3,169,990)</u>
Sub-total	<u>1,000,598</u>	<u>4,308,423</u>	<u>1,433,103</u>	<u>6,742,124</u>
Endowment net assets, June 30, 2013	<u>1,277,253</u>	<u>40,470,636</u>	<u>59,181,687</u>	<u>100,929,576</u>
Investment gain, net	636,997	15,747,072	26,493	16,410,562
Contributions	517,747	-	3,898,501	4,416,248
Appropriation of assets	(164,898)	(150,619)	504,200	188,683
Investment return designated for current operations	<u>-</u>	<u>(3,970,304)</u>	<u>-</u>	<u>(3,970,304)</u>
Sub-total	<u>989,846</u>	<u>11,626,149</u>	<u>4,429,194</u>	<u>17,045,189</u>
Endowment net assets, June 30, 2014	<u>\$2,267,099</u>	<u>\$52,096,785</u>	<u>\$63,610,881</u>	<u>\$117,974,765</u>

(6) **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, 2014 or 2013.

Note Payable to a Bank

At June 30, 2014 and 2013, Mass Audubon has available up to \$100,000 on an unsecured line of credit agreement with a bank which expires on May 29, 2015. Borrowings under the line of credit bear interest at the London Interbank Offered Rate (LIBOR) Advantage Rate (2% at June 30, 2014 and 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, 2014 and 2013. At June 30, 2014 and 2013, no borrowings were outstanding under the line of credit agreement.

MASSACHUSETTS AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(7) **RETIREMENT PLAN**

Mass Audubon has a defined contribution pension plan pursuant to IRS 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, 2014 and 2013, Mass Audubon's contributions to the plan totaled approximately \$732,000 and \$729,000, respectively.

(8) **CONTRIBUTED SERVICES**

The value of donated services and the corresponding expenses included in the accompanying financial statements for the years ended June 30, 2014 and 2013, are \$336,494 and \$252,714, 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 145,000 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 10).

(9) **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.

(10) **CONCENTRATIONS**

Credit Risk

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

Funding

Mass Audubon receives funding under Federal contracts. Payments to Mass Audubon are subject to audit by the appropriate government agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of Mass Audubon as of June 30, 2014 and 2013, or on its results of operations for the years then ended. As of June 30, 2014 and 2013, one government agency represents 11% and 13%, respectively, of accounts receivable.

Approximately 27% of gross pledges receivable at June 30, 2014, were due from two donors. Approximately 18% of gross pledges receivable at June 30, 2013, were due from one donor.

MASSACHUSETTS AUDUBON SOCIETY, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(Continued)

(11) RECLASSIFICATIONS

Certain amounts in the June 30, 2013 financial statements have been reclassified to conform to the June 30, 2014 presentation.