

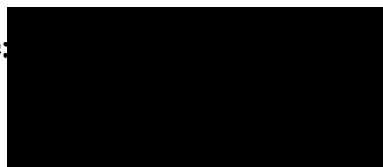
[Insert Subcommittee Name Here]

## Witness Disclosure Form

Clause 2(g) of rule XI of the Rules of the House of Representatives requires non-governmental witnesses to disclose to the Committee the following information. A non-governmental witness is any witness appearing on behalf of himself/herself or on behalf of an organization other than a federal agency, or a state, local or tribal government.

Your Name, Business Address, and Telephone Number: 202-600-7963 Brian Moore 1200 18 <sup>th</sup> St, NW <del>20036</del> 500 Washington, DC 20036
1. Are you appearing on behalf of yourself or a non-governmental organization? Please list organization(s) you are representing. NGO National Audubon Society
2. Have you or any organization you are representing received any Federal grants or contracts (including any subgrants or subcontracts) since October 1, 2012 related to the agencies or programs funded by the Subcommittee?  <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
3. Have you or any organization you are representing received any contracts or payments originating with a foreign government since October 1, 2012 related to the agencies or programs funded by the Subcommittee?  Yes <input checked="" type="checkbox"/> No
4. If your response to question #2 and/or #3 is "Yes", please list the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof), and/or the amount and country of origin of any payment or contract originating with a foreign government. Please also indicate whether the recipient was you or the organization(s) you are representing.  See Attachments

Signature:



Date:

3-13-15

Consolidated Financial Statements and OMB Circular A-133  
Supplementary Information Together with  
Reports of Independent Certified Public Accountants

**NATIONAL AUDUBON SOCIETY, INC.**

June 30, 2014 and 2013

# NATIONAL AUDUBON SOCIETY, INC.

## TABLE OF CONTENTS

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	<b>Page</b>
Report of Independent Certified Public Accountants	1 - 2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position as of June 30, 2014 and 2013	3
Consolidated Statement of Activities for the year ended June 30, 2014	4
Consolidated Statement of Activities for the year ended June 30, 2013	5
Consolidated Statement of Functional Expenses for the year ended June 30, 2014	6
Consolidated Statement of Functional Expenses for the year ended June 30, 2013	7
Consolidated Statements of Cash Flows for the years ended June 30, 2014 and 2013	8
Notes to Consolidated Financial Statements	9 - 37
OMB Circular A-133 Supplementary Information:	
Schedule of Expenditures of Federal Awards for the year ended June 30, 2014	38 - 42
Notes to Schedule of Expenditures of Federal Awards for the year ended June 30, 2014	43
Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	44 - 45
Report of Independent Certified Public Accountants on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	46 - 48
Schedule of Findings and Questioned Costs for the year ended June 30, 2014:	
Section I - Summary of Auditors' Results	49 - 50
Section II - Financial Statement Findings	51
Section III - Federal Award Findings and Questioned Costs	51 - 53
Summary Schedule of Prior Year (2013) Audit Findings and Corrective Action Plan	54 - 57



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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of  
**National Audubon Society, Inc.:**

### **Report on the financial statements**

We have audited the accompanying consolidated financial statements of National Audubon Society, Inc. (“Audubon”), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management’s responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Audubon’s preparation and fair presentation of the consolidated 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 Audubon’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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Audubon Society, Inc., as of June 30, 2014 and 2013, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other matters**

***Supplementary information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards for the year ended June 30, 2014, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 2014 consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other reporting required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 11, 2014, on our consideration of Audubon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Audubon's internal control over financial reporting and compliance.



New York, New York  
November 11, 2014

**NATIONAL AUDUBON SOCIETY, INC.**  
**Consolidated Statements of Financial Position**  
**As of June 30, 2014 and 2013**

<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 33,351,688	\$ 34,074,891
Other receivables, net (Note 4)	5,806,159	5,585,614
Prepaid expenses and other assets (Note 9)	2,732,607	3,349,717
Pledges receivable, net (Note 4)	5,446,434	3,655,380
Investments (Note 5)	231,337,336	214,859,683
Beneficial interest in charitable trusts (Notes 5 and 12)	43,481,649	42,151,503
Building and equipment, net (Note 6)	48,361,791	50,057,004
Land (Note 6)	98,379,782	96,600,999
	<u>\$ 468,897,446</u>	<u>\$ 450,334,791</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 3,936,197	\$ 6,496,390
Accrued payroll and related liabilities	1,198,560	824,033
Accrued vacation	2,907,833	3,186,991
Deferred rent, tuition and other (Note 9)	6,539,124	5,921,877
Funds held for others	1,576,016	2,356,046
Loan payable (Note 11)	100,000	7,275,000
Obligations under charitable trusts (Notes 5 and 12)	6,296,638	6,609,687
Pension and postretirement benefit liability (Note 10)	12,047,381	13,749,383
Total liabilities	<u>34,601,749</u>	<u>46,419,407</u>
 <b>COMMITMENTS AND CONTINGENCIES (Notes 5 and 9)</b>		
<b>NET ASSETS</b>		
Unrestricted	151,387,587	134,662,490
Temporarily restricted (Note 3)	181,338,775	173,421,712
Permanently restricted (Note 3)	101,569,335	95,831,182
Total net assets	<u>434,295,697</u>	<u>403,915,384</u>
Total liabilities and net assets	<u>\$ 468,897,446</u>	<u>\$ 450,334,791</u>

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

**NATIONAL AUDUBON SOCIETY, INC.**  
**Consolidated Statement of Activities**  
**For the year ended June 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING ACTIVITIES</b>				
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Contributions and grants (Note 8)	\$ 48,370,978	\$ 13,160,720	\$ 945,126	\$ 62,476,824
Bequests	6,367,635	740,716	1,302,177	8,410,528
Earned income	11,363,849	-	-	11,363,849
Investment earnings on non-pooled funds, net (Note 5)	1,715,960	1,990	-	1,717,950
Investment earnings on pooled funds - appropriated, net (Note 5)	7,270,660	303,192	-	7,573,852
Royalties, net and other revenue	453,854	-	-	453,854
Net assets released from restrictions (Note 7)	19,640,488	(19,640,488)	-	-
Total revenues, gains and other support	<u>95,183,424</u>	<u>(5,433,870)</u>	<u>2,247,303</u>	<u>91,996,857</u>
<b>EXPENSES</b>				
Conservation programs:				
Field conservation programs	49,886,339	-	-	49,886,339
National conservation programs	23,994,131	-	-	23,994,131
	<u>73,880,470</u>	<u>-</u>	<u>-</u>	<u>73,880,470</u>
Fundraising:				
Membership development	3,747,578	-	-	3,747,578
Other development	6,751,709	-	-	6,751,709
	<u>10,499,287</u>	<u>-</u>	<u>-</u>	<u>10,499,287</u>
Management and general				
	<u>4,860,090</u>	<u>-</u>	<u>-</u>	<u>4,860,090</u>
Total expenses	<u>89,239,847</u>	<u>-</u>	<u>-</u>	<u>89,239,847</u>
Changes in net assets from operations	5,943,577	(5,433,870)	2,247,303	2,757,010
<b>NON-OPERATING ACTIVITIES</b>				
Gain on sales of property (Note 11)	6,758,909	5,802	361,186	7,125,897
Transfers of net assets (Note 3)	205,241	(16,585)	(188,656)	-
Investment income on pooled funds not appropriated, net (Note 5)	2,835,039	13,682,901	-	16,517,940
Charitable trust additions	-	195,830	-	195,830
Change in value of charitable trusts (Notes 3 and 5)	-	(517,015)	3,318,320	2,801,305
Changes in net assets before pension and postretirement related changes other than net periodic costs	15,742,766	7,917,063	5,738,153	29,397,982
Pension and postretirement related changes other than net periodic costs (Note 10)	982,331	-	-	982,331
Changes in net assets	<u>16,725,097</u>	<u>7,917,063</u>	<u>5,738,153</u>	<u>30,380,313</u>
Net assets, beginning of year	<u>134,662,490</u>	<u>173,421,712</u>	<u>95,831,182</u>	<u>403,915,384</u>
Net assets, end of year	<u>\$ 151,387,587</u>	<u>\$ 181,338,775</u>	<u>\$ 101,569,335</u>	<u>\$ 434,295,697</u>

*The accompanying notes are an integral part of this consolidated financial statement.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Consolidated Statement of Activities**  
**For the year ended June 30, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING ACTIVITIES</b>				
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Contributions and grants (Note 8)	\$ 45,381,806	\$ 14,594,746	\$ 405,517	\$ 60,382,069
Bequests	5,156,516	1,150,172	1,497,616	7,804,304
Earned income	9,421,636	-	-	9,421,636
Investment earnings on non-pooled funds, net (Note 5)	1,655,888	18,598	-	1,674,486
Investment earnings on pooled funds - appropriated, net (Note 5)	6,244,515	574,208	-	6,818,723
Royalties, net and other revenue	2,413,754	-	-	2,413,754
Net assets released from restrictions (Note 7)	<u>16,515,551</u>	<u>(16,515,551)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>86,789,666</u>	<u>(177,827)</u>	<u>1,903,133</u>	<u>88,514,972</u>
<b>EXPENSES</b>				
Conservation programs:				
Field conservation programs	49,951,033	-	-	49,951,033
National conservation programs	<u>21,509,509</u>	<u>-</u>	<u>-</u>	<u>21,509,509</u>
	<u>71,460,542</u>	<u>-</u>	<u>-</u>	<u>71,460,542</u>
Fundraising:				
Membership development	3,739,993	-	-	3,739,993
Other development	<u>7,106,392</u>	<u>-</u>	<u>-</u>	<u>7,106,392</u>
	10,846,385	-	-	10,846,385
Management and general	<u>4,476,715</u>	<u>-</u>	<u>-</u>	<u>4,476,715</u>
Total expenses	<u>86,783,642</u>	<u>-</u>	<u>-</u>	<u>86,783,642</u>
Changes in net assets from operations	6,024	(177,827)	1,903,133	1,731,330
<b>NON-OPERATING ACTIVITIES</b>				
Gain on sales of property	69,082	48,966	-	118,048
Transfer of program fees	(482,598)	(1,842,867)	-	(2,325,465)
Transfers of net assets (Note 3)	(236,069)	297,375	(61,306)	-
Investment income on pooled funds not appropriated, net (Note 5)	2,617,024	6,193,561	-	8,810,585
Charitable trust additions	-	921,807	-	921,807
Change in value of charitable trusts (Notes 3 and 5)	<u>-</u>	<u>985,780</u>	<u>2,366,123</u>	<u>3,351,903</u>
Changes in net assets before pension and postretirement related changes other than net periodic costs	1,973,463	6,426,795	4,207,950	12,608,208
Pension and postretirement related changes other than net periodic costs (Note 10)	<u>6,132,160</u>	<u>-</u>	<u>-</u>	<u>6,132,160</u>
Changes in net assets	8,105,623	6,426,795	4,207,950	18,740,368
Net assets, beginning of year	<u>126,556,867</u>	<u>166,994,917</u>	<u>91,623,232</u>	<u>385,175,016</u>
Net assets, end of year	<u>\$ 134,662,490</u>	<u>\$ 173,421,712</u>	<u>\$ 95,831,182</u>	<u>\$ 403,915,384</u>

*The accompanying notes are an integral part of this consolidated financial statement.*



**NATIONAL AUDUBON SOCIETY, INC.**  
**Consolidated Statement of Functional Expenses**  
**For the year ended June 30, 2014**

	Conservation Program Expenses			Fundraising Expenses			Management and General	Total
	Field Programs	National Programs	Total Program Expenses	Membership Development	Other Development	Total Development Expenses		
Salaries	\$ 22,908,337	\$ 6,771,492	\$ 29,679,829	\$ 134,046	\$ 3,277,696	\$ 3,411,742	\$ 1,851,748	\$ 34,943,319
Payroll taxes and fringe benefits (Note 10)	6,076,596	1,796,186	7,872,782	35,557	869,432	904,989	491,189	9,268,960
Travel	1,370,600	659,016	2,029,616	10,673	220,313	230,986	94,677	2,355,279
Meetings	690,738	173,004	863,742	2,452	215,869	218,321	95,200	1,177,263
Postage and mailing	180,754	3,186,910	3,367,664	1,347,470	141,936	1,489,406	15,977	4,873,047
Grants and scholarships	1,355,371	1,841,825	3,197,196	58	16,656	16,714	8,767	3,222,677
Chapter grants and support	971,236	6,000	977,236	-	-	-	-	977,236
Professional services	4,669,207	2,327,102	6,996,309	336,962	946,617	1,283,579	416,530	8,696,418
Telemarketing	-	84,872	84,872	50,466	-	50,466	-	135,338
Occupancy (Note 9)	2,297,003	675,406	2,972,409	14,028	166,406	180,434	603,200	3,756,043
Telephone and telecommunications	455,111	111,335	566,446	658	27,584	28,242	99,627	694,315
Maintenance and equipment rental	1,798,198	111,247	1,909,445	446	38,256	38,702	67,509	2,015,656
Supplies	1,446,960	792,346	2,239,306	3,563	92,983	96,546	271,278	2,607,130
Printing and promotion	338,957	2,259,420	2,598,377	1,167,634	148,633	1,316,267	171	3,914,815
Membership fulfillment	318,450	660,689	979,139	307,915	52,326	360,241	265,337	1,604,717
Magazine printing	-	793,313	793,313	-	-	-	-	793,313
Commissions	-	256,006	256,006	49,221	-	49,221	-	305,227
Service bureaus	644,587	391,320	1,035,907	82,875	121,664	204,539	307,402	1,547,848
Insurance	856,487	91,123	947,610	769	42,104	42,873	79,349	1,069,832
Taxes	252,158	9,355	261,513	48	-	48	-	261,561
Advertising	153,341	34,777	188,118	8,197	88,435	96,632	3,604	288,354
Licenses and fees	92,819	39,440	132,259	7,623	11,529	19,152	6,513	157,924
Depreciation and amortization	2,600,123	102,074	2,702,197	1,049	30,374	31,423	158,776	2,892,396
Other	409,306	819,873	1,229,179	185,868	242,896	428,764	23,236	1,681,179
<b>TOTAL EXPENSES</b>	<b>\$ 49,886,339</b>	<b>\$ 23,994,131</b>	<b>\$ 73,880,470</b>	<b>\$ 3,747,578</b>	<b>\$ 6,751,709</b>	<b>\$ 10,499,287</b>	<b>\$ 4,860,090</b>	<b>\$ 89,239,847</b>

*The accompanying notes are an integral part of this consolidated financial statement.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Consolidated Statement of Functional Expenses**  
**For the year ended June 30, 2013**

	Conservation Program Expenses			Fundraising Expenses			Management and General	Total
	Field Programs	National Programs	Total Program Expenses	Membership Development	Other Development	Total Development Expenses		
Salaries	\$ 23,311,437	\$ 6,487,738	\$ 29,799,175	\$ 168,105	\$ 3,263,568	\$ 3,431,673	\$ 1,877,838	\$ 35,108,686
Payroll taxes and fringe benefits (Note 10)	6,472,520	1,801,348	8,273,868	46,675	906,144	952,819	521,259	9,747,946
Travel	1,248,481	438,854	1,687,335	2,443	221,279	223,722	74,673	1,985,730
Meetings	483,622	95,579	579,201	1,938	326,575	328,513	73,219	980,933
Postage and mailing	189,753	2,703,976	2,893,729	1,419,462	58,883	1,478,345	20,731	4,392,805
Grants and scholarships	743,339	1,326,177	2,069,516	3,405	67,769	71,174	5,366	2,146,056
Chapter grants and support	956,318	-	956,318	-	-	-	-	956,318
Professional services	4,597,295	1,877,353	6,474,648	275,653	960,651	1,236,304	455,508	8,166,460
Telemarketing	-	58,295	58,295	45,330	-	45,330	-	103,625
Occupancy (Note 9)	2,257,788	907,111	3,164,899	9,701	198,130	207,831	565,747	3,938,477
Telephone and telecommunications	491,353	120,492	611,845	1,168	36,286	37,454	112,906	762,205
Maintenance and equipment rental	2,418,741	100,330	2,519,071	579	45,991	46,570	37,564	2,603,205
Supplies	1,311,153	543,517	1,854,670	4,673	81,407	86,080	213,292	2,154,042
Printing and promotion	372,672	1,546,091	1,918,763	1,088,813	186,719	1,275,532	150	3,194,445
Membership fulfillment	312,600	479,616	792,216	293,038	53,602	346,640	230,769	1,369,625
Magazine printing	-	739,842	739,842	-	-	-	-	739,842
Commissions	-	309,000	309,000	45,561	-	45,561	-	354,561
Service bureaus	522,497	693,173	1,215,670	133,555	109,925	243,480	250,803	1,709,953
Insurance	930,041	96,655	1,026,696	1,379	50,926	52,305	25,795	1,104,796
Taxes	230,106	4,114	234,220	182	5,974	6,156	28	240,404
Advertising	168,335	100,014	268,349	394	61,681	62,075	-	330,424
Licenses and fees	83,703	24,325	108,028	5,319	7,702	13,021	2,728	123,777
Depreciation and amortization	2,721,161	101,839	2,823,000	1,706	34,272	35,978	164,967	3,023,945
Other	128,118	954,070	1,082,188	190,914	428,908	619,822	(156,628)	1,545,382
<b>TOTAL EXPENSES</b>	<b>\$ 49,951,033</b>	<b>\$ 21,509,509</b>	<b>\$ 71,460,542</b>	<b>\$ 3,739,993</b>	<b>\$ 7,106,392</b>	<b>\$ 10,846,385</b>	<b>\$ 4,476,715</b>	<b>\$ 86,783,642</b>

*The accompanying notes are an integral part of this consolidated financial statement.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Consolidated Statements of Cash Flows**  
**For the years ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 30,380,313	\$ 18,740,368
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,893,518	3,026,241
Net realized and unrealized gains on investments	(21,283,319)	(11,923,866)
Increase in beneficial interests in charitable trusts	(1,330,146)	(2,748,892)
Gains on sales of land, buildings and equipment	(7,125,897)	(118,048)
Donated land	(24,000)	(132,325)
Increase (decrease) in estimate of allowance for uncollectible pledges, and other receivables	13,986	(36,375)
Long-term contributions, bequests and additions to charitable trusts	(5,424,962)	(5,508,395)
Change in operating assets and liabilities:		
(Increase) decrease in pledges and other receivables	(2,025,585)	1,521,194
Decrease (increase) in prepaid expenses and other assets	617,110	(486,065)
(Decrease) increase in accounts payable, accrued expenses, funds held for others and obligations under charitable trusts	(3,557,903)	4,368,531
Increase in deferred rent, tuition and other	617,247	204,282
Decrease in pension and postretirement benefit liability	(1,702,002)	(6,022,081)
Net cash (used in) provided by operating activities	<u>(7,951,640)</u>	<u>884,569</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(8,193,694)	(9,625,605)
Proceeds from sales of investments	12,999,360	9,889,723
Additions to land, buildings and equipment	(4,034,057)	(3,055,777)
Proceeds from sales of land, buildings and equipment	1,031,866	322,527
Net cash provided by (used in) investing activities	<u>1,803,475</u>	<u>(2,469,132)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loan payable	-	100,000
Proceeds from contributions, bequests and charitable trusts restricted for:		
Endowment	2,182,647	1,903,133
Capital projects	3,046,485	2,683,455
Charitable trust additions	195,830	921,807
Net cash provided by financing activities	<u>5,424,962</u>	<u>5,608,395</u>
Net (decrease) increase in cash and cash equivalents	(723,203)	4,023,832
Cash and cash equivalents, beginning of the year	<u>34,074,891</u>	<u>30,051,059</u>
Cash and cash equivalents, end of the year	<u>\$ 33,351,688</u>	<u>\$ 34,074,891</u>
Supplemental disclosures of cash flow information:		
Settlement of loan payable through sale of property (Note 11)	<u>\$ 7,175,000</u>	<u>\$ -</u>

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

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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**1. ORGANIZATION AND NATURE OF ACTIVITIES**

National Audubon Society, Inc. (“Audubon” or the “Organization”) was incorporated in 1905. Audubon’s mission is to conserve and restore natural ecosystems, focusing on birds and other wildlife, for the benefit of humanity and the earth’s biological diversity. A powerful combination of science, education and policy expertise combine in efforts ranging from protection and restoration of local habitats to the implementation of policies that safeguard birds, other wildlife and the resources that sustain us all—in the U.S. and across the Americas.

Audubon’s programs are further described as follows:

**Conservation Programs:** In 2012, Audubon adopted a new strategic plan with the goal of focusing and aligning Audubon’s unparalleled network to meet today’s unprecedented environmental challenges. Reflecting the expertise and input of staff, chapters, board members, and other volunteers and partners, this “Roadmap for Hemispheric Conservation” enables Audubon to deliver conservation impact at scale.

**Field Conservation Programs:** By connecting the work of the Audubon network - chapters, nature centers, national and state staff, volunteers, partners, and other supporters - along each of the four flyways of the Americas, Audubon weaves a seamless web of conservation for both migratory and non-migratory species. By working toward common flyway conservation goals, Audubon has greater impact. And by coordinating resources and expertise, Audubon increases efficiency across the network.

Audubon maximizes its conservation results by focusing on programming related to five strategies critical for birds:

1. *Putting working lands to work for birds and people:* Partnering with landowners to make working lands work for birds, people, and communities.
2. *Sharing our seas and shores:* Protecting the vital habitat along America’s coasts where people and birds intersect.
3. *Saving Important Bird Areas:* Identifying and protecting the most important places for birds.
4. *Shaping a healthy climate and clean energy future:* Reducing and mitigating the impacts of climate change and fostering a clean energy future.
5. *Creating bird-friendly communities:* Working with communities to improve habitats for birds and other wildlife.

**National Conservation Programs** provide strategy, expertise and leadership for Audubon’s conservation work at both national and field levels, and integrate all efforts for maximum effectiveness.

- ***The Science program*** maintains a high level of technical competency and knowledge among Audubon’s field instructors and conservation professionals. This program encompasses activities such as assistance with conservation planning, ecological analysis, environmental sciences, bird migration studies and coordinating the efforts of thousands of volunteers (citizen scientists) to monitor bird populations and habitats. The experts in Audubon’s science program also help identify actions individuals can take to make a difference for conservation in their day-to-day lives that can be used at the field level for education purposes.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

- ***The Public Policy program*** is a combination of grassroots organizing, advocacy and communications that has earned Audubon a reputation as a respected and influential voice on public policy issues. The Public Policy program supports large state and multi-state efforts such as: the restoration of large iconic ecosystems, like the Arctic Slope in Alaska, the wetlands of the Everglades, the Mississippi River Delta and the Northeast’s Long Island Sound; protection of 2,766 Important Bird Areas covering 397 million acres of public and private lands; and safeguarding common sense laws like the Clean Air Act, Clean Water Act, Endangered Species Act and the Neotropical Migratory Bird Conservation Act.
- ***The Community Conservation & Education program*** recognizes that people are at the heart of the conservation solution. By inspiring more people in more places to value and protect the natural world, Audubon is laying the foundation for future conservation. Audubon nature centers are one of the principle elements of Audubon’s education work reaching more than one million visitors each year. Programs like Audubon at Home, Urban Oasis and Lights Out empower people to make bird-friendly lifestyle choices. Partnerships like Toyota TogetherGreen, a collaboration of Audubon and Toyota Motor Co., are helping to diversify the environmental movement through fellowships and grants.
- ***The International Alliances Program*** protects the birds and biodiversity of the Americas. Providing science, education, and policy development tools to build the conservation capacities of in-country organizations directly involved in the fate of key landscapes in Latin America and the Caribbean. Audubon collaborates with international partners to extend a web of protection throughout the Western hemisphere.

**Communications** efforts include a wide range of publications and strategies to engage a broad and diverse audience in our conservation work. These include public websites, social media, email marketing, and printed materials such as *AUDUBON* Magazine, which reaches approximately 1.6 million readers. The goal of Audubon’s outreach is to motivate individuals and communities to take action for birds and the environment.

**Fundraising** relates to activities in raising contributions, grants and planned giving gifts for Audubon. Development expenses fund staff efforts associated with raising contributed income to fund operations and capital projects for use in both current and future years. Also included in this expense are all the costs associated with Membership Development, such as recruiting and retaining approximately 860,000 members. During the years ended June 30, 2014 and 2013, Audubon incurred joint costs of approximately \$9,494,000 and \$8,141,000, respectively, for informational material and activities that included development appeals. Of those costs approximately \$3,159,000 and \$3,324,000 were allocated to fundraising and approximately \$6,335,000 and \$4,817,000 were allocated to program for the years ended June 30, 2014 and 2013, respectively.

**Management and general** are those expenses that are not allocated to a program, fundraising activity or membership development activity and include certain activities of the President’s Office, as well as support areas such as Information Services, Legal, Human Resources, Finance and Operations.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

The consolidated financial statements of Audubon include the accounts of Audubon's wholly owned subsidiaries, National Audubon Society of Coastal Connecticut, Inc., National Audubon Society of Sharon, Inc., Lincoln Audubon Society, and The National Audubon Society of Greenwich, Inc. (the "Subsidiaries"). The Subsidiaries hold land for the benefit and use of Audubon.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

**Net Assets**

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into the following categories:

Unrestricted Net Assets

Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted Net Assets

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that will be met either by actions of Audubon and/or the passage of time. Audubon reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends and/or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Temporarily restricted net assets also include earnings on permanently restricted endowment funds that have not yet been appropriated for expenditure.

Permanently Restricted Net Assets

Permanently restricted net assets result from donors who stipulate that their donated resources be maintained in perpetuity by Audubon. Generally, Audubon is permitted to expend part or all of the income and gains derived from these donated assets, restricted only by donors' stipulations.

**Cash and Cash Equivalents**

Audubon considers all cash not intended for investment purposes and all non-pooled investments purchased with original maturities of 90 days or less to be cash equivalents.

**Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value, generally determined on the basis of quoted market prices. Audubon also invests in non-exchange traded alternative investments, which are stated at estimated fair value based on the

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

net asset value (“NAV”), as a practical expedient, reported by the investment managers or general partners. NAV may differ significantly from the values that would have been reported had a ready market for these investments existed. Audubon reviews and evaluates the values provided by the investment managers or general partners and has determined that the valuation methods and assumptions used in determining the fair value of the alternative investments are reasonable.

Audubon manages its investments on a total return basis and has established budgeted spending limits for specific endowment funds of 2.0%, 3.5% or 4.5% of the average of the rolling five calendar year-end market values, subject to limitations where applicable under donor restrictions or regulatory requirements.

**Prepaid Expenses and Other Assets**

Prepaid expenses and other assets include inventories of retail store merchandise of approximately \$326,000 and \$339,000 as of June 30, 2014 and 2013, respectively, which are valued at the lower of cost or market, on a first-in, first-out basis.

**Charitable Trust Agreements**

Audubon is the beneficiary of charitable trust agreements under varying terms and conditions. Audubon’s interest in charitable remainder trusts, charitable remainder unitrusts, and other charitable trusts held by third-party trustees is reported at present value reflecting the fair value of the amounts Audubon expects to receive using discount rates ranging from 2.2% to 5.0%.

For the years ended June 30, 2014 and 2013, the discount rates used to value the charitable gift annuity agreements and the pooled life income fund ranged from 1.20% to 10.60% and 4.29% to 10.00%, respectively.

**Building and Equipment**

In 1978, Audubon adopted the policy of capitalizing, depreciating and amortizing building and equipment. Because historical costs were not available for buildings and art works, other basis were used to establish the initial carrying values of such property. Property tax appraisals adjusted to market and insurance appraisals were used to value buildings, and appraised net current retail values were used for the art collection. Assets acquired subsequent to July 1, 1978 have been recorded at cost. Depreciation of buildings and equipment is provided over the estimated useful lives of the assets on a straight-line basis. Leasehold improvements are amortized over the lesser of the related useful life of the asset or the lease term. Artwork is not depreciated. Audubon capitalizes property with a cost of \$5,000 or more and a useful life of greater than one year.

	<b><u>Estimated Useful Lives</u></b>
Buildings and building improvements	20 - 40 years
Equipment	4 - 10 years
Land improvements	10 - 40 years
Leasehold improvements	5 - 40 years

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

**Land**

Land consists of approximately 104,809 acres on which some of Audubon's state offices, sanctuaries, research, and nature centers are located. Land is valued at cost when purchased or, if donated, at fair value on the date of donation. Included in permanently restricted net assets is land of approximately \$10,300,000 as of both June 30, 2014 and 2013. Included in unrestricted net assets is land of approximately \$88,100,000 and \$86,300,000 as of June 30, 2014 and 2013, respectively. A significant portion of the land included in unrestricted net assets is subject to legally binding contractual restrictions on use and/or disposition. Land purchased or donated to Audubon during the years ended June 30, 2014 and 2013 totaled approximately \$2,700,000 and \$914,000, respectively. Land sold or donated to other organizations during the years ended June 30, 2014 and 2013 totaled approximately \$900,000 and \$101,000, respectively.

**Chapters**

Audubon has 464 independent chapters throughout the United States. The consolidated financial statements do not include the assets, liabilities, net assets, revenues and expenses of Audubon's chapters since such chapters are independent organizations.

**Contributions and Grants**

Audubon reports gifts of cash and other assets as an increase in restricted net assets if they are received with donor stipulations limiting the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Temporarily restricted gifts and grants, received and utilized in the same year, are reflected in the consolidated statement of activities in the unrestricted class of net assets. Bequests are recognized as revenue once the probate process is complete.

Revenue from federal grants is recognized to the extent that qualifying reimbursable expenses have been incurred over the terms of the respective agreements.

Gifts of long-lived assets and gifts of cash or other assets that must be used to acquire long-lived assets are reported as an increase in temporarily restricted net assets.

**Earned Income**

Earned income includes advertising revenue, tuition and admission revenue, retail sales and program revenue. Revenue is recorded when earned under the terms of the related agreements.

**Receivables**

Receivables are recorded at net realizable value if expected to be collected in one year and at fair value (using credit adjusted discount rates) if expected to be collected in more than one year. Receivables are stated net of an allowance for uncollectible amounts of approximately \$723,000 and \$709,000 as of June 30, 2014 and 2013, respectively. Such estimated allowances are based on management's assessment of the credit worthiness of its donors, the aged basis of the receivables, and historical information. Receivables are written off in the period they are deemed uncollectible and payments subsequently received are recorded as income in the period received.

Other receivables include grant receivables and receivables due from other organizations.



**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

**Funds Held for Others**

As of June 30, 2014 and 2013, funds held for others included approximately \$1,015,000 and \$973,000, respectively, in agency funds held for other organizations and independent Audubon chapters and \$561,000 and \$1,383,000, respectively, in funds held for employees and former employees of Audubon related to a deferred compensation plan to which funds are no longer being contributed. Such amounts are included in investments and funds held for others in the accompanying consolidated statements of financial position.

**Fair Value Measurements**

Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels as follows:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2 - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed. Also included in level 2 are investments measured using a NAV per share, or its equivalent, that may be redeemed at the NAV at the consolidated statement of financial position date or in the near term, which is generally considered to be within 90 days.
- Level 3 - Securities that have little to no observable pricing. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at NAV at the consolidated statement of financial position date or in the near term or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

In determining fair value, Audubon utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

**Income Taxes**

Audubon follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

Audubon is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Audubon has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

---

unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The tax years ending June 30, 2011, 2012, 2013 and 2014 are still open to audit for both federal and state purposes. Audubon has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Operating Measure**

Operating revenues and expenses reflect the activities in which Audubon typically engages to fulfill its mission. Audubon utilizes a spending rate in making its annual investment allocation for support of operations. Investment income, including net realized and unrealized gains and losses, earned in excess of or less than Audubon's spending rate is recognized within non-operating activities. Charitable trust contributions, the change in value of charitable trusts, pension related expenses other than net periodic pension costs and other transactions that are non-recurring and unusual in nature are recorded below the operating indicator on the accompanying consolidated statement of activities. During the year ended June 30, 2013, Audubon transferred a program to another not-for-profit organization, resulting in a non-operating loss of approximately \$2.3 million.

**Allocation of Functional Expenses**

The costs associated with conducting Audubon's programs and activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management.

**Concentrations**

Cash, cash equivalents, and investments are exposed to interest rate, market, and credit risks. Audubon maintains its cash and cash equivalents in various bank deposit accounts that may exceed federally insured limits at times. To minimize risk, Audubon places its cash accounts with high credit quality financial institutions. Audubon does not anticipate any losses in such accounts.

Investment concentrations are disclosed in Note 5 to the accompanying consolidated financial statements.

**Reclassifications**

Certain reclassifications were made to the fiscal 2013 consolidated financial statements in order to conform to the fiscal 2014 presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as reflected in the fiscal 2014 financial statements.

**Subsequent Events**

Audubon has evaluated, for potential recognition and disclosure, events subsequent to the consolidated statement of financial position date of June 30, 2014 through November 11, 2014, the date the consolidated financial statements were available to be issued.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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Effective July 1, 2014 Audubon and Friends of Schlitz Audubon Nature Center, Inc. (“FOSANC”) entered into management, licensing and ground leasing agreements governing the operations of the Schlitz Audubon Nature Center in Wisconsin (the “Center”). The agreements are effective through June 30, 2039 with an option to renew for an additional 10 years.

As of July 1, 2014, FOSANC will be responsible for all operating costs of the Center, including all personnel costs and all taxes, utilities, insurance and repairs and maintenance on the Center. Audubon will remain the owner of the Center, and will also retain ownership of certain funds which will remain segregated in a separate fund, and used solely to support the operation of the Center.

On July 1, 2014, \$1,183,093 of the Center’s assets and \$1,120,185 of the Center’s liabilities were transferred to FOSANC.

Audubon is not aware of any additional subsequent events that would require recognition or disclosure in the consolidated financial statements.

**3. NET ASSETS**

The New York Prudent Management of Institutional Funds Act (“NYPMIFA”) was enacted in 2010. Audubon has interpreted NYPMIFA as requiring the preservation of the original gift, as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Audubon classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Audubon in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of Audubon and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Audubon
- The investment policies of Audubon
- Where appropriate, alternatives to spending from donor-restricted endowment funds and the possible effects on Audubon

Audubon’s endowment investment policy is based on a study of its assets and liabilities. The risk tolerance of the portfolio is directly related to Audubon’s overall finances and its restricted and endowment funds. Investments are allocated across capital markets beginning with a careful review of the world capital market allocation and are adjusted to reflect Audubon’s unique circumstances with a controlled opportunistic overlay. The portfolio’s investment strategy combines both passive and active investment solutions, the selection of which is governed by rules elaborated in Audubon’s Statement of Investment Policy. Audubon

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Annual spending from the endowment funds is described in Note 2.

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 NYPMIFA requires Audubon to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature, if they occurred, are reported in unrestricted net assets. As of June 30, 2014 there were no donor endowment funds whose fair value were below the original gift amount and as of June 30, 2013 there was one donor endowment fund whose fair value of approximately \$999,000 was below the original gift amount of approximately \$1,000,000 by approximately \$1,000.

Changes in endowment net assets, excluding permanently restricted land of \$10,295,373 for the years ended June 30, 2014 and 2013 were as follows:

	<b>2014</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ (804)	\$ 42,168,823	\$ 85,535,809	\$ 127,703,828
Investment activity:				
Interest, dividends and realized gains	-	4,374,447	-	4,374,447
Unrealized gains on investments	804	9,488,315	-	9,489,119
Change in value of charitable trusts	-	-	3,318,320	3,318,320
Total investment activity	804	13,862,762	3,318,320	17,181,886
Amounts appropriated for expenditure	-	(3,362,446)	-	(3,362,446)
Contributions to endowments	-	-	1,306,312	1,306,312
Bequests	-	-	1,302,177	1,302,177
Transfers of net assets	-	-	(188,656)	(188,656)
<b>Endowment net assets, end of year</b>	<b>\$ -</b>	<b>\$ 52,669,139</b>	<b>\$ 91,273,962</b>	<b>\$ 143,943,101</b>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

	<b>2013</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ (6,841)	\$ 38,052,434	\$ 81,327,859	\$ 119,373,452
Investment activity:				
Interest, dividends and realized (losses) gains	(13,880)	1,449,137	-	1,435,257
Unrealized gains on investments	8,145	5,959,276	-	5,967,421
Change in value of charitable trusts	-	-	2,366,123	2,366,123
Total investment activity	(5,735)	7,408,413	2,366,123	9,768,801
Amounts appropriated for expenditure	-	(3,254,305)	-	(3,254,305)
Contributions to endowments	-	-	405,517	405,517
Bequests	-	-	1,497,616	1,497,616
Transfers of net assets	11,772	(37,719)	(61,306)	(87,253)
<b>Endowment net assets, end of year</b>	<b>\$ (804)</b>	<b>\$ 42,168,823</b>	<b>\$ 85,535,809</b>	<b>\$ 127,703,828</b>

Endowment net assets of \$143,943,101 and \$127,703,828 as of June 30, 2014 and 2013, respectively, are included within the investments and beneficial interest in charitable trusts in the accompanying consolidated statements of financial position.

Temporarily restricted net assets as of June 30, 2014 and 2013 are available for the following:

	<b>2014</b>	<b>2013</b>
Purpose restrictions:		
Field Conservation Programs	\$ 166,265,446	\$ 155,820,604
National Conservation Programs	8,331,012	8,480,679
Time restrictions	6,742,317	9,120,429
	<b>\$ 181,338,775</b>	<b>\$ 173,421,712</b>

Temporarily restricted net assets above are further characterized by Audubon in the following manner as of June 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Accumulated earnings on endowment funds	\$ 52,669,139	\$ 42,168,823
Property funded by restricted contributions	45,383,753	44,323,580
Charitable trusts, net of obligations	6,742,317	9,632,132
Other time restricted funds	10,266,983	8,168,291
Other purpose restricted funds	66,276,583	69,128,886
	<b>\$ 181,338,775</b>	<b>\$ 173,421,712</b>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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Permanently restricted net assets, excluding permanently restricted land of \$10,295,373, represent gifts to be held in perpetuity and generate income that was available to support the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Purpose restrictions:		
Field conservation programs	\$ 57,065,677	\$ 53,238,402
National conservation programs	9,512,497	8,797,482
General purposes	24,695,788	23,499,925
	<u>\$ 91,273,962</u>	<u>\$ 85,535,809</u>

**4. RECEIVABLES**

Receivables consist of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Unconditional pledges receivable:		
Less than one year	\$ 4,726,764	\$ 2,787,680
One to five years	839,670	961,700
	5,566,434	3,749,380
Less: Allowance for uncollectible pledges	(120,000)	(94,000)
Total pledges receivable, net	5,446,434	3,655,380
Other receivables (net of allowance of \$602,847 and \$614,861)	5,806,159	5,585,614
	<u>\$ 11,252,593</u>	<u>\$ 9,240,994</u>

Audubon received new conditional pledges of approximately \$1,475,000 and \$0 during the years ended June 30, 2014 and 2013, respectively. Audubon has recorded revenue of approximately \$2,234,000 and \$2,479,000 for the years ended June 30, 2014 and 2013, respectively, the extent to which the conditions on the pledges have been met. As of June 30, 2014 and 2013, Audubon had conditional pledges outstanding of \$1,242,000 and \$2,001,000, respectively. Pledge payments due over the ensuing one to two years are conditional based on progress and reporting satisfactory to the donor.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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**5. INVESTMENTS**

Audubon's investments consisted of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 42,236,627	\$ 10,244,226
U.S. government and agency obligations	1,760,884	1,818,831
Equities	5,767,997	4,765,806
Bonds	2,865,010	4,775,888
Mutual funds - equity	4,137,253	4,259,244
Mutual funds - fixed income	10,703,048	16,729,980
Exchange traded funds - equity	32,901,548	33,470,902
Exchange traded funds - international equity	32,452,172	25,373,753
Exchange traded funds - fixed income	83,497	78,186
Collective trust funds - fixed income	40,463,646	63,093,285
Common trust funds	8,283,301	6,661,798
Alternative investments	49,682,353	43,587,784
	<u>\$ 231,337,336</u>	<u>\$ 214,859,683</u>

As of June 30, 2014 and 2013, concentrations of Audubon's investments in excess of 10% of the fair value of its portfolio included approximately 17% and 29% invested in the BGI Government Bond Index Fund, respectively, approximately 13% and 11% in the iShares MSCI EAFE Index Fund, respectively, and approximately 10% and 12% in Standard & Poors Depository Receipts "SPDR," respectively.

Investments are subject to market volatility that could change their carrying values substantially in the near term.

Investment income consists of the following for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 6,710,268	\$ 6,779,059
Net realized gains	3,317,368	2,462,811
Net unrealized gains	17,965,951	9,461,055
Investment fees	(461,126)	(446,576)
	<u>\$ 27,532,461</u>	<u>\$ 18,256,349</u>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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Investment income is reported as follows in the accompanying consolidated statements of activities for the years ended June 30, 2014 and 2013:

	<b>2014</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Revenues, gains, and support:			
Investment earnings on non-pooled funds, net	\$ 1,715,960	\$ 1,990	\$ 1,717,950
Investment earnings on pooled funds – appropriated, net	7,270,660	303,192	7,573,852
Nonoperating items:			
Investment gains on pooled funds not appropriated, net	2,835,039	13,682,901	16,517,940
Included in change in value of charitable trusts	-	1,722,719	1,722,719
	<u>\$ 11,821,659</u>	<u>\$ 15,710,802</u>	<u>\$ 27,532,461</u>
	<b>2013</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Revenues, gains, and support:			
Investment earnings on non-pooled funds, net	\$ 1,655,888	\$ 18,598	\$ 1,674,486
Investment earnings on pooled funds – appropriated, net	6,244,515	574,208	6,818,723
Nonoperating items:			
Investment gain on pooled funds not appropriated, net	2,617,024	6,193,561	8,810,585
Included in change in value of charitable trusts	-	952,555	952,555
	<u>\$ 10,517,427</u>	<u>\$ 7,738,922</u>	<u>\$ 18,256,349</u>

Included in investment income for the years ended June 30, 2014 and 2013 is approximately \$1,433,000 and \$1,427,000 related to assets held in trust, respectively, where Audubon is a designated income beneficiary.



**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

Assets and liabilities measured at fair value at June 30, 2014 and 2013 are classified in the tables below in one of the three levels as follows:

	2014			Total
	Level 1	Level 2	Level 3	
Assets Carried at Fair Value:				
Investments:				
Cash and cash equivalents	\$ 42,236,627	\$ -	\$ -	\$ 42,236,627
U.S. government and agency obligations	1,760,884	-	-	1,760,884
Equities	5,767,997	-	-	5,767,997
Bonds	-	2,865,010	-	2,865,010
Mutual funds - equity	4,137,253	-	-	4,137,253
Mutual funds - fixed income	10,703,048	-	-	10,703,048
Exchange traded funds - equity	32,901,548	-	-	32,901,548
Exchange traded funds - international equity	32,452,172	-	-	32,452,172
Exchange traded funds - fixed income	83,497	-	-	83,497
Collective trust fund - fixed income	-	40,463,646	-	40,463,646
Common trust funds	-	8,283,301	-	8,283,301
Alternative investments	-	42,044,305	7,638,048	49,682,353
Total investments	<u>130,043,026</u>	<u>93,656,262</u>	<u>7,638,048</u>	<u>231,337,336</u>
Beneficial interest in charitable trusts	-	-	43,481,649	43,481,649
Total Assets Carried at Fair Value	<u>\$ 130,043,026</u>	<u>\$ 93,656,262</u>	<u>\$ 51,119,697</u>	<u>\$ 274,818,985</u>
Liabilities Carried at Fair Value:				
Obligations under charitable trusts	\$ -	\$ -	\$ 6,296,638	\$ 6,296,638
Total Liabilities Carried at Fair Value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,296,638</u>	<u>\$ 6,296,638</u>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

	2013			
	Level 1	Level 2	Level 3	Total
Assets Carried at Fair Value:				
Investments:				
Cash and cash equivalents	\$ 10,244,226	\$ -	\$ -	\$ 10,244,226
U.S. government and agency obligations	1,818,831	-	-	1,818,831
Equities	4,765,806	-	-	4,765,806
Bonds	-	4,775,888	-	4,775,888
Mutual funds - equity	4,259,244	-	-	4,259,244
Mutual funds - fixed income	16,729,980	-	-	16,729,980
Exchange traded funds - equity	33,470,902	-	-	33,470,902
Exchange traded funds - international equity	25,373,753	-	-	25,373,753
Exchange traded funds - fixed income	78,186	-	-	78,186
Collective trust fund - fixed income	-	63,093,285	-	63,093,285
Common trust funds	-	6,661,798	-	6,661,798
Alternative investments	-	36,014,959	7,572,825	43,587,784
Total investments	<u>96,740,928</u>	<u>110,545,930</u>	<u>7,572,825</u>	<u>214,859,683</u>
Beneficial interest in charitable trusts	-	-	42,151,503	42,151,503
Total Assets Carried at Fair Value	<u>\$ 96,740,928</u>	<u>\$ 110,545,930</u>	<u>\$ 49,724,328</u>	<u>\$ 257,011,186</u>
Liabilities Carried at Fair Value:				
Obligations under charitable trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,609,687</u>	<u>\$ 6,609,687</u>
Total Liabilities Carried at Fair Value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,609,687</u>	<u>\$ 6,609,687</u>

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

**Equity Securities, Mutual Funds and Exchange Traded Funds**

Valued at the closing price reported on the active market on which the individual securities are traded at year end.

**Alternative Investments**

Alternative investments in hedge funds, fund of funds, and limited partnerships are designated as Level 2 or 3 as indicative of the investment manager's classification of Audubon's investment in the funds. It is not meant to be indicative of the classification of the investments in the underlying portfolio of these funds. The fair value of alternative investments is provided by the general partner or fund manager, and may be based on historical cost, appraisals and obtainable prices for similar assets or other estimates.

**U.S. Government and Agency Obligations**

Investments in U.S. government and agency obligations are valued using market prices in active markets (Level 1), except for Audubon's interests in common and collective trusts which are valued using the NAV provided by the administrator of the trusts and which is categorized under Level 2 in the fair value hierarchy. The NAV is based on the value of the underlying assets owned by the trust, less the trust's liabilities and then divided by the number of shares outstanding.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

**Bonds**

Municipal and corporate bonds are designated as Level 2 instruments and valuations are obtained from readily-available pricing sources for comparable instruments (credit risk/grade, maturities, etc.)

The following tables list investments valued at NAV as of June 30, 2014 and 2013:

2014							
Name/Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Alternative investment - International Value Equity Fund	Seeks to achieve long-term growth primarily by investing in a diversified portfolio of equity securities of companies located in any country other than the U.S. Fund will invest primarily in established international markets; but may invest a portion in emerging markets.	1	\$ 20,129,808	N/A	N/A	May redeem all or part of units on the first business day of each month by providing written notice at least six (6) business days prior to the month end.	Redemptions ordinarily must equal or exceed \$500,000. Notice and minimum redemption requirements may be waived.
Alternative investment - Open-ended Interval Fund	Seeks long-term growth of capital by investing primarily in equity securities of issuers in developing countries.	1	5,585,670	N/A	N/A	30 days written notice with a monthly frequency.	N/A
Alternative investment - Limited Partnerships	Venture capital and private equity	5	6,531,085	1-3 years	818,208	N/A	Not permitted to withdraw.
Alternative investment - Limited Partnership	The partnership is organized for the purpose of earning attractive rates of return through an investment program of "alternative investment strategies" including general or limited partnerships or other pooled vehicles and with managers of separately managed accounts.	1	14,966,788	N/A	N/A	90 days written notice as of each June 30th and December 31st.	N/A
Alternative investment - Open-ended Investment Company	Seeks to achieve attractive risk adjusted returns by investing in, on margin or otherwise, a diversified portfolio of public and private securities, primarily involving high yield fixed income securities, syndicated leveraged loans (bank debt), credit derivatives and to a lesser extent, equities.	1	1,362,039	N/A	N/A	Shares may be redeemed annually on June 30 with notice not less than 90 days prior to the intended redemption date.	N/A
Alternative investment - Limited Partnership	Objective is to achieve superior risk-adjusted returns through opportunistic investments across the credit spectrum.	1	1,106,963	N/A	N/A	Quarterly with 90 days prior written notice required.	Certain lock-up and redemption restrictions.
Collective trust fund - Blackrock Institutional Trust Company	The Fund invests in a broad market of investment grade bonds consisting of U.S. Treasury, U.S. Agency and domestic corporate bonds.	1	40,463,646	N/A	N/A	Daily	N/A
Common trust funds - State Street	The objectives of the funds are to approximate the performance of S&P 500 Index, Russell 2000 Index, MSCIEAFE Index and S&P MidCap 400 Index.	9	8,283,301	N/A	N/A	Daily/Monthly	N/A
		<u>20</u>	<u>\$ 98,429,300</u>			<u>\$ 818,208</u>	

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

2013

Name/Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Alternative investment - International Value Equity Fund	Seeks to achieve long-term growth primarily by investing in a diversified portfolio of equity securities of companies located in any country other than the U.S. Fund will invest primarily in established international markets; but may invest a portion in emerging markets.	1	\$ 16,109,345	N/A	N/A	May redeem all or part of units on the first business day of each month by providing written notice at least six (6) business days prior to the month end.	Redemptions ordinarily must equal or exceed \$500,000. Notice and minimum redemption requirements may be waived.
Alternative investment - Open-ended Interval Fund	Seeks long-term growth of capital by investing primarily in equity securities of issuers in developing countries.	1	4,956,706	N/A	N/A	30 days written notice with a monthly frequency.	N/A
Alternative investment - Limited Partnerships	Venture capital and private equity	5	6,553,013	1-4 years	1,128,208	N/A	Not permitted to withdraw.
Alternative investment - Limited Partnership	The partnership is organized for the purpose of earning attractive rates of return through an investment program of "alternative investment strategies" including general or limited partnerships or other pooled vehicles and with managers of separately managed accounts.	1	13,668,934	N/A	N/A	90 days written notice as of each June 30th and December 31st.	N/A
Alternative investment - Open-ended Investment Company	Seeks to achieve attractive risk adjusted returns by investing in, on margin or otherwise, a diversified portfolio of public and private securities, primarily involving high yield fixed income securities, syndicated leveraged loans (bank debt), credit derivatives and to a lesser extent, equities.	1	1,279,974	N/A	N/A	Shares may be redeemed annually on June 30 with notice not less than 90 days prior to the intended redemption date.	N/A
Alternative investment - Limited Partnership	Objective is to achieve superior risk-adjusted returns through opportunistic investments across the credit spectrum.	1	1,019,812	N/A	N/A	Quarterly with 90 days prior written notice required.	Certain lock-up and redemption restrictions.
Collective trust fund - Blackrock Institutional Trust Company	The Fund invests in a broad market of investment grade bonds consisting of U.S. Treasury, U.S. Agency and domestic corporate bonds.	1	63,093,285	N/A	N/A	Daily	N/A
Common trust funds - State Street	The objectives of the funds are to approximate the performance of S&P 500 Index, Russell 2000 Index, MSCI EAFE Index and S&P MidCap 400 Index.	9	6,661,798	N/A	N/A	Daily/Monthly	N/A
			<u>20</u>		<u>\$ 113,342,867</u>		<u>\$ 1,128,208</u>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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The changes in investment assets measured at fair value for which Audubon has used Level 3 inputs to determine fair value were as follows for the years ended June 30, 2014 and 2013:

<b>Balance at June 30, 2012</b>	\$ 8,131,868
Purchases	465,000
Redemptions	(1,352,937)
Unrealized gains	<u>328,894</u>
<b>Balance at June 30, 2013</b>	7,572,825
Purchases	310,000
Redemptions	(122,754)
Unrealized losses	<u>(122,023)</u>
<b>Balance at June 30, 2014</b>	<u><u>\$ 7,638,048</u></u>

**Charitable Trust Agreements**

Beneficial interest in charitable trusts and obligations under charitable trusts are designated as Level 3. The changes in assets and liabilities measured at fair value for which Audubon has used Level 3 inputs to determine fair value was as follows for the years ended June 30, 2014 and 2013.

	<b>Beneficial Interest in Charitable Trusts</b>	<b>Obligations under Charitable Trusts</b>
<b>Balance at June 30, 2012</b>	\$ 39,402,611	\$ 5,548,110
New agreements	-	1,547,063
Payments to annuitants	-	(889,171)
Change in fair value of trust assets	2,748,892	-
Change in value due to actuarial valuations	<u>-</u>	<u>403,685</u>
<b>Balance at June 30, 2013</b>	42,151,503	6,609,687
New agreements	-	169,784
Payments to annuitants	-	(786,256)
Trust distributions	(961,214)	-
Change in fair value of trust assets	4,404,916	-
Change in value due to actuarial valuations	<u>(2,113,556)</u>	<u>303,423</u>
<b>Balance at June 30, 2014</b>	<u><u>\$ 43,481,649</u></u>	<u><u>\$ 6,296,638</u></u>

**Financial Instruments**

The carrying amounts of cash and cash equivalents, receivables, prepaid expenses and other assets, and accounts payable and accrued expenses approximate fair value due to the short maturity of these financial instruments. The carrying value of receivables has been reduced by an appropriate allowance for uncollectible accounts, based on historical collection experience and therefore approximates net realizable value.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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**6. LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment consisted of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Buildings and building improvements	\$ 43,470,230	\$ 43,429,067
Construction in progress (see Note 9)	2,055,574	1,053,733
Equipment	10,350,338	10,044,531
Land improvements	91,936	91,936
Leasehold improvements	<u>23,674,665</u>	<u>23,396,067</u>
	79,642,743	78,015,334
Less: Accumulated depreciation and amortization	<u>(31,664,705)</u>	<u>(28,782,084)</u>
Buildings and equipment, net	47,978,038	49,233,250
Assets not subject to depreciation:		
Artwork	383,753	823,754
Land available for sale	186,500	1,500
Land - Sanctuaries	<u>98,193,282</u>	<u>96,599,499</u>
Total land, buildings and equipment, net	<u>\$ 146,741,573</u>	<u>\$ 146,658,003</u>

**7. NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets released from donor restrictions due to the passage of time and/or satisfying the restricted purposes specified by the donors are as follows:

	<u>2014</u>	<u>2013</u>
Program restrictions:		
Field Conservation programs	\$ 14,326,388	\$ 11,268,816
National Conservation programs	4,892,820	4,463,617
Time restrictions	<u>421,280</u>	<u>783,118</u>
	<u>\$ 19,640,488</u>	<u>\$ 16,515,551</u>

**8. IN-KIND CONTRIBUTIONS**

Audubon receives in-kind contributions in the form of donated goods and land which are recorded at their estimated fair value at the date of receipt. A number of volunteers donate substantial amounts of time to Audubon's program services. Donated services are evaluated to determine if they meet the criteria for recognition in the consolidated financial statements. The value of such in-kind contributions, that met the criteria for recognition, was approximately \$234,000 and \$867,000 for the years ended June 30, 2014 and 2013, respectively, and is reflected in the accompanying consolidated financial statements as contribution revenue and applicable functional expenses or capitalized asset as appropriate.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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**9. COMMITMENTS AND CONTINGENCIES**

Audubon entered into a twenty year lease agreement for its national headquarters in New York. The lease commenced September 1, 2007 and was amended on November 1, 2007. Rental payments commenced May 1, 2008 and call for approximately the following commitments for years subsequent to June 30, 2014:

	<u>Base Rent</u>	<u>Operating Expenses</u>	<u>Total</u>
2015	\$ 1,195,000	\$ 243,000	\$ 1,438,000
2016	1,195,000	286,000	1,481,000
2017	1,195,000	330,000	1,525,000
2018	1,262,000	376,000	1,638,000
2019	1,310,000	425,000	1,735,000
Thereafter	<u>11,605,000</u>	<u>5,828,000</u>	<u>17,433,000</u>
	<u>\$ 17,762,000</u>	<u>\$ 7,488,000</u>	<u>\$ 25,250,000</u>

As of June 30, 2014 and 2013, Audubon substituted a standby letter of credit in the amount of \$273,211 in lieu of a security deposit for its office lease. As required by Audubon's bank, a certificate of deposit with a balance of \$290,080 and \$289,163 as of June 30, 2014 and 2013, respectively, is included in prepaid expenses and other assets in the accompanying consolidated statements of financial position and secures this letter of credit.

Audubon occupies other office space under long-term lease agreements with varying expiration dates through the year ended June 30, 2023. Future minimum annual rental commitments under operating leases are approximately as follows for years subsequent to June 30, 2014:

2015	\$ 998,000
2016	858,000
2017	746,000
2018	583,000
2019	549,000
Thereafter	<u>1,132,000</u>
	<u>\$ 4,866,000</u>

Rent credits and charges are accounted for on a straight-line basis over the life of the lease. Included in deferred rent, tuition, and other on the accompanying consolidated statements of financial position as of June 30, 2014 and 2013 is a liability of approximately \$4,463,000 and \$4,313,000, respectively, related to the tenant improvement credit and deferred rent under the straight-line method of accounting.

The minimum rental payments are subject to adjustments based on increases in real estate taxes, insurance and other operating expenses. Total rent expense for the years ended June 30, 2014 and 2013 amounted to approximately \$2,804,000 and \$3,082,000, respectively.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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During the year ended June 30, 2012, Audubon began leasing personal computers on three-year leases. The future three-year total commitments were approximately \$230,000 and \$334,000 as of June 30, 2014 and 2013, respectively. Audubon has also entered into arrangements with multiple suppliers for office equipment such as copiers and postage meters. These leases have terms that range from 1 to 7 years with total lease costs of less than \$85,000 annually.

Audubon is in the process of developing and improving several nature centers, which are in various stages of completion. As of June 30, 2014 and 2013, Audubon had remaining commitments on construction and related agreements amounting to approximately \$1,826,000 and \$1,008,000, respectively.

Audubon is invested in several limited partnerships under which Audubon is committed to make capital contributions in future periods totaling approximately \$818,000 and \$1.1 million as of June 30, 2014 and 2013, respectively.

Audubon is a defendant in various lawsuits. Audubon is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on Audubon's financial position, changes in net assets or cash flows.

Audubon receives significant federal grants which are subject to audit by federal agencies. Audubon is of the opinion that disallowances, if any, would not have a significant effect on Audubon's financial position, changes in net assets or cash flows.

## **10. PENSION AND OTHER RETIREMENT BENEFIT PLANS**

### **Cash Balance Pension Plan**

Effective January 1, 1998, Audubon changed its noncontributory, defined benefit trustee administered retirement plan (the "Prior Plan"), to a hybrid Cash Balance Pension Plan. All employees who were vested at the time of the change will receive the greater of the "Prior Plan" benefit or the cash balance benefit upon termination or retirement.

The Cash Balance Pension Plan (the "Cash Balance Plan") is a defined benefit pension plan covering substantially all employees of Audubon. Individuals who met the applicable age and service requirements while they were Audubon employees are entitled to vested pension benefits under the Cash Balance Plan. All employees hired before October 1, 2004 are always 100% vested in their benefits. Employees hired on or after October 1, 2004 become fully vested after completing three years of service with Audubon. Participants who were active as of January 1, 2000 and who had 5 years of service at December 31, 1997 were grandfathered and receive a benefit based on a final average pay formula. Plan participants at January 1, 1998 who were not grandfathered had an opening balance established based on their accrued benefit at December 31, 1997. For the period between December 31, 1997 and June 30, 2010, the participant account was credited with an amount equal to 3% (4% for the 2000 plan year) of the participant's eligible earnings. In addition, interest is credited each year using the applicable interest rate, determined each January 1, based on short-term interest rates in effect at the end of the prior year. Benefits generally are available to employees upon retirement. The plan was frozen effective June 30, 2010. After that date, no new participants were accepted into the Plan. Compensation paid after June 30, 2010, is disregarded, but participants continue to accrue interest credits.



**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

**403(b) Plan**

In addition to the Cash Balance Plan, Audubon maintains a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code, in which all employees, as defined, are eligible to participate. Participants may make voluntary contributions, subject to plan limitations. Effective July 1, 2010, Audubon changed its contribution to provide all eligible employees with a 4% contribution of eligible compensation subject to plan limitations and an additional matching contribution up to another 4% of eligible compensation subject to plan limitations. For the years ended June 30, 2014 and 2013, Audubon contributed approximately \$2,143,000 and \$2,130,000, respectively, to this retirement plan. All contributions vest immediately and are held in accounts owned by the employees.

**Retiree Medical and Life Plan**

Audubon also maintains an unfunded group medical and life insurance plan. The medical plan is the primary provider of benefits up to age 65; after the age of 65, Medicare becomes the primary provider. In connection with this change, a new prior service credit base of \$1,448,781 was established at June 30, 2010 to account for the decrease in benefit obligation due to this plan change. The recognition of the prior service credit will be spread over the average remaining years of service of the participants remaining in the plan. Employees who separated from service after February 1, 2007 are no longer eligible for retiree life insurance coverage. The following table sets forth the plan's funded status and benefit obligation at June 30, 2014 and 2013:

	2014		2013	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plan
Change in benefit obligation:				
<b>Benefit obligation-beginning of year</b>	\$ 39,462,944	\$ 2,529,503	\$ 44,828,038	\$ 3,093,358
Service cost	-	153,413	289,000	174,590
Interest cost	1,679,182	99,346	1,654,388	97,882
Participant contributions and retiree drug subsidy	-	110,498	-	104,282
Actuarial loss (gain)	1,224,657	(293,872)	(4,008,574)	(774,129)
Benefits paid and expenses	(2,749,043)	(122,938)	(3,299,908)	(166,480)
<b>Benefit obligation – end of year</b>	<u>39,617,740</u>	<u>2,475,950</u>	<u>39,462,944</u>	<u>2,529,503</u>
Change in plan assets:				
<b>Fair value of plan assets – beginning of year</b>	28,243,064	-	28,149,932	-
Actual return	3,729,288	-	2,521,040	-
Employer contributions	823,000	12,440	872,000	62,198
Participant contributions and retiree drug subsidy	-	110,498	-	104,282
Benefits paid	(2,749,043)	(122,938)	(2,912,068)	(166,480)
Administrative expenses	-	-	(387,840)	-
<b>Fair value of plan assets – end of year</b>	<u>30,046,309</u>	<u>-</u>	<u>28,243,064</u>	<u>-</u>
Funded status	<u>\$ (9,571,431)</u>	<u>\$ (2,475,950)</u>	<u>\$ (11,219,880)</u>	<u>\$ (2,529,503)</u>
Accumulated benefit obligation	<u>\$ 39,617,740</u>	<u>\$ 2,475,950</u>	<u>\$ 39,462,944</u>	<u>\$ 2,529,503</u>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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Amounts recognized as a liability in the accompanying consolidated statements of financial position consisted of the following as of June 30, 2014 and 2013:

	<b>2014</b>		
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Total</b>
Accrued benefit liability	<u>\$ (9,571,431)</u>	<u>\$ (2,475,950)</u>	<u>\$ (12,047,381)</u>

	<b>2013</b>		
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Total</b>
Accrued benefit liability	<u>\$ (11,219,880)</u>	<u>\$ (2,529,503)</u>	<u>\$ (13,749,383)</u>

The following table provides the components of net periodic benefit cost for the plans for the years ended June 30, 2014 and 2013:

	<b>2014</b>		<b>2013</b>	
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>
Service cost	\$ 388,000	\$ 153,413	\$ 289,000	\$ 174,590
Interest cost	1,679,182	99,346	1,654,388	97,882
Expected return on plan assets	(1,776,540)	-	(1,788,899)	-
Amortization of prior service credit	-	(1,452,359)	-	(1,452,359)
Amortization of net loss	<u>991,431</u>	<u>33,296</u>	<u>1,967,177</u>	<u>102,498</u>
Net periodic benefit cost (credit)	<u>\$ 1,282,073</u>	<u>\$ (1,166,304)</u>	<u>\$ 2,121,666</u>	<u>\$ (1,077,389)</u>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

The components of the unfunded liability as of June 30, 2014 and 2013 but not yet reflected in net periodic benefit cost consisted of the following:

	2014		2013	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plan
Prior service credit	\$ -	\$ 4,048,962	\$ -	\$ 5,501,321
Accumulated loss	(9,939,618)	(467,092)	(12,047,140)	(794,260)
Amounts recognized in unrestricted net assets	(9,939,618)	3,581,870	(12,047,140)	4,707,061
Cumulative employer contributions in excess of net periodic benefit cost	368,187	(6,057,820)	827,260	(7,236,564)
Net amount recognized in the statement of financial position	<u>\$ (9,571,431)</u>	<u>\$ (2,475,950)</u>	<u>\$ (11,219,880)</u>	<u>\$ (2,529,503)</u>

For the years ended June 30, 2014 and 2013, Audubon recognized pension and postretirement related changes other than net periodic costs of \$982,331 and \$6,132,160, respectively. Such amounts represent the change in the amounts reflected in unrestricted net assets for the years ended June 30, 2014 and 2013 and consist of \$2,107,522 and \$6,707,892 for the Cash Balance Plan and \$(1,125,191) and \$(575,732) for the Retiree Medical and Life plan.

Other changes in plan assets and benefit obligations recognized in the change in unrestricted net assets for the years ended June 30, 2014 and 2013 are as follows:

	2014		2013	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plan
Net gain arising during period	\$ (1,116,091)	\$ (293,872)	\$ (4,740,715)	\$ (774,129)
Amortization of prior service credit	-	1,452,359	-	1,452,359
Amortization of actuarial loss	(991,431)	(33,296)	(1,967,177)	(102,498)
Change in unrestricted net assets	<u>\$ (2,107,522)</u>	<u>\$ 1,125,191</u>	<u>\$ (6,707,892)</u>	<u>\$ 575,732</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ (825,449)</u>	<u>\$ (41,113)</u>	<u>\$ (4,586,226)</u>	<u>\$ (501,657)</u>

The estimated actuarial loss and prior service credit for the Cash Balance Plan that will be amortized from the unrestricted net asset balance into net periodic benefit cost over the next fiscal year are \$1,023,603 and \$0, respectively. The estimated actuarial loss and prior service credit for the Retiree Medical and Life Plan that will be amortized from the unrestricted net asset balance into net periodic benefit cost over the next fiscal year are \$20,495 and \$1,452,359, respectively.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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The weighted average assumptions used to determine benefit obligations as of June 30, 2014 and 2013 consisted of the following:

	<b>2014</b>		<b>2013</b>	
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plans</b>
Discount rate	4.01 %	3.51 %	4.50 %	4.50 %
Rate of compensation increase	N/A	N/A	N/A	N/A

The weighted average assumptions used to determine net periodic benefit cost for the years ended June 30, 2014 and 2013 consisted of the following:

	<b>2014</b>		<b>2013</b>	
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plans</b>
Discount rate	4.50 %	4.50 %	3.80 %	3.80 %
Expected return on plan assets	6.50 %	N/A	6.50 %	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A
Medical cost trend rate	N/A	7.52 %	N/A	8.04 %

The assumed health care cost trend rate at June 30, 2014 and 2013 consisted of the following:

	<b>2014</b>		<b>2013</b>	
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>
Health care cost trend rate assumed for next year	N/A	7.52 %	N/A	7.78 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	4.50 %	N/A	4.50 %
Year that the rate reaches the ultimate trend rate	N/A	2029	N/A	2029

Audubon expects to contribute approximately \$1,236,000 to its Cash Balance Plan and \$126,000 to its Retiree Medical and Life Plan during the year ending June 30, 2015.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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Future benefit payments are expected to be as follows:

<u>Fiscal year ending June 30th</u>	<u>Cash Balance Plan</u>	<u>Retiree Medical and Life Plan</u>
2015	\$ 1,676,000	\$ 126,000
2016	1,791,000	136,000
2017	2,013,000	146,000
2018	2,060,000	168,000
2019	2,114,000	193,000
2020 through 2024	11,399,000	1,264,000
Total	<u>\$ 21,053,000</u>	<u>\$ 2,033,000</u>

The weighted average asset allocation of the Cash Balance Plan as of June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Equities - domestic	30.76 %	26.90 %
Equities - international	27.16	24.26
Debt securities	25.39	32.69
Cash and cash equivalents	6.80	6.63
Alternative investments	9.89	9.52
	<u>100.00 %</u>	<u>100.00 %</u>

The Cash Balance Plan's expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocations and estimates of future long-term returns by asset class.

The composition of the Cash Balance Plan's assets is intended to provide a long-term annualized investment return that will provide for future benefit payments. Volatility is reduced by asset class diversification. The target asset mix is periodically reviewed based on future expectations and performance and rebalanced as deemed necessary.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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The fair value hierarchy defines three levels, as further described in Note 2. Cash Balance Plan assets measured at fair value at June 30, 2014 and 2013 are classified within the fair value hierarchy in the table as follows:

	<b>2014</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Investments:			
Equities - domestic	\$ 9,243,663	\$ -	\$ 9,243,663
Equities - international	8,160,202	-	8,160,202
Collective trust fund	-	7,629,349	7,629,349
Cash and cash equivalents	2,042,115	-	2,042,115
Alternative investments	-	2,970,980	2,970,980
Total assets carried at fair value	<u>\$ 19,445,980</u>	<u>\$ 10,600,329</u>	<u>\$ 30,046,309</u>
	<b>2013</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Investments:			
Equities - domestic	\$ 7,598,026	\$ -	\$ 7,598,026
Equities - international	6,851,170	-	6,851,170
Collective trust fund	-	9,233,559	9,233,559
Cash and cash equivalents	1,871,878	-	1,871,878
Alternative investments	-	2,688,431	2,688,431
Total assets carried at fair value	<u>\$ 16,321,074</u>	<u>\$ 11,921,990</u>	<u>\$ 28,243,064</u>

The Cash Balance Plan did not have any investments classified as Level 3 as of June 30, 2014 and 2013.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

The following table lists Audubon's Cash Balance Plan investments by major category, which are valued at NAV as of June 30, 2014 and 2013:

		2014					
Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Alternative investment - Limited partnership	The partnership is organized for the purpose of earning attractive rates of return through an investment program of "alternative investment strategies" including general or limited partnerships or other pooled vehicles and with managers of separately managed accounts.	1	\$ 1,796,614	17	N/A	90 days written notice as of each June 30th and December 31st.	Restrictions for withdrawals of 90% or more.
Collective trust fund - Blackrock Institutional Trust Company	Fixed income fund	1	7,629,349	N/A	N/A	Daily	N/A
Alternative investment - Open-ended Interval Fund	Seeks long-term growth of capital by investing primarily in equity securities of issuers in developing countries.	1	1,174,366	N/A	N/A	30 days written notice with a monthly frequency.	N/A
		<u>3</u>	<u>\$ 10,600,329</u>				
		2013					
Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Alternative investment - Limited partnership	The partnership is organized for the purpose of earning attractive rates of return through an investment program of "alternative investment strategies" including general or limited partnerships or other pooled vehicles and with managers of separately managed accounts.	1	\$ 1,646,303	18	N/A	90 days written notice as of each June 30th and December 31st.	Restrictions for withdrawals of 90% or more.
Collective trust fund - Blackrock Institutional Trust Company	Fixed income fund	1	9,233,559	N/A	N/A	Daily	N/A
Alternative investment - Open-ended Interval Fund	Seeks long-term growth of capital by investing primarily in equity securities of issuers in developing countries.	1	1,042,128	N/A	N/A	30 days written notice with a monthly frequency.	N/A
		<u>3</u>	<u>\$ 11,921,990</u>				

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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**11. LOAN PAYABLE**

During the year ended June 30, 2012, Audubon borrowed \$7.175 million from a lender under a note and security agreement. The note and security agreement stated an interest rate of 0.46% per annum and was secured by certain collectibles (“Collectibles”). The principal balance of the note payable was due and payable on May 21, 2016. In conjunction with the note and security agreement, the parties entered into an option agreement, consideration for which was the waiver of the 0.46% annual interest due on the note payable. Under the option agreement, the lender had the option to purchase the Collectibles at a purchase price of \$7.175 million through August 11, 2014 under certain terms and conditions. On December 18, 2013, the lender exercised its option to purchase the Collectibles and no amounts are due under the agreement as of June 30, 2014. The book value associated with the Collectibles was \$440,000 and a gain of \$6,735,000 was recognized during the year ended June 30, 2014, which is included in gain on sales of property on the accompanying consolidated statements of activities.

During the year ended June 30, 2013, Audubon borrowed \$100,000 from a lender. The principal balance of the note payable is due and payable on or prior to May 21, 2016. No interest is due on this note.

**12. CHARITABLE TRUST AGREEMENTS**

Beneficial interests in charitable trusts consisted of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Held by third-party trustees	\$ 43,481,649	\$ 42,151,503
Held by Audubon as trustee:		
Charitable gift annuities	\$ 11,355,462	\$ 10,797,113
Pooled income fund	<u>1,683,493</u>	<u>1,574,697</u>
	<u>\$ 13,038,955</u>	<u>\$ 12,371,810</u>

Most assets held by third-party trustees are invested in diversified portfolios.

Assets held by Audubon as trustee are invested in diversified portfolios and are included within Audubon’s investment portfolio as further described in Note 5 to the accompanying consolidated financial statements. The assets held by Audubon as trustee include additional amounts set aside by Audubon for state-mandated insurance reserves, which are maintained at the required level.

As trustee of certain trusts, Audubon has an obligation to make periodic payments to beneficiaries. Obligations under charitable trusts amounted to approximately \$6,297,000 and \$6,610,000 as of June 30, 2014 and 2013, respectively.



**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2014**

<b>Direct Awards: Federal Grantor/Program Title</b>	<b>Federal CFDA#</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Agriculture:</b>		
Rowe Farm Direct Counter Program	10.055	\$ 1,151
Direct Counter Program Spring Creek Prairie Farm #577	10.055	305
Direct Counter Program Cotton Soybeans	10.055	7,560
Conservation Reserve Program	10.069	24,723
Wetlands Reserve Program	10.072	3,003
Install Water Control Structure South Fork Kern River	10.072	20,688
NRCS Earth Moving Project	10.072	131
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	120,540
Foresters for the Birds	10.678	40,070
Youth Leaders Program	10.684	8,500
California Migratory Bird Conservation Program	10.902	28,536
NRCS WRP Monitoring	10.902	14,538
NRCS Sage Grouse Initiative	10.902	657
NRCS Environmental Quality Incentives Program	10.912	24,768
New York Great Lakes Restoration Initiative Environmental Quality Incentives Program Contribution Agreement	10.912	10,716
Bobcat Environmental Quality Incentives Program	10.912	4,791
USS Chamberlain	10.912	(962)
CIG Grasslands	10.912	19,323
Wildlife Habitat Incentives Program	10.914	36,347
Conservation Security Program	10.921	40,000
Western Hummingbird Partnership Coordinator	10.000	35,439
River Pathways on the Tonto National Forest	10.000	32,168
<b>Total U.S. Department of Agriculture</b>		<b><u>472,992</u></b>
<b>Research and Development Cluster:</b>		
<b>U.S. Department of Defense:</b>		
<b>U.S. Army Corps of Engineers:</b>		
A Proposal to Monitor Ecologic Parameters in the Forested Wetlands of Southern Florida	12.114	330,987
Corp Monitoring Effort	12.630	37,249
<b>Total U.S. Department of Defense</b>		<b><u>368,236</u></b>
<b>Total Research and Development Cluster</b>		<b><u>368,236</u></b>
<b>U.S. Department of Housing and Urban Development:</b>		
Economic Development Initiative Special Project Grant	14.251	7,800
Pascagoula Audubon Center	14.251	8,066
Construction Pascagoula River Grant	14.251	36,000
<b>Total U.S. Department of Housing and Urban Development</b>		<b><u>51,866</u></b>

*The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2014**

<b>Direct Awards: Federal Grantor/Program Title</b>	<b>Federal CFDA#</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Interior:</b>		
River Pathways	15.231	\$ 49,433
Bureau of Land Management American Black Oystercatcher	15.231	5,000
Coastal Stewardship Program	15.630	7,804
Colonial Waterbird Plan	15.630	632
Conservation Assessment and Planning on Kenai Peninsula Lowlands	15.630	10,239
Beach Dependent Birds in Northeast Florida	15.630	6,794
Audubon Florida Management Plan for Cortez Key Bird Sanctuary	15.630	10,622
Platte River Restore and Enhance Habitat	15.631	22,000
Davis Ranch Sycamore Slough	15.631	51
USFWS Blue Oak	15.631	1,365
USFWS DeMartini	15.631	1,758
Outreach Dogwood Canyon	15.631	546
USFWS Alexander Restoration	15.631	11,098
USFWS Chamberlain	15.631	7,404
USFWS Sagara	15.631	3,550
Education Workshops	15.634	1,731
Carse Brook Project	15.634	6,756
Red River Valley Avian Conservation	15.637	15,547
Migratory Bird Venture	15.637	3,138
Continue Partnership and Planning for the Implementation of a Breeding Bird Atlas in Minnesota	15.642	23,105
Metro Bird Plan Phase II	15.647	7,138
Coordinated Grassland Bird Evaluation	15.647	18,993
Seabird Restoration Program	15.654	5,094
Aramburu Island Shoreline Restoration	15.658	236,099
Carse Brook Restoration	15.658	17,497
South Florida Caribbean Cooperative Ecosystem Studies Unit	15.808	30,000
Longleaf Pine Restoration Project	15.631	8,351
Saving Critical Habitat for the Hudsonian Godwit on Chiloe Island, Chile	15.635	91,853
Conserving the Bay of Panama	15.635	113,565
Urban Refuge	15.649	38,718
Habitat Improvements to Benefit Roseate Terns on Stratton Island and Eastern Egg Rock	15.650	25,482
Schoolyard Habitats and Outdoor Classrooms	15.676	282
Creating Urban Oases in New Haven	15.676	35,568
Lashbrook Riparian Restoration	15.631	15,486
Davis Home Ranch: Working Waterway Riparian Corridor Project	15.631	4,756
Conservation Action Plan for San Jacinto Valley Important Bird Area	15.637	9,000

*The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2014**

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<b>Direct Awards: Federal Grantor/Program Title</b>	<b>Federal CFDA#</b>	<b>Total Federal Expenditures</b>
Seabird Colony Protection, Management, Monitoring, and Research on Pond Island NWR, Seal Island NWR, and Matinicus Rock (Petit Manan NWR)	15.650	\$ 18,129
Blackwater Sea Level Rise Adaptation Strategy	15.000	10,000
Land and Water Stewardship and Planning for the Great Salt Lake South Shore Wetland Reserve	15.000	<u>21,920</u>
<b>Total U.S. Department of Interior</b>		<b><u>896,504</u></b>
<b>Institute of Museum and Library Services:</b>		
National Leadership Grant Museum Research	45.312	<u>180,319</u>
<b>Total Institute of Museum and Library Services</b>		<b><u>180,319</u></b>
<b>U.S. Environmental Protection Agency:</b>		
EPA Sonoma Creek	66.126	<u>133,155</u>
<b>Total U.S. Environmental Protection Agency</b>		<b><u>133,155</u></b>
<b>Total Direct Awards</b>		<b><u>\$ 2,103,072</u></b>

*The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2014**

<b>Pass-Through Awards: Federal Grantor/Program Title</b>	<b>Pass-Through Grantor</b>	<b>Sub-contract Agreement#</b>	<b>Federal CFDA#</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Agriculture:</b>				
Cooperative Forestry Assistance	Vermont Forest Parks and Recreation	06130-Audubon-13	10.664	\$ 28,334
Cooperative Forestry Assistance	North East State Foresters Association	N/A	10.664	7,060
Cooperative Forestry Assistance	North East State Foresters Association	N/A	10.664	8,287
	North Carolina Department of Agriculture and Consumer Services	G20100273314FOR/ GrantID 43646	10.664	3,033
Cooperative Forestry Assistance				
Soil and Water Conservation	National Fish and Wildlife Foundation	2004.12.035057	10.902	52,647
Soil and Water Conservation	Wildlife Management Institute	2004.12.032669	10.902	2,970
Soil and Water Conservation	IUP Research Institute	1112-045-NCA	10.902	76,568
Forest Stewardship Program	Connecticut Agricultural Experiment Station	N/A	10.678	6,000
Department of Agriculture Forest Service	National Fish and Wildlife Foundation	0101.12.035743	10.683	31,903
Department of Agriculture Forest Service	National Fish and Wildlife Foundation	0101.13.036835	10.683	19,519
Wildlife Habitat Incentive Program	Sierra Orchard	IC-A	10.914	508
<b>Total U.S. Department of Agriculture</b>				<b>236,829</b>
<b>U.S. Department of Commerce:</b>				
<b>National Oceanic and Atmospheric Administration:</b>				
Habitat Conservation	National Fish and Wildlife Foundation	2008-0073-035	11.463	42,746
Habitat Conservation	National Fish and Wildlife Foundation	2008-0073-052	11.463	30,983
Habitat Conservation	National Fish and Wildlife Foundation	3002.13.042173	11.463	69,255
Habitat Conservation	Fondo Mexicano	Q42-13-502	11.463	51,125
Coastal Zone Management Administration Awards	Illinois Department of Natural Resources	14-024-N12-22	11.419	14,568
Chesapeake Bay Studies	Maryland State Department of Education	145239	11.457	10,033
<b>Total U.S. Department of Commerce</b>				<b>218,710</b>
<b>U.S. Department of Defense:</b>				
<b>U.S. Army Corps of Engineers:</b>				
Lake Isabella Willow Flycatcher Restoration	National Fish and Wildlife Foundation	1998-0107-000 / DACW059820001	12.000	52,683
Presque Isle Shorebird Monitoring 2014	SAF, Inc.	265-MAT-01	12.000	7,715
Presque Isle Beach Nourishment	SAF, Inc.	217-MAT-03	12.000	180
<b>Total U.S. Department of Defense</b>				<b>60,578</b>
<b>U.S. Department of Interior:</b>				
Fish and Wildlife Management Assistance	National Fish and Wildlife Foundation	0203.12.30753	15.608	83,454
	State of Vermont Agency of Natural Resources			
Wildlife Restoration and Basic Hunter Education	Fish and Wildlife Department	06120FY14349	15.611	11,489
Cooperative Endangered Species Conservation Fund	Nebraska Game & Parks Commission	E-22-L	15.615	200,000
North American Wetlands Conservation Fund	Ducks Unlimited	NE-320-1	15.623	300,000
	Western Maryland Resource Conservation and Development Council	Letter Contract	15.630	3,800
Coastal Program				
Partners for Fish and Wildlife	City of Stuttgart	N/A	15.631	2,664
Partners for Fish and Wildlife	The Nature Conservancy	ARFO-3898-09-01-10	15.631	6,030
State Wildlife Grants	Nebraska Game & Parks Commission	N/A	15.634	25,000
	Florida Fish and Wildlife Conservation Commission			
State Wildlife Grants		12157	15.634	18,000
State Wildlife Grants	Vermont Fish and Wildlife	06120FY13227	15.634	9,719
State Wildlife Grants	Alaska Department of Fish and Game	COOP-12-007	15.634	70,034
Great Lakes Restoration	Cook County, Illinois	N/A	15.662	14,893
Great Lakes Restoration	Chicago Wilderness Trust	CWT 12-03	15.662	12,126
Great Lakes Restoration	National Fish and Wildlife Foundation	0501.13.039124	15.662	9,490
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	1401.11.027926	15.663	442
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	1401.11.028642	15.663	1,824
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	0101.12.035741	15.663	235,786
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	0101.12.035743	15.663	6,832
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	1401.12.033041	15.663	13,530
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	0101.13.036835	15.663	39,038
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	1401.13.039576	15.663	6,886
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	1401.13.039503	15.663	6,346
U.S. Geological Survey Research and Data Collection	University of Washington	756740	15.808	12,817
Historic Preservation Fund Grants-In-Aid	South Carolina National Heritage Corridor	P28053005114	15.904	124,560
<b>Total U.S. Department of Interior</b>				<b>1,214,760</b>

*The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2014**

<b>Pass-Through Awards: Federal Grantor/Program Title</b>	<b>Pass-Through Grantor</b>	<b>Sub-contract Agreement#</b>	<b>Federal CFDA#</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Transportation:</b>				
Recreational Trails Program	Texas Parks and Wildlife Department	RT-011-001	20.219	\$ 470
Recreational Trails Program	Missouri Department of Natural Resources	2010-12	20.219	64,063
<b>Total U.S. Department of Transportation</b>				<b>64,533</b>
<b>Research and Development Cluster -</b>				
<b>National Science Foundation:</b>				
Education and Human Resources	American Museum of National History	13-2010	47.076	8,144
<b>Total Research and Development Cluster</b>				<b>8,144</b>
<b>U.S. Environmental Protection Agency:</b>				
Long Island Sound Program	National Fish and Wildlife Foundation	1401.11.027926	66.437	245
Long Island Sound Program	National Fish and Wildlife Foundation	1401.11.028642	66.437	7,718
Long Island Sound Program	National Fish and Wildlife Foundation	1401.12.033041	66.437	11,596
Long Island Sound Program	National Fish and Wildlife Foundation	1401.13.039576	66.437	31,533
Long Island Sound Program	National Fish and Wildlife Foundation	1401.13.039503	66.437	11,423
Nonpoint Source Implementation Grants	Missouri Department of Natural Resources	G11-NPS-14	66.460	535,715
Chesapeake Bay Program	Defenders of Wildlife	0603.11.029420	66.466	5,752
Chesapeake Bay Program	Chesapeake Bay Trust	11691	66.466	4,920
Environmental Education Grants	National Nursing Centers Consortium	N/A	66.951	4,000
Environmental Education Grants	Utah Society for Environmental Education	N/A	66.951	4,032
<b>Total U.S. Environmental Protection Agency</b>				<b>616,934</b>
<b>Total Pass-Through Awards</b>				<b>2,420,488</b>
<b>Total Awards (Includes Direct and Pass-Through Awards)</b>				<b>\$ 4,523,560</b>

*The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2014**

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (“Schedule”) for the year ended June 30, 2014 includes the federal grant activity of National Audubon Society, Inc. (“Audubon”), and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**2. SUBRECIPIENTS**

Of the federal expenditures presented on the Schedule, Audubon provided federal awards to subrecipients during the year ended June 30, 2014, as follows:

<b>Federal Grantor/Program Title</b>	<b>Federal CFDA #</b>	<b>Amounts Provided to Subrecipients</b>
U.S. Department of Agriculture: Foresters for the Birds	10.678	\$ 19,133
U.S. Department of Agriculture: Soil and Water Conservation	10.902	27,000
U.S. Department of Commerce: Coastal Zone Management Administration Awards	11.419	3,000
U.S. Department of Commerce: Habitat Conservation	11.463	101,109
U.S. Department of Defense: Corp Monitoring Effort	12.630	1,195
U.S. Department of Interior: Conserving the Bay of Panama	15.635	100,000
U.S. Department of Interior: Saving Critical Habitat for the Hudsonian Godwit on Chiloe Island, Chile	15.635	80,000
U.S. Department of Interior: Urban Refuge	15.649	11,464
U.S. Department of Interior: Great Lakes Restoration	15.662	7,165
U.S. Department of Interior: National Fish and Wildlife Foundation	15.663	4,697
U.S. Department of Interior: Creating Urban Oases in New Haven	15.676	17,006
U.S. Environmental Protection Agency: Long Island Sound Program	66.437	6,708
U.S. Environmental Protection Agency: Nonpoint Source Implementation Grants	66.460	496,300
<b>Total Federal Awards Provided to Subrecipients</b>		<u>\$ 874,777</u>

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of  
**National Audubon Society, Inc.:**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of National Audubon Society, Inc. (“Audubon”), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 11, 2014.

**Internal control over financial reporting**

In planning and performing our audit of the consolidated financial statements, we considered Audubon’s internal control over financial reporting (“internal control”) to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of Audubon’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in Audubon’s internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and other matters**

As part of obtaining reasonable assurance about whether Audubon's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Intended purpose**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Audubon's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Audubon's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



New York, New York

November 11, 2014



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON  
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors of  
**National Audubon Society, Inc.:**

**Report on compliance for each major federal program**

We have audited the compliance of National Audubon Society, Inc. (“Audubon”) with the types of compliance requirements described in the U.S. Office of Management and Budget’s *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. Audubon’s major federal programs are identified in the summary of auditors’ results section of the accompanying Schedule of Findings and Questioned Costs.

**Management’s responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to Audubon’s federal programs.

**Auditor’s responsibility**

Our responsibility is to express an opinion on compliance for each of Audubon’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The above-mentioned standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Audubon’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Audubon's compliance.

**Opinion on each major federal program**

In our opinion, Audubon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

**Instances of noncompliance**

The results of our audit procedures disclosed instances of noncompliance, described in the accompanying Schedule of Findings and Questioned Costs as Findings 2014-001 and 2014-002, that are required to be reported in accordance with OMB Circular A-133. Our opinion on each major federal program is not modified with respect to these matters.

**Audubon's response to findings**

Audubon's response to our noncompliance findings, which is described in the accompanying Schedule of Findings and Questioned Costs, was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on Audubon's response.

**Report on internal control over compliance**

Management of Audubon is responsible for designing, implementing, and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Audubon's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Audubon's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in Audubon's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Audubon's responses to our findings on internal control over compliance, which are described in the accompanying Schedule of Findings and Questioned Costs, were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on Audubon's responses.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Grant Thornton LLP*

New York, New York

March 12, 2015

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2014**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements:**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weakness(es)?  yes  none reported
- Noncompliance material to financial statements noted?  yes  no

**Federal Awards:**

Internal control over the major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditors' report issued on compliance for the major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?  yes  no

**Identification of the major programs:**

<b>Federal Grantor/Program or Cluster Title</b>	<b>Federal CFDA#</b>
<b>U.S. Department of Interior:</b>	
North American Wetlands Conservation Fund	15.623
National Fish and Wildlife Foundation (1401.11.027926)	15.663
National Fish and Wildlife Foundation (1401.11.028642)	15.663
National Fish and Wildlife Foundation (0101.12.035741)	15.663
National Fish and Wildlife Foundation (0101.12.035743)	15.663

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2014**

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<b>Federal Grantor/Program or Cluster Title</b>	<b>Federal CFDA#</b>
<b>U.S. Department of Interior (continued):</b>	
National Fish and Wildlife Foundation (1401.12.033041)	15.663
National Fish and Wildlife Foundation (0101.13.036835)	15.663
National Fish and Wildlife Foundation (1401.13.039576)	15.663
National Fish and Wildlife Foundation (1401.13.039503)	15.663
<b>Research and Development Cluster:</b>	
<b>U.S. Department of Defense:</b>	
<b>U.S. Army Corps of Engineers:</b>	
A Proposal to Monitor Ecologic Parameters in the Forested Wetlands of Southern Florida	12.114
Corp Monitoring Effort	12.630
<b>National Science Foundation:</b>	
Education and Human Resources (13-2010)	47.076
<b>U.S. Environmental Protection Agency:</b>	
Nonpoint Source Implementation Grants (G11-NPS-14)	66.460
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<u>X</u> yes    ___ no

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2014**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

None noted.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2014-001 – Reporting (Deficiency)**

**U.S. Environmental Protection Agency:**

Nonpoint Source Implementation Grants (G11-NPS-14) 66.460

**Research and Development Cluster:**

**National Science Foundation:**

Education and Human Resources (13-2010) 47.076

**Criteria:**

Each recipient must report program outlays (disbursements) and program income (receipts) on the cash or accrual basis of accounting, as prescribed by the federal awarding agency. Audubon has opted to report such program activity on the accrual basis of accounting.

**Condition:**

Approximately \$22,000 of expenses charged to federal programs during fiscal 2014, which were allowable under program guidelines and within the programs' period of availability, were incurred in the prior fiscal year.

Additionally, in the prior fiscal year Audubon incorrectly over-accrued expenses of approximately \$18,000 on the fiscal 2013 Schedule of Expenditures of Federal Awards that were then reported as negative amounts on the fiscal 2014 Schedule of Expenditures of Federal Awards as a correction.

**Context:**

Approximately \$22,000 of expenses reported during fiscal 2014 were not reported in the appropriate fiscal year. This amount consisted of the following:

- CFDA 66.460 – \$538
- CFDA 47.076 – \$2,958
- Other programs not tested as major programs - \$18,789

Adjustments reported on the fiscal 2014 Schedule of Expenditures of Federal Awards totaling approximately (\$18,000) consisted of the following:

- CFDA 47.076 – (\$22)
- Other programs not tested as major programs – (\$18,071)

**Questioned Costs:**

None noted.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2014**

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**Cause:**

As a result of a change in management within the grants administration function during fiscal 2013 and an ongoing effort to improve the grant reporting process, certain expenses (netting to approximately \$4,000) were identified by Audubon that were improperly excluded from or included in the fiscal 2013 Schedule of Expenditures of Federal Awards. Accordingly, management determined that the adjustments should be included in the fiscal 2014 Schedule of Expenditures of Federal Awards.

**Effect:**

While the individual expenses totaling approximately \$22,000 were allowable under program guidelines, and were incurred within the respective programs' period of availability, the reports submitted to the funding agencies included expenses that were incurred prior to fiscal 2014. The fiscal 2014 Schedule of Expenditures of Federal Awards, therefore, includes approximately \$22,000 of expenses not previously reported on the fiscal 2013 Schedule of Expenditures of Federal Awards.

Additionally, the fiscal 2013 Schedule of Expenditures of Federal Awards included approximately \$18,000 of expenses that were overestimated and the fiscal 2014 Schedule of Expenditures of Federal Awards includes adjustments totaling approximately (\$18,000).

**Recommendation:**

We recommend that Audubon continue to refine its cut-off procedures to ensure that expenses relating to federal grants are reported within the appropriate fiscal year (i.e., reported in the period incurred, consistent with the accrual basis of accounting).

**Views of Responsible Officials and Planned Corrective Action:**

Audubon recently restructured its grant oversight, and performs regular account reconciliations for federal grant activity. We will continue to reconcile all activity recorded in the general ledger with the Schedule of Expenditures of Federal Awards.

**Finding 2014-002 – Subrecipient Monitoring (Deficiency)**

**U.S. Department of Interior:**

National Fish and Wildlife Foundation (1401.12.033041)	15.663
National Fish and Wildlife Foundation (1401.13.039503)	15.663

**Criteria:**

At the time of a subaward, a pass-through entity is responsible for identifying to the subrecipient the federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of federal awarding agency) and applicable compliance requirements.

**Condition:**

For one (1) subaward tested, there was no documented evidence that Audubon communicated the applicable compliance requirements to the subrecipient.

For one (1) subaward tested, there was no documented evidence that at the time of the subaward Audubon communicated the appropriate federal award information and applicable compliance requirements to the subrecipient.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2014**

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**Context:**

For one (1) subaward tested, the appropriate federal award information and applicable compliance requirements were not included within the signed subaward agreement.

For one (1) subaward tested, the appropriate federal award information and applicable compliance requirements were included within the signed subaward agreement, however the agreement was signed by both Audubon and the subrecipient after completion of the period of performance indicated in the subaward.

**Questioned Costs:**

None noted.

**Cause:**

For federal funding provided to subrecipients, Audubon's policy requires that subaward agreements include the funding source, CFDA number, incorporate the fully executed grant agreement and state that the recipient must comply with the terms and conditions of the funding grant. Audubon also requires that the contract is executed before any work is conducted. Although the subrecipients were informed of the grant terms, the grant terms were either not properly incorporated into the paperwork or there was a delay in completing the proper agreements.

**Effect:**

The finding did not result in any questioned costs.

**Recommendation:**

We recommend that Audubon ensure that their subaward policy as noted above is consistently applied and that they maintain adequate records to support that Audubon has communicated the federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of federal awarding agency) and applicable compliance requirements to subrecipients at the time subawards are made.

**Views of Responsible Officials and Planned Corrective Action:**

Audubon will provide additional training to program staff to ensure that its current subaward policies are consistently applied.



**NATIONAL AUDUBON SOCIETY, INC.**  
**Summary Schedule of Prior Year (2013) Audit Findings and Corrective Action Plan**  
**For the year ended June 30, 2014**

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**Finding 2013-01 - Reporting (Significant Deficiency)**

**U.S. Department of Interior:**

Fish and Wildlife Management Assistance 15.608

**U.S. Department of Agriculture:**

NRCS WRP Monitoring 10.902

NRCS SG Trunks 10.902

Soil and Water Conservation 10.902

**Research and Development Cluster:**

**National Science Foundation:**

Citizen Science and Conservation 47.076

**Criteria:**

Each recipient must report program outlays (disbursements) and program income (receipts) on the cash or accrual basis of accounting, as prescribed by the federal awarding agency. Audubon has opted to report such program activity on the accrual basis of accounting.

**Condition:**

Approximately \$110,000 of expenses charged to federal programs during fiscal 2013, which were allowable under program guidelines and within the programs period of availability, were incurred in the prior fiscal year.

**Context:**

Approximately \$110,000 of expenses reported during fiscal 2013 were not reported in the appropriate fiscal year. This amount consisted of the following:

- CFDA 15.608 – \$496
- CFDA 10.902 – \$34,981
- CFDA 47.076 – \$27,539
- Other programs not tested as major programs - \$47,125

**Questioned Costs:**

None noted.

**Cause:**

As a result of a change in management within the grants administration function during fiscal 2013, certain expenses were identified by Audubon that were improperly excluded from the fiscal 2012 Schedule of Expenditures of Federal Awards. Accordingly, management determined that the amounts should be included in the fiscal 2013 Schedule of Expenditures of Federal Awards.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Summary Schedule of Prior Year (2013) Audit Findings and Corrective Action Plan**  
**For the year ended June 30, 2014**

---

**Effect:**

While the individual expenses were allowable under program guidelines, and were incurred within the respective programs period of availability, the reports submitted to the funding agencies included expenses that were incurred prior to fiscal 2013. The fiscal 2013 Schedule of Expenditures of Federal Awards, therefore, includes approximately \$110,000 of expenses not previously reported on the fiscal 2012 Schedule of Expenditures of Federal Awards.

**Recommendation:**

We recommend that Audubon continue to refine its cut-off procedures to ensure that expenses relating to federal grants are reported within the appropriate fiscal year (i.e., reported in the period incurred, consistent with the accrual basis of accounting).

**Views of Responsible Officials and Planned Corrective Action:**

Audubon has recently restructured its grant oversight, and includes regular account reconciliation for federal grant activity. We will continue to reconcile all amounts recorded in the general ledger with the Schedule of Expenditures of Federal Awards.

**Current Year Status Update:**

See Finding 2014-001.

**Finding 2013-02 – Allowable Costs/Cost Principles (Significant Deficiency)**

**U.S. Department of Agriculture:**

Outreach and Assistance for Socially Disadvantage Farmers and Ranchers	10.443
NRCS SG Trunks	10.902

**U.S. Department of Commerce:**

**National Oceanic and Atmospheric Administration:**

Habitat Conservation	11.463
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**U.S. Department of Interior:**

Fish and Wildlife Management Assistance	15.608
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**U.S. Department of Transportation:**

Recreational Trails Program	20.219
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**Research and Development Cluster:**

**National Science Foundation:**

Citizen Science and Conservation	47.076
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**NATIONAL AUDUBON SOCIETY, INC.**  
**Summary Schedule of Prior Year (2013) Audit Findings and Corrective Action Plan**  
**For the year ended June 30, 2014**

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**Criteria:**

In accordance with OMB Circular A-122, a cost is allowable under an award if the cost meets the following general criteria:

- Be reasonable for the performance of the award and be allocable in accordance with A-122.
- Conform to any limitations or exclusions set forth in A-122 or in the award.
- Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization.
- Be accorded consistent treatment.
- Be determined in accordance with generally accepted accounting principles in the United States of America ("US GAAP").
- Not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program in either the current or a prior period.
- Be adequately documented.
- Be net of all applicable credits.

**Condition:**

Audubon had errors in the payroll allocation to federal programs which were individually and in the aggregate, less than \$1,000. Three (3) payroll expenses charged to the federal programs during fiscal 2013 were in excess of the actual amount of expense incurred and four (4) payroll expenses charged to the federal programs during fiscal 2013 were less than the actual amount of expense incurred. Additionally, fourteen (14) timesheets for individuals working on federal programs during fiscal 2013 were lacking evidence of a documented review and approval by an authorized individual prior to the expenses being reported to the funding agencies. All related payroll expenses were allowable under program guidelines and were incurred within the programs period of availability.

**Context:**

Payroll expenses in excess of the actual amount charged to the federal program during fiscal 2013:

- CFDA 10.443 - 1 instance out of 25 payroll expenses tested from a population of 118 payroll transactions.
- CFDA 10.902 - 2 instances out of 25 payroll expenses tested from a population of 156 payroll transactions.

Payroll expenses less than the actual amount charged to the federal program during fiscal 2013:

- CFDA 10.443 - 4 instances out of 25 payroll expenses tested from a population of 118 payroll transactions.

Timesheets lacking documented approval for payroll expenses charged to the federal program during fiscal 2013:

- CFDA 10.443 - 4 instances out of 25 payroll expenses tested from a population of 118 payroll transactions.
- CFDA 11.463 - 3 instances out of 8 payroll expenses tested from a population of 74 payroll transactions.
- CFDA 15.608 - 4 instances out of 25 payroll expenses tested from a population of 192 payroll transactions.
- CFDA 20.219 - 2 instances out of 10 payroll expenses tested for the Highway Planning and Construction Cluster from a population of 104 payroll transactions.
- CFDA 47.076 - 1 instance out of 25 payroll expenses tested for the Research and Development Cluster from a population of 16 payroll transactions.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Summary Schedule of Prior Year (2013) Audit Findings and Corrective Action Plan**  
**For the year ended June 30, 2014**

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**Questioned Costs:**

None to report.

**Cause:**

Audubon's policy requires individuals to complete timesheets each pay period to track actual time and effort spent on federal programs and for the individuals' supervisors to review and provide a documented approval of those timesheets prior to requesting reimbursement from the funding agencies. However, certain approvals were not obtained, not documented or not maintained, prior to requesting reimbursement for the expenses.

Additionally, Audubon's policy requires that the payroll expenses charged to the federal programs be calculated using the individual's approved pay rate at the time the expense was incurred, however certain payroll expenses were incorrectly calculated, resulting in errors which amounted to less than \$1,000.

**Effect:**

While the individual payroll expenses were incurred within the respective programs period of availability, the reports submitted to the funding agencies did not include the correct amount of expenses incurred for the respective reporting period.

**Recommendation:**

We recommend that Audubon put additional procedures in place to ensure that payroll charges are properly calculated and appropriately charged to the federal grant and that documentation of approval of the expenses be obtained and maintained in accordance with Audubon's policies and the respective program guidelines.

**Views of Responsible Officials and Planned Corrective Action:**

Management acknowledges the importance of accurate time and effort reporting. During fiscal 2013, Audubon changed its payroll provider, which contributed to the issues cited. Audubon has adopted new procedures for reviewing and verifying all payroll allocations.

**Current Year Status Update:**

No such findings noted during our fiscal 2014 audit.

Consolidated Financial Statements and OMB Circular A-133  
Supplementary Information Together with  
Reports of Independent Certified Public Accountants

**NATIONAL AUDUBON SOCIETY, INC.**

June 30, 2013 and 2012

# NATIONAL AUDUBON SOCIETY, INC.

## TABLE OF CONTENTS

---

	<b>Page</b>
Report of Independent Certified Public Accountants	1 - 2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position as of June 30, 2013 and 2012	3
Consolidated Statement of Activities for the year ended June 30, 2013	4
Consolidated Statement of Activities for the year ended June 30, 2012	5
Consolidated Statement of Functional Expenses for the year ended June 30, 2013	6
Consolidated Statement of Functional Expenses for the year ended June 30, 2012	7
Consolidated Statements of Cash Flows for the years ended June 30, 2013 and 2012	8
Notes to Consolidated Financial Statements	9 - 36
OMB Circular A-133 Supplementary Information:	
Schedule of Expenditures of Federal Awards for the year ended June 30, 2013	37 - 41
Notes to Schedule of Expenditures of Federal Awards for the year ended June 30, 2013	42
Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	43 - 44
Report of Independent Certified Public Accountants on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	45 - 47
Schedule of Findings and Questioned Costs for the year ended June 30, 2013:	
Section I - Summary of Auditors' Results	48 - 49
Section II - Financial Statement Findings	50
Section III - Federal Award Findings and Questioned Costs	51 - 54
Summary Schedule of Prior Year (2012) Audit Findings and Corrective Action Plan	55 - 56

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Directors of  
**National Audubon Society, Inc.:**

**Report on the financial statements**

We have audited the accompanying consolidated financial statements of National Audubon Society, Inc. (“Audubon”), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management’s responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Audubon’s preparation and fair presentation of the consolidated 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 Audubon’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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Audubon Society, Inc., as of June 30, 2013 and 2012, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other matters**

***Supplementary information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards for the year ended June 30, 2013, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 2013 consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other reporting required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 15, 2013, on our consideration of Audubon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Audubon's internal control over financial reporting and compliance.



New York, New York  
November 15, 2013



**NATIONAL AUDUBON SOCIETY, INC.**  
**Consolidated Statements of Financial Position**  
**As of June 30, 2013 and 2012**

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
Cash and cash equivalents (Note 2)	\$ 34,074,891	\$ 30,051,059
Other receivables, net (Notes 2 and 4)	5,585,614	6,987,331
Prepaid expenses and other assets (Notes 2 and 9)	3,349,717	2,865,779
Pledges receivable, net (Notes 2 and 4)	3,655,380	3,738,481
Investments (Notes 2 and 5)	214,859,683	203,199,934
Beneficial interest in charitable trusts (Notes 2, 5 and 12)	42,151,503	39,402,611
Buildings and equipment, net (Notes 2, 3 and 6)	50,057,004	50,904,248
Land (Notes 2 and 6)	<u>96,600,999</u>	<u>95,796,374</u>
TOTAL ASSETS	<u>\$ 450,334,791</u>	<u>\$ 432,945,817</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 6,496,390	\$ 3,686,472
Accrued payroll and related liabilities	824,033	974,882
Accrued vacation	3,186,991	2,880,626
Deferred rent, tuition and other (Note 9)	5,921,877	5,717,595
Funds held for others (Note 2)	2,356,046	2,016,652
Obligations under charitable trusts (Notes 2, 5 and 12)	6,609,687	5,548,110
Pension and postretirement benefit liability (Note 10)	13,749,383	19,771,464
Loan payable (Note 11)	<u>7,275,000</u>	<u>7,175,000</u>
Total liabilities	<u>46,419,407</u>	<u>47,770,801</u>
 COMMITMENTS AND CONTINGENCIES (Note 9)		
<b>NET ASSETS</b>		
Unrestricted (Note 2)	134,662,490	126,556,867
Temporarily restricted (Notes 2 and 3)	173,421,712	166,994,917
Permanently restricted (Notes 2 and 3)	<u>95,831,182</u>	<u>91,623,232</u>
Total net assets	<u>403,915,384</u>	<u>385,175,016</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 450,334,791</u>	<u>\$ 432,945,817</u>

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

**NATIONAL AUDUBON SOCIETY, INC.**  
**Consolidated Statement of Activities**  
**For the year ended June 30, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING ACTIVITIES</b>				
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Contributions and grants (Notes 2 and 8)	\$ 45,381,806	\$ 14,594,746	\$ 405,517	\$ 60,382,069
Bequests (Note 2)	5,156,516	1,150,172	1,497,616	7,804,304
Earned income (Note 2)	9,421,636	-	-	9,421,636
Investment earnings on non-pooled funds, net (Note 5)	1,655,888	18,598	-	1,674,486
Investment earnings on pooled funds - appropriated, net (Note 5)	6,244,515	574,208	-	6,818,723
Royalties, net and other revenue	2,413,754	-	-	2,413,754
Net assets released from restrictions (Note 7)	16,515,551	(16,515,551)	-	-
Total revenues, gains and other support	<u>86,789,666</u>	<u>(177,827)</u>	<u>1,903,133</u>	<u>88,514,972</u>
<b>EXPENSES (Note 1)</b>				
Conservation programs:				
Field conservation programs	50,273,365	-	-	50,273,365
National conservation programs	21,569,499	-	-	21,569,499
	<u>71,842,864</u>	<u>-</u>	<u>-</u>	<u>71,842,864</u>
Fundraising:				
Membership development	3,746,112	-	-	3,746,112
Other development	7,205,552	-	-	7,205,552
	<u>10,951,664</u>	<u>-</u>	<u>-</u>	<u>10,951,664</u>
Management and general				
	<u>3,989,114</u>	<u>-</u>	<u>-</u>	<u>3,989,114</u>
Total expenses	<u>86,783,642</u>	<u>-</u>	<u>-</u>	<u>86,783,642</u>
Changes in net assets from operations	6,024	(177,827)	1,903,133	1,731,330
<b>NON-OPERATING ACTIVITIES</b>				
Gain on sales of property	69,082	48,966	-	118,048
Transfer of program fees (Note 2)	(482,598)	(1,842,867)	-	(2,325,465)
Transfers of net assets (Note 3)	(236,069)	297,375	(61,306)	-
Investment income on pooled funds not appropriated, net (Note 5)	2,617,024	6,193,561	-	8,810,585
Charitable trust additions (Note 2)	-	921,807	-	921,807
Change in value of charitable trusts (Notes 2, 3 and 5)	-	985,780	2,366,123	3,351,903
Changes in net assets before pension and postretirement related changes other than net periodic costs	1,973,463	6,426,795	4,207,950	12,608,208
Pension and postretirement related changes other than net periodic costs (Note 10)				
Changes in net assets	<u>6,132,160</u>	<u>-</u>	<u>-</u>	<u>6,132,160</u>
	8,105,623	6,426,795	4,207,950	18,740,368
Net assets, beginning of year	<u>126,556,867</u>	<u>166,994,917</u>	<u>91,623,232</u>	<u>385,175,016</u>
Net assets, end of year	<u>\$ 134,662,490</u>	<u>\$ 173,421,712</u>	<u>\$ 95,831,182</u>	<u>\$ 403,915,384</u>

*The accompanying notes are an integral part of this consolidated financial statement.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Consolidated Statement of Activities**  
**For the year ended June 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING ACTIVITIES</b>				
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Contributions and grants (Notes 2 and 8)	\$ 43,421,647	\$ 15,417,933	\$ 581,680	\$ 59,421,260
Bequests (Note 2)	5,732,678	1,499,436	842,359	8,074,473
Earned income (Note 2)	10,664,710	-	-	10,664,710
Investment earnings on non-pooled funds, net (Note 5)	1,706,221	24,011	-	1,730,232
Investment earnings on pooled funds - appropriated, net (Note 5)	5,907,823	576,591	-	6,484,414
Royalties, net and other revenue	3,551,497	-	-	3,551,497
Net assets released from restrictions (Note 7)	22,810,248	(22,810,248)	-	-
Total revenues, gains and other support	<u>93,794,824</u>	<u>(5,292,277)</u>	<u>1,424,039</u>	<u>89,926,586</u>
<b>EXPENSES (Note 1)</b>				
<b>Conservation programs:</b>				
Field conservation programs	51,589,136	-	-	51,589,136
National conservation programs	22,538,057	-	-	22,538,057
	<u>74,127,193</u>	<u>-</u>	<u>-</u>	<u>74,127,193</u>
<b>Fundraising:</b>				
Membership development	3,623,690	-	-	3,623,690
Other development	6,395,574	-	-	6,395,574
	<u>10,019,264</u>	<u>-</u>	<u>-</u>	<u>10,019,264</u>
<b>Management and general</b>				
	<u>4,841,268</u>	<u>-</u>	<u>-</u>	<u>4,841,268</u>
Total expenses	<u>88,987,725</u>	<u>-</u>	<u>-</u>	<u>88,987,725</u>
Changes in net assets from operations	4,807,099	(5,292,277)	1,424,039	938,861
<b>NON-OPERATING ACTIVITIES</b>				
Gain on sales of property	2,849,595	1,000	-	2,850,595
Transfers of net assets (Note 3)	250,715	1,214,822	(1,465,537)	-
Investment loss on pooled funds not appropriated, net (Note 5)	(1,581,123)	(5,056,172)	-	(6,637,295)
Charitable trust additions (Note 2)	-	339,557	-	339,557
Change in value of charitable trusts (Notes 2, 3 and 5)	-	(740,103)	(1,947,086)	(2,687,189)
Changes in net assets before pension and postretirement related changes other than net periodic costs	6,326,286	(9,533,173)	(1,988,584)	(5,195,471)
Pension and postretirement related changes other than net periodic costs (Note 10)	<u>(10,273,765)</u>	<u>-</u>	<u>-</u>	<u>(10,273,765)</u>
Changes in net assets	(3,947,479)	(9,533,173)	(1,988,584)	(15,469,236)
Net assets, beginning of year	<u>130,504,346</u>	<u>176,528,090</u>	<u>93,611,816</u>	<u>400,644,252</u>
Net assets, end of year	<u>\$ 126,556,867</u>	<u>\$ 166,994,917</u>	<u>\$ 91,623,232</u>	<u>\$ 385,175,016</u>

*The accompanying notes are an integral part of this consolidated financial statement.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Consolidated Statement of Functional Expenses**  
**For the year ended June 30, 2013**

	Conservation Program Expenses			Fundraising Expenses			Management and General	Total
	Field Programs	National Programs	Total Program Expenses	Membership Development	Other Development	Total Development Expenses		
Salaries	\$ 23,390,593	\$ 6,512,242	\$ 29,902,835	\$ 168,942	\$ 3,275,719	\$ 3,444,661	\$ 1,760,597	\$ 35,108,093
Payroll taxes and fringe benefits (Note 10)	6,748,860	1,847,090	8,595,950	51,939	998,244	1,050,183	101,778	9,747,911
Travel	1,251,629	439,828	1,691,457	2,476	221,762	224,238	70,011	1,985,706
Meetings	486,708	96,534	583,242	1,971	327,049	329,020	68,648	980,910
Postage and mailing	190,627	2,704,246	2,894,873	1,419,471	59,017	1,478,488	19,437	4,392,798
Grants and scholarships	743,565	1,326,247	2,069,812	3,408	67,804	71,212	5,031	2,146,055
Chapter grants and support	956,318	-	956,318	-	-	-	-	956,318
Professional services	4,616,495	1,883,297	6,499,792	275,856	963,599	1,239,455	427,069	8,166,316
Telemarketing	-	58,295	58,295	45,330	-	45,330	-	103,625
Occupancy (Note 9)	2,281,636	914,493	3,196,129	9,953	201,790	211,743	530,425	3,938,297
Telephone and telecommunications	496,113	121,965	618,078	1,218	37,017	38,235	105,857	762,170
Maintenance and equipment rental	2,421,100	101,061	2,522,161	604	46,353	46,957	34,070	2,603,188
Supplies	1,320,144	546,300	1,866,444	4,769	82,787	87,556	199,976	2,153,976
Printing and promotion	372,678	1,546,092	1,918,770	1,088,813	186,720	1,275,533	140	3,194,443
Membership fulfillment	322,327	482,627	804,954	293,141	55,095	348,236	216,361	1,369,551
Magazine printing	-	739,842	739,842	-	-	-	-	739,842
Commissions	-	309,000	309,000	45,561	-	45,561	-	354,561
Service bureaus	533,069	696,446	1,229,515	133,667	111,548	245,215	235,145	1,709,875
Insurance	931,128	96,992	1,028,120	1,390	51,093	52,483	24,184	1,104,787
Taxes	230,107	4,115	234,222	182	5,974	6,156	26	240,404
Advertising	168,335	100,014	268,349	394	61,681	62,075	-	330,424
Licenses and fees	83,818	24,361	108,179	5,320	7,720	13,040	2,557	123,776
Depreciation and amortization	2,728,115	103,992	2,832,107	1,780	35,339	37,119	154,667	3,023,893
Other	-	914,420	914,420	189,927	409,241	599,168	33,135	1,546,723
<b>TOTAL EXPENSES</b>	<b>\$ 50,273,365</b>	<b>\$ 21,569,499</b>	<b>\$ 71,842,864</b>	<b>\$ 3,746,112</b>	<b>\$ 7,205,552</b>	<b>\$ 10,951,664</b>	<b>\$ 3,989,114</b>	<b>\$ 86,783,642</b>

*The accompanying notes are an integral part of this consolidated financial statement.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Consolidated Statement of Functional Expenses**  
**For the year ended June 30, 2012**

	Conservation Program Expenses			Fundraising Expenses			Management and General	Total
	Field Programs	National Programs	Total Program Expenses	Membership Development	Other Development	Total Development Expenses		
Salaries	\$ 23,750,396	\$ 6,529,357	\$ 30,279,753	\$ 162,767	\$ 3,581,511	\$ 3,744,278	\$ 2,206,439	\$ 36,230,470
Payroll taxes and fringe benefits (Note 10)	6,597,275	1,780,036	8,377,311	43,318	1,037,399	1,080,717	629,321	10,087,349
Travel	1,309,669	588,306	1,897,975	3,018	235,617	238,635	84,046	2,220,656
Meetings	436,967	241,474	678,441	1,689	215,920	217,609	72,429	968,479
Postage and mailing	195,384	2,630,593	2,825,977	1,302,003	75,979	1,377,982	14,320	4,218,279
Grants and scholarships	2,507,542	1,743,968	4,251,510	94	4,599	4,693	5,118	4,261,321
Chapter grants and support	946,297	43,364	989,661	902	-	902	-	990,563
Professional services	4,373,310	1,623,700	5,997,010	198,764	397,784	596,548	262,967	6,856,525
Telemarketing	-	24,359	24,359	18,865	-	18,865	-	43,224
Occupancy (Note 9)	2,170,276	964,057	3,134,333	17,566	206,276	223,842	594,461	3,952,636
Telephone and telecommunications	511,775	163,736	675,511	2,049	48,282	50,331	80,040	805,882
Maintenance and equipment rental	2,261,481	17,974	2,279,455	1,960	37,723	39,683	98,873	2,418,011
Supplies	1,240,552	778,766	2,019,318	6,097	80,146	86,243	172,986	2,278,547
Printing and promotion	443,376	1,876,379	2,319,755	1,204,141	116,058	1,320,199	-	3,639,954
Membership fulfillment	287,172	542,047	829,219	342,333	50,129	392,462	233,509	1,455,190
Magazine printing	-	903,431	903,431	-	-	-	-	903,431
Commissions	-	413,162	413,162	52,686	-	52,686	-	465,848
Service bureaus	403,532	569,007	972,539	123,904	114,696	238,600	146,232	1,357,371
Insurance	985,662	123,533	1,109,195	1,529	47,819	49,348	31,895	1,190,438
Taxes	252,092	7,381	259,473	906	8,578	9,484	11,178	280,135
Advertising	117,441	-	117,441	28	59,644	59,672	95	177,208
Licenses and fees	70,937	28,780	99,717	7,511	6,072	13,583	4,872	118,172
Depreciation and amortization	2,726,526	120,660	2,847,186	3,269	39,378	42,647	178,879	3,068,712
Uncollectible pledge expense	1,474	-	1,474	-	-	-	-	1,474
Other	-	823,987	823,987	128,291	31,964	160,255	13,608	997,850
<b>TOTAL EXPENSES</b>	<b>\$ 51,589,136</b>	<b>\$ 22,538,057</b>	<b>\$ 74,127,193</b>	<b>\$ 3,623,690</b>	<b>\$ 6,395,574</b>	<b>\$ 10,019,264</b>	<b>\$ 4,841,268</b>	<b>\$ 88,987,725</b>

*The accompanying notes are an integral part of this consolidated financial statement.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Consolidated 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	\$ 18,740,368	\$ (15,469,236)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization	3,026,241	3,068,712
Net realized and unrealized (gains) loss on investments	(11,923,866)	5,312,866
(Increase) decrease in beneficial interests in charitable trusts	(2,748,892)	2,351,767
Gains on sales of land, buildings and equipment	(118,048)	(2,850,595)
Donated land	(132,325)	(666,255)
Decrease in estimate of allowance for uncollectible pledges, and other receivables	(36,375)	(649,588)
Pledge discount amortization	-	(104,233)
Long-term contributions, bequests and additions to charitable trusts	(5,508,395)	(4,088,298)
Change in operating assets and liabilities:		
Decrease (increase) in pledges and other receivables	1,521,194	(668,648)
Increase in prepaid expenses and other assets	(486,065)	(26,298)
Increase (decrease) in accounts payable, accrued expenses, funds held for others and obligations under charitable trusts	4,368,531	(1,154,521)
Increase in deferred rent, tuition and other	204,282	685,475
(Decrease) increase in pension and postretirement benefit liability	<u>(6,022,081)</u>	<u>8,046,375</u>
Net cash provided by (used in) operating activities	<u>884,569</u>	<u>(6,212,477)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(9,625,605)	(23,423,536)
Proceeds from sales of investments	9,889,723	17,558,696
Additions to land, buildings and equipment	(3,055,777)	(4,190,335)
Proceeds from sales of land, buildings and equipment	<u>322,527</u>	<u>5,290,997</u>
Net cash used in investing activities	<u>(2,469,132)</u>	<u>(4,764,178)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loan payable	100,000	7,175,000
Proceeds from contributions, bequests and charitable trusts restricted for:		
Endowment	1,903,133	1,486,039
Capital projects	2,683,455	2,102,653
Charitable trust additions	<u>921,807</u>	<u>499,606</u>
Net cash provided by financing activities	<u>5,608,395</u>	<u>11,263,298</u>
Net increase in cash and cash equivalents	4,023,832	286,643
Cash and cash equivalents, beginning of the year	<u>30,051,059</u>	<u>29,764,416</u>
Cash and cash equivalents, end of the year	<u>\$ 34,074,891</u>	<u>\$ 30,051,059</u>

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

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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**1. ORGANIZATION AND NATURE OF ACTIVITIES**

National Audubon Society, Inc. (“Audubon” or the “Organization”) was incorporated in 1905. Audubon’s mission is to conserve and restore natural ecosystems, focusing on birds and other wildlife, for the benefit of humanity and the earth’s biological diversity. A powerful combination of science, education and policy expertise combine in efforts ranging from protection and restoration of local habitats to the implementation of policies that safeguard birds, other wildlife and the resources that sustain us all—in the U.S. and across the Americas.

During the years ended June 30, 2013 and 2012, Audubon incurred total expenses related to program services of \$71.8 million and \$74.1 million, respectively. These programs are further described as follows:

**Conservation Programs:** In 2012, Audubon adopted a new strategic plan with the goal of focusing and aligning Audubon’s unparalleled network to meet today’s unprecedented environmental challenges. Reflecting the expertise and input of staff, chapters, board members, and other volunteers and partners, this “Roadmap for Hemispheric Conservation” enables Audubon to deliver conservation impact at scale.

**Field Conservation Programs:** By connecting the work of the Audubon network - chapters, nature centers, national and state staff, volunteers, partners, and other supporters - along each of the four flyways of the Americas, Audubon weaves a seamless web of conservation for both migratory and non-migratory species. By working toward common flyway conservation goals, we have greater impact. And by coordinating resources and expertise, we increase our efficiency across the network.

Audubon maximizes its conservation results by focusing on programming related to five strategies critical for birds:

1. *Putting working lands to work for birds and people:* Partnering with landowners to make working lands work for birds, people, and communities.
2. *Sharing our seas and shores:* Protecting the vital habitat along America’s coasts where people and birds intersect.
3. *Saving Important Bird Areas:* Identifying and protecting the most important places for birds.
4. *Shaping a healthy climate and clean energy future:* Reducing and mitigating the impacts of climate change and fostering a clean energy future.
5. *Creating bird-friendly communities:* Working with communities to improve habitats for birds and other wildlife.

**National Conservation Programs** provide strategy, expertise and leadership for Audubon’s conservation work at both national and field levels, and integrate all efforts for maximum effectiveness.

- **The Science program** maintains a high level of technical competency and knowledge among Audubon’s field instructors and conservation professionals. This program encompasses activities such as assistance with conservation planning, ecological analysis, environmental sciences, bird migration studies and coordinating the efforts of thousands of volunteers (citizen scientists) to monitor bird populations and habitats. The experts in Audubon’s science program also help

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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identify actions individuals can take to make a difference for conservation in their day-to-day lives that can be used at the field level for education purposes.

- ***The Public Policy program*** is a combination of grassroots organizing, advocacy and communications that has earned Audubon a reputation as a respected and influential voice on public policy issues. The Public Policy program supports large state and multi-state efforts such as: the restoration of large iconic ecosystems, like the Arctic Slope in Alaska, the wetlands of the Everglades, the Mississippi River Delta and the Northeast's Long Island Sound; protection of 2,670 Important Bird Areas covering 380 million acres of public and private lands; and safeguarding common sense laws like the Clean Air Act, Clean Water Act, Endangered Species Act and the Neotropical Migratory Bird Conservation Act.
- ***The Community Conservation & Education program*** recognizes that people are at the heart of the conservation solution. By inspiring more people in more places to value and protect the natural world, we are laying the foundation for future conservation. Audubon nature centers are one of the principle elements of our education work reaching more than one million visitors each year. Programs like Audubon at Home, Urban Oasis and Lights Out empower people to make bird-friendly lifestyle choices. Partnerships like Toyota TogetherGreen, a collaboration of Audubon and Toyota Motor Co., are helping to diversify the environmental movement through fellowships and grants.
- ***The International Alliances Program*** protects the birds and biodiversity of the Americas. Providing science, education, and policy development tools to build the conservation capacities of in-country organizations directly involved in the fate of key landscapes in Latin America and the Caribbean. Audubon collaborates with international partners to extend a web of protection throughout the Western hemisphere.

**Communications** efforts include a wide range of publications and strategies to engage a broad and diverse audience in our conservation work. These include public websites, social media, email marketing, and printed materials such as *AUDUBON* Magazine, which reaches 1.2 million readers. The goal of our outreach is to motivate individuals and communities to take action for birds and the environment.

**Fundraising** relates to activities in raising contributions, grants and planned giving gifts for Audubon. Development expenses fund staff efforts associated with raising contributed income to fund operations and capital projects for use in both current and future years. Also included in this expense are all the costs associated with Membership Development, such as recruiting and retaining approximately 400,000 members. During the years ended June 30, 2013 and 2012, Audubon incurred joint costs of approximately \$8,141,000 and \$8,286,000, respectively, for informational material and activities that included development appeals. Of those costs approximately \$3,324,000 and \$3,628,000 were allocated to fundraising and approximately \$4,817,000 and \$4,658,000 were allocated to program for the years ended June 30, 2013 and 2012, respectively.

**Management and general** are those expenses that are not allocated to a program, fundraising activity or membership development activity and include certain activities of the President's Office, as well as support areas such as Information Services, Legal, Human Resources, Finance and Operations.



**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

---

The consolidated financial statements of Audubon include the accounts of Audubon's wholly owned subsidiaries, National Audubon Society of Coastal Connecticut, Inc., National Audubon Society of Sharon, Inc., Lincoln Audubon Society, and The National Audubon Society of Greenwich, Inc. The subsidiaries hold land for the benefit and use of Audubon.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

**Net Assets**

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into the following categories:

Unrestricted Net Assets

Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted Net Assets

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that will be met either by actions of Audubon and/or the passage of time. Audubon reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends and/or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Temporarily restricted net assets also include earnings on permanently restricted endowment funds that have not yet been appropriated for expenditure.

Permanently Restricted Net Assets

Permanently restricted net assets result from donors who stipulate that their donated resources be maintained in perpetuity by Audubon. Generally, Audubon is permitted to expend part or all of the income and gains derived from these donated assets, restricted only by donors' stipulations.

**Cash and Cash Equivalents**

Audubon considers all cash not intended for investment purposes and all non-pooled investments purchased with original maturities of 90 days or less to be cash equivalents.

**Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value, generally determined on the basis of quoted market prices. Audubon also invests in non-exchange traded alternative investments, which are stated at estimated fair value based on the net asset value ("NAV"), as a practical expedient, reported by the investment managers or general partners. NAV may differ significantly from the values that would have been reported had a ready market for these

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

---

investments existed. Audubon reviews and evaluates the values provided by the investment managers or general partners and has determined that the valuation methods and assumptions used in determining the fair value of the alternative investments are reasonable.

Audubon manages its investments on a total return basis and has established budgeted spending limits for specific endowment funds of 2.0%, 3.5% or 4.5% of the average of the rolling five calendar year-end market values, subject to limitations where applicable under donor restrictions or regulatory requirements.

**Prepaid Expenses and Other Assets**

Prepaid expenses and other assets include inventories of retail store merchandise of approximately \$339,000 and \$391,000 as of June 30, 2013 and 2012, respectively, which are valued at the lower of cost or market, on a first-in, first-out basis.

**Charitable Trust Agreements**

Audubon is the beneficiary of charitable trust agreements under varying terms and conditions. The basis for recognition of the assets recorded by Audubon is its share of the fair value of the underlying assets. Some of the agreements require specified payments to third parties for varying periods. Accordingly, Audubon applies present value techniques to accrue amounts recognized. The discount rates and actuarial assumptions used in the present value calculation for future payments are the prevailing rates of interest for similar types of high quality, fixed income investments of immediate to short term duration and are locked in at the date the charitable trust is established. For the years ended June 30, 2013 and 2012, the discount rates used to value charitable trust agreements ranged between 1.20% and 11.00%.

**Building and Equipment**

In 1978, Audubon adopted the policy of capitalizing, depreciating and amortizing building and equipment. Because historical costs were not available for buildings and art works, other basis were used to establish the initial carrying values of such property. Property tax appraisals adjusted to market and insurance appraisals were used to value buildings, and appraised net current retail values were used for the art collection. Assets acquired subsequent to July 1, 1978 have been recorded at cost. Depreciation of buildings and equipment is provided over the estimated useful lives of the assets on a straight-line basis. Leasehold improvements are amortized over the lesser of the related useful life of the asset or the lease term. Artwork is not depreciated. Audubon capitalizes property with a cost of \$5,000 or more and a useful life of greater than one year.

	<b><u>Estimated Useful Lives</u></b>
Buildings and building improvements	20 - 40 years
Equipment	4 - 10 years
Land improvements	10 - 40 years
Leasehold improvements	5 - 40 years

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

---

**Land**

Land consists of approximately 104,809 acres on which some of Audubon's state offices, sanctuaries, research, and nature centers are located. Land is valued at cost when purchased or, if donated, at fair value on the date of donation. Included in permanently restricted net assets is land of approximately \$10,300,000 as of both June 30, 2013 and 2012. Included in unrestricted net assets is land of approximately \$86,300,000 and \$85,400,000 as of June 30, 2013 and 2012, respectively. A significant portion of the land included in unrestricted net assets is subject to legally binding contractual restrictions on use and/or disposition. Land purchased or donated to Audubon during the years ended June 30, 2013 and 2012 totaled approximately \$914,000 and \$2,400,000, respectively. Land sold or donated to other organizations during the years ended June 30, 2013 and 2012 totaled approximately \$101,000 and \$1,600,000, respectively.

**Chapters**

Audubon has 463 independent chapters throughout the United States. The consolidated financial statements do not include the assets, liabilities, net assets, revenues and expenses of Audubon's chapters since such chapters are independent organizations.

**Contributions and Grants**

Audubon reports gifts of cash and other assets as an increase in restricted net assets if they are received with donor stipulations limiting the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Restricted gifts and grants, received and utilized in the same year, are reflected in the consolidated statement of activities in the unrestricted class of net assets. Bequests are recognized as revenue once the probate process is complete.

Revenue from federal grants is recognized to the extent that qualifying reimbursable expenses have been incurred over the terms of the respective agreements.

Gifts of long-lived assets and gifts of cash or other assets that must be used to acquire long-lived assets are reported as an increase in restricted net assets.

**Earned Income**

Earned income includes advertising revenue, tuition and admission revenue, retail sales and program revenue. Revenue is recorded when earned under the terms of the related agreements.

**Receivables**

Receivables are recorded at net realizable value if expected to be collected in one year and at fair value (using credit adjusted discount rates) if expected to be collected in more than one year. Receivables are stated net of an allowance for uncollectible receivables of approximately \$709,000 and \$745,000 as of June 30, 2013 and 2012, respectively. Such estimated allowances are based on management's assessment of the credit worthiness of its donors, the aged basis of the receivables, and historical information. Receivables are written off in the period they are deemed uncollectible and payments subsequently received are recorded as income in the period received.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

---

Other receivables include grant receivables and receivables due from other organizations.

**Funds Held for Others**

As of June 30, 2013 and 2012, funds held for others included approximately \$973,000 and \$686,000, respectively, in agency funds held for other nonprofit organizations and independent Audubon chapters and \$1,383,000 and \$1,330,000, respectively, in funds held for employees and former employees of Audubon related to a deferred compensation plan to which funds are no longer being contributed. Such amounts are included in investments and funds held for others in the accompanying consolidated statements of financial position.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fair Value Measurements**

Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels as follows:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2 - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed. Also included in level 2 are investments measured using a NAV per share, or its equivalent, that may be redeemed at the NAV at the consolidated statement of financial position date or in the near term, which is generally considered to be within 90 days.
- Level 3 - Securities that have little to no observable pricing. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at NAV at the consolidated statement of financial position date or in the near term or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

In determining fair value, Audubon utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

---

**Income Taxes**

Audubon is a Type B New York State not-for-profit membership corporation under Section 201(b) of the Not-For-Profit Corporation Law of New York State, and is exempt from federal income taxation by virtue of being an organization described in Section 501(c)(3) of the Internal Revenue Code. Nevertheless, Audubon may be subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The tax years ending June 30, 2010, 2011, 2012 and 2013 are still open to audit for both federal and state purposes.

Audubon recognizes the tax effects from an uncertain tax position in the consolidated financial statements only if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. Management has determined that Audubon has no uncertain tax positions that would require consolidated financial statement recognition or disclosure.

**Concentrations**

Cash, cash equivalents, and investments are exposed to interest rate, market, and credit risks. Audubon maintains its cash and cash equivalents in various bank deposit accounts that may exceed federally insured limits at times. To minimize risk, Audubon places its cash accounts with high credit quality financial institutions. Audubon does not anticipate any losses in such accounts.

Investment concentrations are disclosed in Note 5 to the accompanying consolidated financial statements.

**Subsequent Events**

Audubon has evaluated, for potential recognition and disclosure, events subsequent to the consolidated statement of financial position date of June 30, 2013 through November 15, 2013, the date the consolidated financial statements were available to be issued. Audubon is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.

**Reclassifications**

Certain reclassifications were made to the 2012 consolidated financial statements in order to conform to the 2013 presentation.

**Operating Measure**

Operating revenues and expenses reflect the activities in which Audubon typically engages to fulfill its mission. Audubon utilizes a spending rate in making its annual investment allocation for support of operations. Investment income, including net realized and unrealized gains and losses, earned in excess of or less than Audubon’s spending rate is recognized within non-operating activities. Charitable trust contributions, the change in value of charitable trusts, pension related expenses other than net periodic pension costs and other transactions that are non-recurring and unusual in nature are recorded below the operating indicator on the accompanying consolidated statement of activities. During the year ended June 30, 2013, Audubon transferred a program to another not-for-profit organization, resulting in a non-operating loss of approximately \$2.3 million.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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**3. NET ASSETS**

The New York Prudent Management of Institutional Funds Act (“NYPMIFA”) was enacted in 2010. Audubon has interpreted NYPMIFA as requiring the preservation of the original gift, as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Audubon classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Audubon in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of Audubon and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Audubon
- The investment policies of Audubon
- Where appropriate, alternatives to spending from donor-restricted endowment funds and the possible effects on Audubon

Audubon’s endowment investment policy is based on a study of its assets and liabilities. The risk tolerance of the portfolio is directly related to Audubon’s overall finances and its restricted and endowment funds. Investments are allocated across capital markets beginning with a careful review of the world capital market allocation and are adjusted to reflect Audubon’s unique circumstances with a controlled opportunistic overlay. The portfolio’s investment strategy combines both passive and active investment solutions, the selection of which is governed by rules elaborated in Audubon’s Statement of Investment Policy. Audubon relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Annual spending from the endowment funds is described in Note 2.

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 NYPMIFA requires Audubon to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature, if they occurred, are reported in unrestricted net assets. As of June 30, 2013 and 2012, there were 1 and 5 donor endowment funds, respectively, whose fair value of approximately \$994,000 and \$535,000 were below the original gift amount of approximately \$1,000,000 and \$542,000 by approximately \$6,000 and \$7,000, respectively.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

During the year ended June 30, 2012, approximately \$1,466,000 was transferred from permanently restricted to temporarily restricted and unrestricted net assets. The most significant transfer was the transfer of an endowment of \$1,000,000 to an independent Audubon chapter. This endowment was established to support 1,600 acres of unrestricted land with a book value of \$300,000 that was also transferred to the Audubon chapter. This Audubon chapter owns adjacent land and can more efficiently manage the combined property in accordance with Audubon's mission. The balance of the transfers during the year ended June 30, 2012 and the transfers during the year ended June 30, 2013 were also made in accordance with donor restrictions.

Changes in endowment net assets, excluding permanently restricted land of \$10,295,373, for the years ended June 30, 2013 and 2012 were as follows:

	<b>2013</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ (6,841)	\$ 38,052,434	\$ 81,327,859	\$ 119,373,452
Investment activity:				
Interest, dividends and realized (losses) gains	(13,880)	1,449,137	-	1,435,257
Unrealized gains on investments	8,145	5,959,276	-	5,967,421
Change in value of charitable trusts	-	-	2,366,123	2,366,123
Total investment activity	(5,735)	7,408,413	2,366,123	9,768,801
Amounts appropriated for expenditure	-	(3,254,305)	-	(3,254,305)
Contributions to endowments	-	-	405,516	405,516
Bequests	-	-	1,497,617	1,497,617
Transfers of net assets	11,772	(37,719)	(61,306)	(87,253)
<b>Endowment net assets, end of year</b>	<u>\$ (804)</u>	<u>\$ 42,168,823</u>	<u>\$ 85,535,809</u>	<u>\$ 127,703,828</u>
	<b>2012</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ (2,841)	\$ 41,479,949	\$ 83,316,443	\$ 124,793,551
Investment activity:				
Interest, dividends and realized gains	-	4,669,531	-	4,669,531
Unrealized losses on investments	(4,000)	(4,779,916)	-	(4,783,916)
Change in value of charitable trusts	-	-	(1,947,086)	(1,947,086)
Total investment activity	(4,000)	(110,385)	(1,947,086)	(2,061,471)
Amounts appropriated for expenditure	-	(3,170,266)	-	(3,170,266)
Contributions to endowments	-	-	581,680	581,680
Bequests	-	-	842,359	842,359
Transfers of net assets	-	(146,864)	(1,465,537)	(1,612,401)
<b>Endowment net assets, end of year</b>	<u>\$ (6,841)</u>	<u>\$ 38,052,434</u>	<u>\$ 81,327,859</u>	<u>\$ 119,373,452</u>

Endowment net assets of \$127,703,828 and \$119,373,452 as of June 30, 2013 and 2012, respectively, are included within the investments and beneficial interest in charitable trusts in the accompanying consolidated statements of financial position.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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Temporarily restricted net assets as of June 30, 2013 and 2012 are available for the following:

	<u>2013</u>	<u>2012</u>
Purpose restrictions:		
Field Conservation Programs	\$ 155,820,604	\$ 146,280,940
National Conservation Programs	8,480,679	8,832,963
Time restrictions	<u>9,120,429</u>	<u>11,881,014</u>
	<u>\$ 173,421,712</u>	<u>\$ 166,994,917</u>

Temporarily restricted net assets above are further characterized by Audubon in the following manner as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Accumulated earnings on endowment funds	\$ 42,168,823	\$ 38,052,434
Property funded by restricted contributions	44,323,580	45,301,792
Charitable trusts, net of obligations	9,632,132	9,249,363
Other time restricted funds	8,168,291	7,103,680
Other purpose restricted funds	<u>69,128,886</u>	<u>67,287,648</u>
	<u>\$ 173,421,712</u>	<u>\$ 166,994,917</u>

Permanently restricted net assets, excluding permanently restricted land of \$10,295,373, represent gifts to be held in perpetuity and generate income that was available to support the following as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Purpose restrictions:		
Field conservation programs	\$ 53,238,402	\$ 49,992,803
National conservation programs	8,797,482	8,832,899
General purposes	<u>23,499,925</u>	<u>22,502,157</u>
	<u>\$ 85,535,809</u>	<u>\$ 81,327,859</u>



**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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**4. RECEIVABLES**

Receivables consist of the following as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Unconditional pledges receivable:		
Less than one year	\$ 2,787,680	\$ 2,580,607
One to five years	<u>961,700</u>	<u>1,241,374</u>
	3,749,380	3,821,981
Less: Allowance for uncollectible pledges	<u>(94,000)</u>	<u>(83,500)</u>
Total pledges receivable, net	3,655,380	3,738,481
Other receivables (net of allowance of \$614,861 and \$661,736)	<u>5,585,614</u>	<u>6,987,331</u>
	<u>\$ 9,240,994</u>	<u>\$ 10,725,812</u>

Audubon received new conditional pledges of approximately \$0 and \$7,348,000 during the years ended June 30, 2013 and 2012, respectively. Audubon has recorded revenue of approximately \$2,479,000 and \$6,922,000 for the years ended June 30, 2013 and 2012, respectively, the extent to which the conditions on the pledges have been met. As of June 30, 2013 and 2012, Audubon had conditional pledges outstanding of \$2,001,000 and \$4,551,000, respectively. Pledge payments due over the ensuing three to four years are conditional based on progress and reporting satisfactory to the donor.

**5. INVESTMENTS**

Audubon's investments consisted of the following as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 10,244,226	\$ 14,214,518
U.S. government and agency obligations	1,818,831	1,872,808
Equities	4,765,806	3,697,325
Bonds	4,775,888	4,015,891
Mutual funds - equity	4,259,244	2,815,952
Mutual funds - fixed income	16,729,980	17,821,605
Exchange traded funds - equity	33,470,902	28,412,563
Exchange traded funds - international equity	25,373,753	21,955,192
Exchange traded funds - fixed income	78,186	82,697
Collective trust funds - fixed income	63,093,285	63,408,644
Common trust funds	6,661,798	5,610,114
Alternative investments	<u>43,587,784</u>	<u>39,292,624</u>
	<u>\$ 214,859,683</u>	<u>\$ 203,199,933</u>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

As of June 30, 2013 and 2012, concentrations of Audubon's investments in excess of 10% of the fair value of its portfolio included approximately 29% and 31% invested in the BGI Government Bond Index Fund, respectively, approximately 11% and 10% in the iShares MSCI EAFE Index Fund, respectively, and approximately 12% and 11% in Standard & Poors Depository Receipts "SPDR," respectively.

Investments are subject to market volatility that could change their carrying values substantially in the near term. Alternative investments consist primarily of investments in several fund-of-fund managers and partnerships.

Investment income consists of the following for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 6,779,059	\$ 7,222,092
Net realized gains	2,462,811	4,687,542
Net unrealized gains (losses)	9,461,055	(10,000,408)
Investment fees	(446,576)	(426,065)
	<u>\$ 18,256,349</u>	<u>\$ 1,483,161</u>

Investment income is reported as follows in the accompanying consolidated statements of activities for the years ended June 30, 2013 and 2012:

	<u>2013</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains, and support:			
Investment earnings on non-pooled funds, net	\$ 1,655,888	\$ 18,598	\$ 1,674,486
Investment earnings on pooled funds – appropriated, net	6,244,515	574,208	6,818,723
Nonoperating items:			
Investment loss on pooled funds not appropriated, net	2,617,024	6,193,561	8,810,585
Included in change in value of charitable trusts	-	952,555	952,555
	<u>\$ 10,517,427</u>	<u>\$ 7,738,922</u>	<u>\$ 18,256,349</u>
	<u>2012</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains, and support:			
Investment earnings on non-pooled funds, net	\$ 1,706,221	\$ 24,011	\$ 1,730,232
Investment earnings on pooled funds – appropriated, net	5,907,823	576,591	6,484,414
Nonoperating items:			
Investment loss on pooled funds not appropriated, net	(1,581,123)	(5,056,172)	(6,637,295)
Included in change in value of charitable trusts	-	(94,190)	(94,190)
	<u>\$ 6,032,921</u>	<u>\$ (4,549,760)</u>	<u>\$ 1,483,161</u>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

Included in investment income for the years ended June 30, 2013 and 2012 is approximately \$1,427,000 and \$1,456,000 related to assets held in trust, respectively, where Audubon is a designated income beneficiary.

Assets and liabilities measured at fair value at June 30, 2013 and 2012 are classified in the tables below in one of the three levels as follows:

	<b>2013</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Assets Carried at Fair Value:				
Investments:				
Cash and cash equivalents	\$ 10,244,226	\$ -	\$ -	\$ 10,244,226
U.S. government and agency obligations	1,818,831	-	-	1,818,831
Equities	4,765,806	-	-	4,765,806
Bonds	-	4,775,888	-	4,775,888
Mutual funds - equity	4,259,244	-	-	4,259,244
Mutual funds - fixed income	16,729,980	-	-	16,729,980
Exchange traded funds - equity	33,470,902	-	-	33,470,902
Exchange traded funds - international equity	25,373,753	-	-	25,373,753
Exchange traded funds - fixed income	78,186	-	-	78,186
Collective trust fund - fixed income	-	63,093,285	-	63,093,285
Common trust funds	-	6,661,798	-	6,661,798
Alternative investments	-	36,014,959	7,572,825	43,587,784
Total investments	<u>96,740,928</u>	<u>110,545,930</u>	<u>7,572,825</u>	<u>214,859,683</u>
Beneficial interest in charitable trusts	-	-	42,151,503	42,151,503
Total Assets Carried at Fair Value	<u>\$ 96,740,928</u>	<u>\$ 110,545,930</u>	<u>\$ 49,724,328</u>	<u>\$ 257,011,186</u>
Liabilities Carried at Fair Value:				
Obligations under charitable trusts	\$ -	\$ -	\$ 6,609,687	\$ 6,609,687
Total Liabilities Carried at Fair Value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,609,687</u>	<u>\$ 6,609,687</u>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

	<b>2012</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Assets Carried at Fair Value:				
Investments:				
Cash and cash equivalents	\$ 14,214,518	\$ -	\$ -	\$ 14,214,518
U.S. government and agency obligations	1,872,808	-	-	1,872,808
Equities	3,697,325	-	-	3,697,325
Bonds	-	4,015,891	-	4,015,891
Mutual funds - equity	2,815,952	-	-	2,815,952
Mutual funds - fixed income	17,821,605	-	-	17,821,605
Exchange traded funds - equity	28,412,563	-	-	28,412,563
Exchange traded funds - international equity	21,955,192	-	-	21,955,192
Exchange traded funds - fixed income	82,697	-	-	82,697
Collective trust fund - fixed income	-	63,408,644	-	63,408,644
Common trust funds	-	5,610,114	-	5,610,114
Alternative investments	-	31,160,756	8,131,868	39,292,624
Total investments	<u>90,872,660</u>	<u>104,195,405</u>	<u>8,131,868</u>	<u>203,199,933</u>
Beneficial interest in charitable trusts	-	-	39,402,611	39,402,611
Total Assets Carried at Fair Value	<u>\$ 90,872,660</u>	<u>\$ 104,195,405</u>	<u>\$ 47,534,479</u>	<u>\$ 242,602,544</u>
Liabilities Carried at Fair Value:				
Obligations under charitable trusts	\$ -	\$ -	\$ 5,548,110	\$ 5,548,110
Total Liabilities Carried at Fair Value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,548,110</u>	<u>\$ 5,548,110</u>

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

**Equity Securities**

Valued at the closing price reported on the active market on which the individual securities are traded or the net asset value of shares held by Audubon at year end.

**Alternative Investments**

Alternative investments in hedge funds and fund of funds are designated as Level 2 or 3 as indicative of the investment manager's classification of Audubon's investment in the funds. It is not meant to be indicative of the classification of the investments in the underlying portfolio of these funds. The fair value of alternative investments is provided by the general partner or fund manager, and may be based on historical cost, appraisals and obtainable prices for similar assets or other estimates.

**U.S. Government and Agency Obligations**

Investments in U.S. government and agency obligations are valued using market prices in active markets (Level 1), except for Audubon's interests in common and collective trusts which are valued using the NAV provided by the administrator of the trusts and which is categorized under Level 2 in the fair value hierarchy. The NAV is based on the value of the underlying assets owned by the trust, less the trust's liabilities and then divided by the number of shares outstanding.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

**Bonds**

Municipal and corporate bonds are designated as Level 2 instruments and valuations are obtained from readily-available pricing sources for comparable instruments (credit risk/grade, maturities, etc.)

The following tables list investments valued at NAV as of June 30, 2013 and 2012:

2013							
Name/Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Alternative investment - International Value Equity Fund	Seeks to achieve long-term growth primarily by investing in a diversified portfolio of equity securities of companies located in any country other than the U.S. Fund will invest primarily in established international markets; but	1	\$ 16,109,345	N/A	N/A	May redeem all or part of units on the first business day of each month by providing written notice at least six (6) business days prior to the month end.	Redemptions ordinarily must equal or exceed \$500,000. Notice and minimum redemption requirements may be waived.
Alternative investment - Open-ended Interval Fund	Seeks long-term growth of capital by investing primarily in equity securities of issuers in developing countries.	1	4,956,706	N/A	N/A	30 days written notice with a monthly frequency.	N/A
Alternative investment - Limited Partnerships	Venture capital and private equity	5	6,553,013	1-4 years	1,128,208	N/A	Not permitted to withdraw.
Alternative investment - Limited Partnership	The partnership is organized for the purpose of earning attractive rates of return through an investment program of "alternative investment strategies" including general or limited partnerships or other pooled vehicles and with managers of separately	1	13,668,934	N/A	N/A	90 days written notice as of each June 30th and December 31st.	N/A
Alternative investment - Open-ended Investment Company	Seeks to achieve attractive risk adjusted returns by investing in, on margin or otherwise, a diversified portfolio of public and private securities, primarily involving high yield fixed income securities, syndicated leveraged loans (bank debt), credit derivatives and to a	1	1,279,974	N/A	N/A	Shares may be redeemed annually on June 30 with notice not less than 90 days prior to the intended redemption date.	N/A
Alternative investment - Limited Partnership	Objective is to achieve superior risk-adjusted returns through opportunistic investments across the credit spectrum.	1	1,019,812	N/A	N/A	Quarterly with 90 days prior written notice required.	Certain lock-up and redemption restrictions.
Collective trust fund - Blackrock Institutional Trust Company	The Fund invests in a broad market of investment grade bonds consisting of U.S. Treasury, U.S. Agency and domestic corporate bonds.	1	63,093,285	N/A	N/A	Daily	N/A
Common trust funds - State Street	The objectives of the funds are to approximate the performance of S&P 500 Index, Russell 2000 Index, MSCI EAFE Index and S&P MidCap 400 Index.	9	6,661,798	N/A	N/A	Daily/Monthly	N/A
		<u>20</u>	<u>\$ 113,342,867</u>		<u>\$ 1,128,208</u>		

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

2012							
Name/Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Alternative investment - International Value Equity Fund	Seeks to achieve long-term growth primarily by investing in a diversified portfolio of equity securities of companies located in any country other than the U.S. Fund will invest primarily in established international markets; but may invest a portion in	1	\$ 12,718,815	N/A	N/A	May redeem all or part of units on the first business day of each month by providing written notice at least six (6) business days prior to the month end.	Redemptions ordinarily must equal or exceed \$500,000. Notice and minimum redemption requirements may be waived.
Alternative investment - Open-ended Interval Fund	Seeks long-term growth of capital by investing primarily in equity securities of issuers in developing countries.	1	4,768,550	N/A	N/A	30 days written notice with a monthly frequency.	N/A
Alternative investment - Limited Partnerships	Venture capital and private equity	5	6,953,199	1-4 years	1,593,209	N/A	Not permitted to withdraw.
Alternative investment - Limited Partnership	The partnership is organized for the purpose of earning attractive rates of return through an investment program of "alternative investment strategies" including general or limited partnerships or other pooled vehicles and with managers of separately managed accounts.	1	12,458,104	N/A	N/A	90 days written notice as of each June 30th and December 31st.	N/A
Alternative investment - Guernsey Corporation	Invests in venture capital partnerships	1	165,279	In liquidation	N/A	N/A	Not permitted to withdraw.
Alternative investment - Open-ended Investment Company	Seeks to achieve attractive risk adjusted returns by investing in, on margin or otherwise, a diversified portfolio of public and private securities, primarily involving high yield fixed income securities, syndicated leveraged loans (bank debt), credit derivatives and to a lesser extent, equities.	1	1,215,287	N/A	N/A	Shares may be redeemed annually on June 30 with notice not less than 90 days prior to the intended redemption date.	N/A
Alternative investment - Limited Partnership	Objective is to achieve superior risk-adjusted returns through opportunistic investments across the credit spectrum.	1	1,013,390	N/A	N/A	Quarterly with 90 days prior written notice required.	Certain lock-up and redemption restrictions.
Collective trust fund - Blackrock Institutional Trust Company	The Fund invests in a broad market of investment grade bonds consisting of U.S. Treasury, U.S. Agency and domestic corporate bonds.	1	63,408,644	N/A	N/A	Daily	N/A
Common trust funds - State Street	The objectives of the funds are to approximate the performance of S&P 500 Index, Russell 2000 Index, MSCI EAFE Index and S&P MidCap 400 Index.	9	5,610,114	N/A	N/A	Daily/Monthly	N/A
		<u>21</u>	<u>\$ 108,311,382</u>		<u>\$ 1,593,209</u>		

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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The changes in investment assets measured at fair value for which Audubon has used Level 3 inputs to determine fair value were as follows for the years ended June 30, 2013 and 2012:

<b>Balance at June 30, 2011</b>	\$ 10,713,114
Purchases	878,287
Redemptions	(2,743,353)
Unrealized losses	<u>(716,180)</u>
<b>Balance at June 30, 2012</b>	8,131,868
Purchases	465,000
Redemptions	(1,352,937)
Unrealized gains	<u>328,894</u>
<b>Balance at June 30, 2013</b>	<u><u>\$ 7,572,825</u></u>

**Charitable Trust Agreements**

Beneficial interest in charitable trusts and obligations under charitable trusts are designated as Level 3. The changes in assets and liabilities measured at fair value for which Audubon has used Level 3 inputs to determine fair value was as follows for the years ended June 30, 2013 and 2012.

	<b>Beneficial Interest in Charitable Trusts</b>	<b>Obligations under Charitable Trusts</b>
<b>Balance at June 30, 2011</b>	\$ 41,754,378	\$ 5,530,053
New agreements	51,250	558,489
Payments to annuitants	-	(843,714)
Change in fair value of trust assets	(2,403,017)	-
Change in value due to actuarial valuations	<u>-</u>	<u>303,282</u>
<b>Balance at June 30, 2012</b>	39,402,611	5,548,110
New agreements	-	1,547,063
Payments to annuitants	-	(889,171)
Change in fair value of trust assets	2,748,892	-
Change in value due to actuarial valuations	<u>-</u>	<u>403,685</u>
<b>Balance at June 30, 2013</b>	<u><u>\$ 42,151,503</u></u>	<u><u>\$ 6,609,687</u></u>

**Financial Instruments**

The carrying amounts of cash and cash equivalents, receivables, prepaid expenses and other assets, and accounts payable and accrued expenses approximate fair value due to the short maturity of these financial instruments. The carrying value of receivables has been reduced by an appropriate allowance for uncollectible accounts, based on historical collection experience and therefore approximates net realizable value.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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**6. LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Buildings and building improvements	\$ 43,429,067	\$ 42,555,216
Construction in progress (see Note 9)	1,053,733	439,282
Equipment	10,044,531	9,677,849
Land improvements	91,936	91,936
Leasehold improvements	<u>23,396,067</u>	<u>23,308,366</u>
	78,015,334	76,072,649
Less: Accumulated depreciation and amortization	<u>(28,782,084)</u>	<u>(25,992,155)</u>
Buildings and equipment, net	49,233,250	50,080,494
Assets not subject to depreciation:		
Artwork	823,754	823,754
Land available for sale	1,500	1,500
Land - Sanctuaries	<u>96,599,499</u>	<u>95,794,874</u>
Total land, buildings and equipment, net	<u>\$ 146,658,003</u>	<u>\$ 146,700,622</u>

Audubon, for the past several years, has been in the process of developing various nature centers that are to be used for educational purposes. Construction in progress reflects construction costs and pre-construction professional fees associated with these and other nature center refurbishment projects. See Note 9 for further information regarding commitments related to these projects.

**7. NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets released from donor restrictions due to the passage of time and/or satisfying the restricted purposes specified by the donors are as follows:

	<u>2013</u>	<u>2012</u>
Program restrictions:		
Field Conservation programs	\$ 11,268,816	\$ 15,120,377
National Conservation programs	4,463,617	7,342,018
Time restrictions	<u>783,118</u>	<u>347,853</u>
	<u>\$ 16,515,551</u>	<u>\$ 22,810,248</u>

**8. IN-KIND CONTRIBUTIONS**

Audubon receives in-kind contributions in the form of donated goods and land which are recorded at their estimated fair value at the date of receipt. A number of volunteers donate substantial amounts of time to Audubon's program services. Donated services are evaluated to determine if they meet the criteria for recognition in the consolidated financial statements. The value of such in-kind contributions, that met the criteria for recognition, was approximately \$867,000 and \$808,000 for the years ended June 30, 2013 and 2012, respectively, and is reflected in the accompanying consolidated financial statements as contribution revenue and applicable functional expenses or capitalized asset as appropriate.



**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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**9. COMMITMENTS AND CONTINGENCIES**

Audubon entered into a twenty year lease agreement for its national headquarters in New York. The lease commenced September 1, 2007 and was amended on November 1, 2007. Rental payments commenced May 1, 2008 and call for approximately the following commitments for years subsequent to June 30, 2013:

	<b>Base Rent</b>	<b>Operating Expenses</b>	<b>Total</b>
2014	\$ 1,195,000	\$ 201,000	\$ 1,396,000
2015	1,195,000	243,000	1,438,000
2016	1,195,000	286,000	1,481,000
2017	1,195,000	330,000	1,525,000
2018	1,262,000	376,000	1,638,000
Thereafter	12,915,000	6,253,000	19,168,000
	<u>\$ 18,957,000</u>	<u>\$ 7,689,000</u>	<u>\$ 26,646,000</u>

As of June 30, 2013 and 2012, Audubon substituted a standby letter of credit in the amount of \$273,211 in lieu of a security deposit for its office lease. As required by Audubon's bank, a certificate of deposit with a balance of \$289,163 and \$289,163 as of June 30, 2013 and 2012, respectively, is included in prepaid expenses and other assets in the accompanying consolidated statements of financial position and secures this letter of credit.

Audubon occupies other office space under long-term lease agreements with varying expiration dates through the year ended June 30, 2023. Future minimum annual rental commitments under operating leases are approximately as follows for years subsequent to June 30, 2013:

2014	\$ 1,048,000
2015	595,000
2016	529,000
2017	434,000
2018	305,000
Thereafter	1,438,000
	<u>\$ 4,349,000</u>

Rent credits and charges are accounted for on a straight-line basis over the life of the lease. Included in the accompanying consolidated statements of financial position as of June 30, 2013 and 2012 is a liability of approximately \$4,313,000 and \$3,909,000, respectively, related to the tenant improvement credit and deferred rent under the straight-line method of accounting.

The minimum rental payments are subject to adjustments based on increases in real estate taxes, insurance and other operating expenses. Total rent expense for the years ended June 30, 2013 and 2012 amounted to approximately \$3,082,000 and \$3,090,000, respectively.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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During the year ended June 30, 2012, Audubon began leasing personal computers on three-year leases. The future three-year total commitments were approximately \$334,000 and \$363,000 as of June 30, 2013 and 2012, respectively. Audubon has also entered into arrangements with multiple suppliers for office equipment such as copiers and postage meters. These leases have terms that range from 1 to 7 years with total lease costs of less than \$85,000 annually.

As discussed in Note 6, Audubon has been in the process of developing and improving several nature centers, which are in various stages of completion. As of June 30, 2013 and 2012, Audubon had remaining commitments on construction and related agreements amounting to approximately \$1,008,000 and \$54,000, respectively. The lower construction in progress balance in fiscal 2012 is due to two projects being completed in that year.

Audubon is invested in several limited partnerships under which Audubon is committed to make capital contributions in future periods totaling approximately \$1.1 million and \$1.6 million as of June 30, 2013 and 2012, respectively.

Audubon is a defendant in various lawsuits. Audubon is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on Audubon's financial position, changes in net assets or cash flows.

Audubon receives significant federal grants which are subject to audit by federal agencies. Audubon is of the opinion that disallowances, if any, would not have a significant effect on Audubon's financial position, changes in net assets or cash flows.

## **10. PENSION AND OTHER RETIREMENT BENEFIT PLANS**

### **Cash Balance Pension Plan**

Effective January 1, 1998, Audubon changed its noncontributory, defined benefit trustee administered retirement plan (the "Prior Plan"), to a hybrid Cash Balance Pension Plan. All employees who were vested at the time of the change will receive the greater of the "Prior Plan" benefit or the cash balance benefit upon termination or retirement.

The Cash Balance Pension Plan (the "Cash Balance Plan") is a defined benefit pension plan covering substantially all employees of Audubon. Individuals who met the applicable age and service requirements while they were Audubon employees are entitled to vested pension benefits under the Cash Balance Plan. All employees hired before October 1, 2004 are always 100% vested in their benefits. Employees hired on or after October 1, 2004 become fully vested after completing three years of service with Audubon. Participants who were active as of January 1, 2000 and who had 5 years of service at December 31, 1997 were grandfathered and receive a benefit based on a final average pay formula. Plan participants at January 1, 1998 who were not grandfathered had an opening balance established based on their accrued benefit at December 31, 1997. For the period between December 31, 1997 and June 30, 2010, the participant account was credited with an amount equal to 3% (4% for the 2000 plan year) of the participant's eligible earnings. In addition, interest is credited each year using the applicable interest rate, determined each January 1, based on short-term interest rates in effect at the end of the prior year. Benefits generally are available to employees upon retirement. The plan was frozen effective June 30, 2010. After that date, no new participants were accepted into the Plan. Compensation paid after June 30, 2010, is disregarded, but participants continue to accrue interest credits.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

**403(b) Plan**

In addition to the Cash Balance Plan, Audubon maintains a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code, in which all employees, as defined, are eligible to participate. Participants may make voluntary contributions, subject to plan limitations. Effective July 1, 2010, Audubon changed its contribution to provide all eligible employees with a 4% contribution of eligible compensation subject to plan limitations and an additional matching contribution up to another 4% of eligible compensation subject to plan limitations. For the years ended June 30, 2013 and 2012, Audubon contributed approximately \$2,130,000 and \$2,262,000, respectively, to this retirement plan. All contributions vest immediately and are held in accounts owned by the employees.

**Retiree Medical and Life Plan**

Audubon also maintains an unfunded group medical and life insurance plan. The medical plan is the primary provider of benefits up to age 65; after the age of 65, Medicare becomes the primary provider. In connection with this change, a new prior service credit base of \$1,448,781 was established at June 30, 2010 to account for the decrease in benefit obligation due to this plan change. The recognition of the prior service credit will be spread over the average remaining years of service of the participants remaining in the plan. Employees who separated from service after February 1, 2007 are no longer eligible for retiree life insurance coverage. The following table sets forth the plan's funded status and benefit obligation at June 30, 2013 and 2012:

	<b>2013</b>		<b>2012</b>	
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>
Change in benefit obligation:				
<b>Benefit obligation-beginning of year</b>	\$ 44,828,038	\$ 3,093,358	\$ 37,836,574	\$ 2,068,800
Service cost	289,000	174,590	333,000	192,049
Interest cost	1,654,388	97,882	1,915,372	130,166
Participant contributions and retiree drug subsidy	-	104,282	-	116,252
Actuarial (gain) loss	(4,008,574)	(774,129)	6,974,475	756,531
Benefits paid and expenses	(3,299,908)	(166,480)	(2,231,383)	(170,440)
<b>Benefit obligation – end of year</b>	<u>39,462,944</u>	<u>2,529,503</u>	<u>44,828,038</u>	<u>3,093,358</u>
Change in plan assets:				
<b>Fair value of plan assets – beginning of year</b>	28,149,932	-	28,180,285	-
Actual return	2,521,040	-	(323,970)	-
Employer contributions	872,000	62,198	2,525,000	54,188
Participant contributions and retiree drug subsidy	-	104,282	-	116,252
Benefits paid	(2,912,068)	(166,480)	(1,942,569)	(170,440)
Administrative expenses	(387,840)	-	(288,814)	-
<b>Fair value of plan assets – end of year</b>	<u>28,243,064</u>	<u>-</u>	<u>28,149,932</u>	<u>-</u>
Funded status	<u>\$ (11,219,880)</u>	<u>\$ (2,529,503)</u>	<u>\$ (16,678,106)</u>	<u>\$ (3,093,358)</u>
Accumulated benefit obligation	<u>\$ 39,462,944</u>	<u>2,529,503</u>	<u>\$ 44,828,038</u>	<u>3,093,358</u>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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Amounts recognized as a liability in the accompanying consolidated statements of financial position consisted of the following as of June 30, 2013 and 2012:

	<b>2013</b>		
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Total</b>
Accrued benefit liability	<u>\$ (11,219,880)</u>	<u>\$ (2,529,503)</u>	<u>\$ (13,749,383)</u>

	<b>2012</b>		
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Total</b>
Accrued benefit liability	<u>\$ (16,678,106)</u>	<u>\$ (3,093,358)</u>	<u>\$ (19,771,464)</u>

The following table provides the components of net periodic benefit cost for the plans for the years ended June 30, 2013 and 2012:

	<b>2013</b>		<b>2012</b>	
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>
Service cost	\$ 289,000	\$ 174,590	\$ 333,000	\$ 192,049
Interest cost	1,654,388	97,882	1,915,372	130,166
Expected return on plan assets	(1,788,899)	-	(1,804,870)	-
Amortization of prior service credit	-	(1,452,359)	-	(1,452,359)
Amortization of net loss	<u>1,967,177</u>	<u>102,498</u>	<u>904,811</u>	<u>133,629</u>
Net periodic benefit cost (credit)	<u>\$ 2,121,666</u>	<u>\$ (1,077,389)</u>	<u>\$ 1,348,313</u>	<u>\$ (996,515)</u>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

The components of the unfunded liability as of June 30, 2013 and 2012 but not yet reflected in net periodic benefit cost consisted of the following:

	2013		2012	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plan
Prior service credit	\$ -	\$ 5,501,321	\$ -	\$ 6,953,680
Accumulated loss	<u>(12,047,140)</u>	<u>(794,260)</u>	<u>(18,755,032)</u>	<u>(1,670,887)</u>
Amounts recognized in unrestricted net assets	(12,047,140)	4,707,061	(18,755,032)	5,282,793
Cumulative employer contributions in excess of net periodic benefit cost	<u>827,260</u>	<u>(7,236,564)</u>	<u>2,076,926</u>	<u>(8,376,151)</u>
Net amount recognized in the statement of financial position	<u>\$ (11,219,880)</u>	<u>\$ (2,529,503)</u>	<u>\$ (16,678,106)</u>	<u>\$ (3,093,358)</u>

For the years ended June 30, 2013 and 2012, Audubon recognized pension and postretirement related changes other than net periodic costs of \$6,132,160 and \$(10,273,765), respectively. Such amounts represent the change in the amounts reflected in unrestricted net assets for the years ended June 30, 2013 and 2012 and consist of \$6,707,892 and \$(8,198,504) for the Cash Balance Plan and \$(575,732) and \$(2,075,261) for the Retiree Medical and Life plan.

Other changes in plan assets and benefit obligations recognized in the change in unrestricted net assets for the years ended June 30, 2013 and 2012 are as follows:

	2013		2012	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plan
Net (gain) loss arising during period	\$ (4,740,715)	\$ (774,129)	\$ 9,103,315	\$ 756,531
Amortization of prior service credit	-	1,452,359	-	1,452,359
Amortization of actuarial loss	<u>(1,967,177)</u>	<u>(102,498)</u>	<u>(904,811)</u>	<u>(133,629)</u>
Change in unrestricted net assets	<u>\$ (6,707,892)</u>	<u>\$ 575,732</u>	<u>\$ 8,198,504</u>	<u>\$ 2,075,261</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ (4,586,226)</u>	<u>\$ (501,657)</u>	<u>\$ 9,546,817</u>	<u>\$ 1,078,746</u>

The estimated actuarial loss and prior service credit for the Cash Balance Plan that will be amortized from the unrestricted net asset balance into net periodic benefit cost over the next fiscal year are \$1,157,264 and \$0, respectively. The estimated actuarial loss and prior service credit for the Retiree Medical and Life Plan that will be amortized from the unrestricted net asset balance into net periodic benefit cost over the next fiscal year are \$58,019 and \$1,452,359, respectively.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

The weighted average assumptions used to determine benefit obligations as of June 30, 2013 and 2012 consisted of the following:

	<b>2013</b>		<b>2012</b>	
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plans</b>
Discount rate	4.50 %	4.50 %	3.80 %	3.80 %
Rate of compensation increase	N/A	N/A	N/A	N/A

The weighted average assumptions used to determine net periodic benefit cost for the years ended June 30, 2013 and 2012 consisted of the following:

	<b>2013</b>		<b>2012</b>	
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plans</b>
Discount rate	3.80 %	3.80 %	5.25 %	5.25 %
Expected return on plan assets	6.50 %	N/A	6.50 %	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A
Medical cost trend rate	N/A	8.04 %	N/A	8.31 %

The assumed health care cost trend rate at June 30, 2013 and 2012 consisted of the following:

	<b>2013</b>		<b>2012</b>	
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>
Health care cost trend rate assumed for next year	N/A	7.78 %	N/A	8.04 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	4.50 %	N/A	4.50 %
Year that the rate reaches the ultimate trend rate	N/A	2029	N/A	2029

Audubon expects to contribute approximately \$823,000 to its Cash Balance Plan and \$0 to its Retiree Medical and Life Plan during the year ending June 30, 2014.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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Future benefit payments are expected to be as follows:

<u>Fiscal year ending June 30th</u>	<u>Cash Balance Plan</u>	<u>Retiree Medical and Life Plan</u>
2014	\$ 1,819,000	\$ 124,000
2015	1,935,000	148,000
2016	2,102,000	156,000
2017	2,231,000	167,000
2018	2,306,000	196,000
2019 through 2023	<u>12,371,000</u>	<u>1,366,000</u>
Total	<u>\$ 22,764,000</u>	<u>\$ 2,157,000</u>

The weighted average asset allocation of the Cash Balance Plan as of June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Equities - domestic	26.90 %	21.96 %
Equities - international	24.26 %	20.98 %
Debt securities	32.69 %	32.97 %
Cash and cash equivalents	6.63 %	15.19 %
Alternative investments	<u>9.52 %</u>	<u>8.90 %</u>
	<u>100.00 %</u>	<u>100.00 %</u>

The Cash Balance Plan's expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocations and estimates of future long-term returns by asset class.

The composition of the Cash Balance Plan's assets is intended to provide a long-term annualized investment return that will provide for future benefit payments. Volatility is reduced by asset class diversification. The target asset mix is periodically reviewed based on future expectations and performance and rebalanced as deemed necessary.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

The fair value hierarchy defines three levels, as further described in Note 2. Cash Balance Plan assets measured at fair value at June 30, 2013 and 2012 are classified in the table as follows:

	<b>2013</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Investments:			
Equities - domestic	\$ 7,598,026	\$ -	\$ 7,598,026
Equities - international	6,851,170	-	6,851,170
Collective trust fund	-	9,233,559	9,233,559
Cash and cash equivalents	1,871,878	-	1,871,878
Alternative investments	-	2,688,431	2,688,431
Total assets carried at fair value	<u>\$ 16,321,074</u>	<u>\$ 11,921,990</u>	<u>\$ 28,243,064</u>
	<b>2012</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Investments:			
Equities - domestic	\$ 6,182,226	\$ -	\$ 6,182,226
Equities - international	5,905,786	-	5,905,786
Collective trust fund	-	9,281,131	9,281,131
Cash and cash equivalents	4,277,066	-	4,277,066
Alternative investments	-	2,503,723	2,503,723
Total assets carried at fair value	<u>\$ 16,365,078</u>	<u>\$ 11,784,854</u>	<u>\$ 28,149,932</u>

The Cash Balance Plan did not have any investments classified as Level 3 as of June 30, 2013 and 2012.

The following table lists Audubon's Cash Balance Plan investments by major category, which are valued at NAV as of June 30, 2013 and 2012:

Type	Strategy	<b>2013</b>					
		Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Alternative investment - Limited partnership	The partnership is organized for the purpose of earning attractive rates of return through an investment program of "alternative investment strategies" including general or limited partnerships or other pooled vehicles and with managers of separately managed accounts.	1	\$ 1,646,303	18	N/A	90 days written notice as of each June 30th and December 31st.	Restrictions for withdrawals of 90% or more.
Collective trust fund - Blackrock Institutional Trust Company	Fixed income fund	1	9,233,559	N/A	N/A	Daily	N/A
Alternative investment - Open-ended Interval Fund	Seeks long-term growth of capital by investing primarily in equity securities of issuers in developing countries.	1	1,042,128	N/A	N/A	30 days written notice with a monthly frequency.	N/A
		<u>3</u>	<u>\$ 11,921,990</u>				



**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

Type	Strategy	2012		Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
		Number of Funds	NAV in Funds				
Alternative investment - Limited partnership	The partnership is organized for the purpose of earning attractive rates of return through an investment program of "alternative investment strategies" including general or limited partnerships or other pooled vehicles and with managers of separately managed accounts.	1	\$ 1,501,154	18	N/A	90 days written notice as of each June 30th and December 31st.	Restrictions for withdrawals of 90% or more.
Collective trust fund - Blackrock Institutional Trust Company	Fixed income fund	1	9,281,131	N/A	N/A	Daily	N/A
Alternative investment - Open-ended Interval Fund	Seeks long-term growth of capital by investing primarily in equity securities of issuers in developing countries.	1	1,002,569	N/A	N/A	30 days written notice with a monthly frequency.	N/A
		<u>3</u>	<u>\$ 11,784,854</u>				

**11. LOAN PAYABLE**

During the year ended June 30, 2012, Audubon borrowed \$7.175 million from a lender under a note and security agreement. The note and security agreement states an interest rate of 0.46% per annum and is secured by certain collectibles ("Collectibles"). The principal balance of the note payable is due and payable on June 30, 2014. In conjunction with the note and security agreement, the parties entered into an option agreement, consideration for which was the waiver of the 0.46% annual interest due on the note payable. Under the option agreement, the lender has an option to purchase the Collectibles at a purchase price of \$7.175 million through August 11, 2014 under certain terms and conditions.

During the year ended June 30, 2013, Audubon borrowed \$100,000 from a lender. The principal balance of the note payable is due and payable on or prior to May 21, 2016. No interest is due on this note.

**12. CHARITABLE TRUST AGREEMENTS**

Beneficial interests in charitable trusts consisted of the following as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Held by third-party trustees	<u>\$ 42,151,503</u>	<u>\$ 39,402,611</u>
Held by Audubon as trustee:		
Charitable gift annuities	\$ 10,797,113	\$ 8,660,177
Pooled income fund	<u>1,574,697</u>	<u>1,669,170</u>
	<u>\$ 12,371,810</u>	<u>\$ 10,329,347</u>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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Most assets held by third-party trustees are invested in diversified portfolios.

Assets held by Audubon as trustee are invested in diversified portfolios and are included within Audubon's investment portfolio as further described in Note 5 to the accompanying consolidated financial statements. The assets held by Audubon as trustee include additional amounts set aside by Audubon for state-mandated insurance reserves, which are maintained at the required level.

As trustee of certain trusts, Audubon has an obligation to make periodic payments to beneficiaries. Obligations under charitable trusts amounted to approximately \$6,610,000 and \$5,548,000 as of June 30, 2013 and 2012, respectively.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2013**

<b>Direct Awards: Federal Grantor/Program Title</b>	<b>Federal CFDA#</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Agriculture:</b>		
Rowe Farm Direct Counter Program	10.055	\$ 584
Direct Counter Program Spring Creek Prairie Farm #577	10.055	334
Direct Counter Program Cotton Soybeans	10.055	33,954
Conservation Reserve Program	10.069	62,928
Wetlands Reserve Program	10.072	40,360
Install Water Control Structure South Fork Kern River	10.072	35,774
NRCS Earth Moving Project	10.072	6,184
Outreach and Assistance for Socially Disadvantage Farmers and Ranchers	10.443	364,096
Floodplain Forest Bird Habitat Conservation	10.683	20,275
Soil and Water Conservation	10.902	500
California Migratory Bird Conservation Program	10.902	76,296
NRCS WRP Monitoring	10.902	41,634
NRCS SG Trunks	10.902	26,702
Wattis Pipeline Installation	10.902	20,261
NRCS - Environmental Quality Incentives Program	10.912	24,056
Enhance Habitat for Declining Birds	10.912	50,125
New York Great Lakes Restoration Initiative Environmental Quality Incentives Program Contribution Agreement	10.912	8,789
Bobcat EQIP	10.912	7,384
CIG Grasslands	10.912	49,789
USS Chamberlain	10.912	8,372
Wildlife Habitat Incentives Program	10.914	51,455
Conservation Security Program	10.921	35,623
Western Hummingbird Partnership Coordinator	10.000	22,818
River Pathways on the Tonto National Forest	10.000	1,498
<b>Total U.S. Department of Agriculture</b>		<b>989,791</b>
<b>U.S. Department of Commerce:</b>		
<b>National Oceanic and Atmospheric Administration:</b>		
Bird Use of Coastal Habitat During Migration	11.419	1,478
Audubon Watershed Experience	11.457	513
Marine and Estuarine Goal Setting for South Florida (MARES)	11.478	5,245
<b>Total U.S. Department of Commerce</b>		<b>7,236</b>

*The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2013**

Direct Awards: Federal Grantor/Program Title	Federal CFDA#	Total Federal Expenditures
<b>Research and Development Cluster:</b>		
<b>U.S. Department of Defense:</b>		
<b>U.S. Army Corps of Engineers:</b>		
A Proposal to Monitor Ecologic Parameters in the Forested Wetlands of Southern Florida	12.114	\$ 372,839
Dune Enhancement and Avian Management	12.300	18,896
Corp Monitoring Effort	12.630	86,157
<b>Total U.S. Department of Defense</b>		<b>477,892</b>
<b>National Science Foundation:</b>		
Citizen Science and Conservation	47.076	53,836
<b>Total National Science Foundation</b>		<b>53,836</b>
<b>Total Research and Development Cluster</b>		<b>531,728</b>
<b>U.S. Department of Housing and Urban Development:</b>		
Facilities Renovation of Visitor's Center	14.251	85,671
Economic Development Initiative Special Project Grant	14.251	6,113
Pascagoula Audubon Center	14.251	51,063
Construction Pascagoula River Grant	14.251	51,063
<b>Total U.S. Department of Housing and Urban Development</b>		<b>193,910</b>
<b>U.S. Department of Interior:</b>		
Habitat Restoration of Key Deer, Piping Plover, Lower Key Marsh Rabbits	15.062	4,166
River Pathways	15.231	94,539
Bureau of Land Management American Black Oystercatcher	15.231	5,000
Jay Watch Citizen Science Florida Scrub	15.615	17,049
Maine Waterbird Habitat II	15.623	33,544
Coastal Stewardship Program	15.630	8,538
Coastal Bird Monitoring	15.630	1,346
Colonial Waterbird Plan	15.630	5,886
Conservation Assessment and Planning on Kenai Peninsula Lowlands	15.630	21,309
Schoolyard Habitat Program	15.630	3,189
Beach Dependent Birds in Northeast Florida	15.630	5,906
Audubon Florida Management Plan for Cortez Key Bird Sanctuary	15.630	9,378
Coastal Maine Seabird Nesting Island Support	15.630	13,000
Platte River Restore and Enhance Habitat	15.631	29,021
USFWS Partnership Program	15.631	580
Davis Ranch Sycamore Slough	15.631	7,407
Black Prairie	15.631	7,075
Coastal Sage Scrub Restoration	15.631	20,000

*The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2013**

<b>Direct Awards: Federal Grantor/Program Title</b>	<b>Federal CFDA#</b>	<b>Total Federal Expenditures</b>
USFWS Blue Oak	15.631	\$ 389
USFWS DeMartini	15.631	1,356
Outreach Dogwood Canyon	15.631	1,542
FWS Alexander Restoration	15.631	9,807
USFWS Chamberlain	15.631	10,871
USFWS Sagara	15.631	10,794
South Florida Caribbean Cooperative Ecosystem Studies Unit	15.632	12,117
Education Workshops	15.634	13,024
Carse Brook Project	15.634	1,244
Prioritize and Conserve Important Bird Areas in Alaska	15.634	40,039
Blackwater Marsh Bird Survey	15.634	21,000
Red River Valley Avian Conservation	15.637	23,439
Migratory Bird Venture	15.637	29,040
Continue Partnership and Planning for the Implementation of a Breeding Bird Atlas in Minnesota	15.642	107,402
Metro Bird Plan Phase II	15.647	17,862
Coordinated Grassland Bird Evaluation	15.647	9,581
USFWS Bangladesh	15.650	12,000
Seabird Restoration Program	15.654	32,906
Migratory Bird Outreach and Conservation at Huguenot Park	15.655	4,809
Mountain Plover Survey	15.655	4,418
Future of Climate Changes on Species	15.655	83,537
City Bird Plan Implementation	15.655	4,705
Aramburu Island Shoreline Restoration	15.658	429,086
Carse Brook Restoration	15.658	3,538
Digitizing Lakefront Migratory Bird Info	15.662	14,940
Enhancing Tidal Mudflats and Marshes Aramburu Island	15.663	19,332
South Florida Caribbean Cooperative Ecosystem Studies Unit	15.808	21,900
Logo Anchorage Birding Map	15.000	2,500
<b>Total U.S. Department of Interior</b>		<b>1,230,111</b>
<b>Institute of Museum and Library Services:</b>		
Evaluation of Nature Preschool Program	45.301	9,148
National Leadership Grant Museum Research	45.312	88,979
<b>Total Institute of Museum and Library Services</b>		<b>98,127</b>
<b>U.S. Environmental Protection Agency:</b>		
EPA Sonoma Creek	66.126	80,776
<b>Total U.S. Environmental Protection Agency</b>		<b>80,776</b>
<b>Total Direct Awards</b>		<b>\$ 3,131,679</b>

*The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2013**

<b>Pass-Through Awards: Federal Grantor/Program Title</b>	<b>Pass-Through Grantor</b>	<b>Sub-contract Agreement#</b>	<b>Federal CFDA#</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Agriculture:</b>				
Cooperative Forestry Assistance	California Department of Natural Resources	CA 12-2362010-DG	10.664	\$ 9,363
Cooperative Forestry Assistance	Vermont Forest Parks and Recreation	06130-Audubon-13	10.664	38,334
Cooperative Forestry Assistance	North East State Foresters Association	N/A	10.664	3,393
National Fish and Wildlife Foundation	Cornell University	PO 745807	10.683	800
Soil and Water Conservation	Pheasants Forever, Inc.	N/A	10.902	4,148
Soil and Water Conservation	National Fish and Wildlife Foundation	2004.12.035057	10.902	9,825
Soil and Water Conservation	Wildlife Management Institute	2004.12.032669	10.902	2,547
Soil and Water Conservation	IUP Research Institute	1112-045-NC A	10.902	40,481
Environmental Quality Incentives Program	Green Mountain Audubon Society	74164413028	10.912	4,064
Wildlife Habitat Incentive Program	Sagara Farms	N/A	10.914	17,388
Farm Service Agency	Green Mountain Audubon Society	50 007 2011 0043	10.000	4,350
<b>Total U.S. Department of Agriculture</b>				<b>134,693</b>
<b>U.S Department of Commerce:</b>				
<b>National Oceanic and Atmospheric Administration:</b>				
Habitat Conservation	National Fish and Wildlife Foundation	2008-0073-035	11.463	113,547
Habitat Conservation	National Fish and Wildlife Foundation	2008-0073-052	11.463	39,006
Habitat Conservation	Fondo Mexicano	Q42-13-502	11.463	76,984
Project Design and Permitting for Restoration Action in the Lower Santa Ynez River and Estuary	California Department of Fish and Game	P1050010	11.000	121,052
<b>Total U.S. Department of Commerce</b>				<b>350,589</b>
<b>U.S Department of Defense:</b>				
<b>U. S. Army Corps of Engineers:</b>				
Lake Isabella Willow Flycatcher Restoration	National Fish and Wildlife Foundation	1998-0107-000 / DACW059820001	12.000	51,527
Presque Isle Beach Nourishment	SAF, Inc.	217-MAT-03	12.000	8,460
<b>Total U.S. Department of Defense</b>				<b>59,987</b>
<b>U. S. Department of Interior:</b>				
Fish, Wildlife and Plant Conservation Resource Management	Wyoming Game and Fish	L08AC13184	15.231	31,000
Fish and Wildlife Management Assistance	National Fish and Wildlife Foundation	2009-0003-000	15.608	105,526
Fish and Wildlife Management Assistance	National Fish and Wildlife Foundation	2011-0006-006	15.608	17,273
Fish and Wildlife Management Assistance	National Fish and Wildlife Foundation	0203.12.30753	15.608	77,832
Partners for Fish and Wildlife	City of Stuttgart	N/A	15.631	1,590
Landowner Incentive Program	Nebraska Game & Parks Commission	L5-12-005	15.633	9,600
State Wildlife Grants	Maryland Department of Natural Resources	K00P2401260	15.634	9,127
State Wildlife Grants	Nebraska Game & Parks Commission	N/A	15.634	25,013
State Wildlife Grants	Vermont Fish and Wildlife Service	06120FY1109	15.634	3,006
State Wildlife Grants	Louisiana Wildlife and Fisheries	CFMS#714472	15.634	17,299
State Wildlife Grants	Florida Fish and Wildlife Conservation Commission	12157	15.634	13,500
State Wildlife Grants	Vermont Fish and Wildlife	06120FY13227	15.634	4,281
Migratory Bird Joint Ventures	Ducks Unlimited	US-WA-122-3	15.637	6,000
Service Training and Technical Assistance	Pennsylvania Wildlife Management	PO4300277481	15.649	4,941
Migratory Bird Monitoring, Assessment and Conservation	City of Phoenix	F11AP00184CITY	15.655	8,622
Endangered Species Conservation	State of Maine Department of Inland Fisheries & Wildlife	09A-20100428*5585	15.657	6,392
Great Lakes Restoration	Cook County, Illinois	N/A	15.662	45,107
Great Lakes Restoration	Chicago Wilderness Trust	CWT 12-03	15.662	2,874
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	1401.11.027926	15.663	11,466
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	1401.11.028642	15.663	12,841
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	0101.12.035741	15.663	55,200
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	0101.12.035743	15.663	19,072
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	1401.12.033041	15.663	9,632
Historic Preservation Fund Grants-In-Aid	South Carolina National Heritage Corridor	P28052812112	15.904	19,000
Land and Water Stewardship and Planning for the Great Salt Lake South Shore Wetland Reserve	Utah Reclamation Mitigation and Conservation Commission	11FC-UT-1750	15.000	25,893
<b>Total U.S. Department of Interior</b>				<b>542,087</b>

The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2013**

<b>Pass-Through Awards: Federal Grantor/Program Title</b>	<b>Pass-Through Grantor</b>	<b>Sub-contract Agreement#</b>	<b>Federal CFDA#</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Transportation:</b>				
Highway Planning and Construction	Washington State Department of Transportation	LA-6275	20.205	\$ 52,378
Highway Planning and Construction	Washington State Department of Transportation	LA-6255	20.205	3,824
Recreational Trails Program	Texas Parks and Wildlife Department	185009	20.219	50,446
Recreational Trails Program	Mississippi Department of Transportation	28-RTP-199	20.219	10,901
Recreational Trails Program	Texas Parks and Wildlife Department	RT-011-001	20.219	56,578
<b>Total U.S. Department of Transportation</b>				<b>174,127</b>
<b>Institute of Museum and Library Services:</b>				
Promotion of the Arts - Partnership Agreements	Mississippi Arts Commission	13-183-MH/PG	45.025	2,656
<b>Total Institute of Museum and Library Services</b>				<b>2,656</b>
<b>Research and Development Cluster - National Science Foundation:</b>				
Education and Human Resources	American Museum of National History	13-2010	47.076	1,474
<b>Total Research and Development Cluster</b>				<b>1,474</b>
<b>U.S. Environmental Protection Agency:</b>				
Long Island Sound Program	National Fish and Wildlife Foundation	1401.11.027926	66.437	6,450
Long Island Sound Program	National Fish and Wildlife Foundation	1401.11.028642	66.437	51,364
Nonpoint Source Implementation Grants	Missouri Department of Natural Resources	G11-NPS-14	66.460	44,066
Chesapeake Bay Program	Defenders of Wildlife	0603.11.029420	66.466	4,248
Chesapeake Bay Program	Chesapeake Bay Trust	11691	66.466	3,001
<b>Total U.S. Environmental Protection Agency</b>				<b>109,129</b>
<b>Total Pass-Through Awards</b>			<b>\$ 1,374,742</b>	
<b>Total Awards (Includes Direct and Pass-Through Awards)</b>			<b>\$ 4,506,421</b>	

*The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2013**

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (“Schedule”) for the year ended June 30, 2013 includes the federal grant activity of National Audubon Society, Inc. (“Audubon”), and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**2. SUBRECIPIENTS**

Of the federal expenditures presented on the Schedule, Audubon provided federal awards to subrecipients during the year ended June 30, 2013, as follows:

<b>Federal Grantor/Program Title</b>	<b>Federal CFDA #</b>	<b>Amounts Provided to Subrecipients</b>
U.S. Department of Agriculture: Outreach and Assistance for Socially Disadvantage Farmers and Ranchers	10.443	\$ 29,416
U.S. Department of Agriculture: Western Hummingbird Partnership	10.000	19,200
U.S. Department of Commerce: Habitat Conservation	11.463	133,530
U.S. Department of Interior: Fish and Wildlife Management Assistance	15.608	22,754
U.S. Department of Interior: Migratory Bird Monitoring, Assessment and Conservation	15.655	3,039
U.S. Department of Interior: Great Lakes Restoration	15.662	18,821
U.S. Department of Interior: National Fish and Wildlife Foundation	15.663	44,921
<b>Total Federal Awards Provided to Subrecipients</b>		<b>\$ 271,681</b>



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of  
**National Audubon Society, Inc.:**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of National Audubon Society, Inc. (“Audubon”), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 15, 2013.

**Internal control over financial reporting**

In planning and performing our audit of the consolidated financial statements, we considered Audubon’s internal control over financial reporting (“internal control”) to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of Audubon’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in Audubon’s internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and other matters**

As part of obtaining reasonable assurance about whether Audubon's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Intended purpose**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Audubon's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Audubon's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

New York, New York  
November 15, 2013

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON  
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors of  
**National Audubon Society, Inc.:**

**Report on compliance for each major federal program**

We have audited the compliance of National Audubon Society, Inc. (“Audubon”) with the types of compliance requirements described in the U.S. Office of Management and Budget’s *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. Audubon’s major federal programs are identified in the summary of auditors’ results section of the accompanying Schedule of Findings and Questioned Costs.

**Management’s responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to Audubon’s federal programs.

**Auditor’s responsibility**

Our responsibility is to express an opinion on compliance for each of Audubon’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The above-mentioned standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Audubon’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Audubon's compliance.

#### **Opinion on each major federal program**

In our opinion, Audubon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

#### **Instances of noncompliance**

The results of our audit procedures disclosed instances of noncompliance, described in the accompanying Schedule of Findings and Questioned Costs as Findings 2013-01 and 2013-02, that are required to be reported in accordance with OMB Circular A-133. Our opinion on each major federal program is not modified with respect to these matters.

#### **Audubon's response to findings**

Audubon's response to our noncompliance findings, which is described in the accompanying Schedule of Findings and Questioned Costs, was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on Audubon's response.

#### **Report on internal control over compliance**

Management of Audubon is responsible for designing, implementing, and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Audubon's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Audubon's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in Audubon's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as Findings 2013-01 and 2013-02, that we consider to be significant deficiencies in Audubon's internal control over compliance.

Audubon's response to our findings on internal control over compliance, which is described in the accompanying Schedule of Findings and Questioned Costs, was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on Audubon's response.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

New York, New York  
March 27, 2014

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2013**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements:**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weakness(es)?  yes  none reported
- Noncompliance material to financial statements noted?  yes  no

**Federal Awards:**

Internal control over the major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditors' report issued on compliance for the major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?  yes  no

**Identification of the major programs:**

<b>Federal Grantor/Program or Cluster Title</b>	<b>Federal CFDA#</b>
<b>U.S. Department of Interior:</b>	
Enhancing Tidal Mudflats and Marshes Aramburu Island	15.608
Rio Grande Environmental Water Transaction Program	15.608
Fish and Wildlife Management Assistance	15.608
Aramburu Island Shoreline Restoration	15.658
Carse Brook Restoration	15.658

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2013**

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<b>Federal Grantor/Program or Cluster Title</b>	<b>Federal CFDA#</b>
<b>U.S. Department of Agriculture:</b>	
Outreach and Assistance for Socially Disadvantage Farmers and Ranchers	10.443
Soil and Water Conservation	10.902
California Migratory Bird Conservation Program	10.902
NRCS WRP Monitoring	10.902
NRCS SG Trunks	10.902
NCRS Golden-Winged Warbler Initiative	10.902
Wattis Pipeline Installation	10.902
Soil and Water Conservation	10.902
California Migratory Bird Conservation Program	10.902
NRCS WRP Monitoring	10.902
<b>Research and Development Cluster:</b>	
<b>U.S. Department of Defense:</b>	
<b>U.S. Army Corps of Engineers:</b>	
CERP Recover Monitor Forested Wetlands South Florida	12.114
Dune Enhancement and Avian Management	12.300
Corp Monitoring Effort	12.630
<b>National Science Foundation:</b>	
Citizen Science and Conservation	47.076
Education and Human Resources	47.076
<b>U.S. Department of Commerce:</b>	
<b>National Oceanic and Atmospheric Administration:</b>	
Habitat Conservation	11.463
<b>U.S. Department of Housing and Urban Development:</b>	
Facilities Renovation of Visitor's Center	14.251
EDI Special Project Grant	14.251
Pascagoula Audubon Center	14.251
Construction Pascagoula River Grant	14.251
<b>Highway Planning and Construction Cluster:</b>	
<b>U.S. Department of Transportation:</b>	
Highway Planning and Construction	20.205
Recreational Trails Program	20.219
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	___ yes <u>X</u> no

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2013**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

None noted.



**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2013**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2013-01 – Reporting (Significant Deficiency)**

<b>U.S. Department of Interior:</b>	
Fish and Wildlife Management Assistance	15.608
<b>U.S. Department of Agriculture:</b>	
NRCS WRP Monitoring	10.902
NRCS SG Trunks	10.902
Soil and Water Conservation	10.902
<b>Research and Development Cluster:</b>	
<b>National Science Foundation:</b>	
Citizen Science and Conservation	47.076

**Criteria:**

Each recipient must report program outlays (disbursements) and program income (receipts) on the cash or accrual basis of accounting, as prescribed by the federal awarding agency. Audubon has opted to report such program activity on the accrual basis of accounting.

**Condition:**

Approximately \$110,000 of expenses charged to federal programs during fiscal 2013, which were allowable under program guidelines and within the programs period of availability, were incurred in the prior fiscal year.

**Context:**

Approximately \$110,000 of expenses reported during fiscal 2013 were not reported in the appropriate fiscal year. This amount consisted of the following:

- CFDA 15.608 – \$496
- CFDA 10.902 – \$34,981
- CFDA 47.076 – \$27,539
- Other programs not tested as major programs - \$47,125

**Questioned Costs:**

None noted.

**Cause:**

As a result of a change in management within the grants administration function during fiscal 2013, certain expenses were identified by Audubon that were improperly excluded from the fiscal 2012 Schedule of Expenditures of Federal Awards. Accordingly, management determined that the amounts should be included in the fiscal 2013 Schedule of Expenditures of Federal Awards.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2013**

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**Effect:**

While the individual expenses were allowable under program guidelines, and were incurred within the respective programs period of availability, the reports submitted to the funding agencies included expenses that were incurred prior to fiscal 2013. The fiscal 2013 Schedule of Expenditures of Federal Awards, therefore, includes approximately \$110,000 of expenses not previously reported on the fiscal 2012 Schedule of Expenditures of Federal Awards.

**Recommendation:**

We recommend that Audubon continue to refine its cut-off procedures to ensure that expenses relating to federal grants are reported within the appropriate fiscal year (i.e., reported in the period incurred, consistent with the accrual basis of accounting).

**Views of Responsible Officials and Planned Corrective Action:**

Audubon has recently restructured its grant oversight, and includes regular account reconciliation for federal grant activity. We will continue to reconcile all amounts recorded in the general ledger with the Schedule of Expenditures of Federal Awards.

**Finding 2013-02 – Allowable Costs/Cost Principles (Significant Deficiency)**

**U.S. Department of Agriculture:**

Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443
NRCS SG Trunks	10.902

**U.S Department of Commerce:**

**National Oceanic and Atmospheric Administration:**

Habitat Conservation	11.463
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**U.S. Department of Interior:**

Fish and Wildlife Management Assistance	15.608
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**U.S. Department of Transportation:**

Recreational Trails Program	20.219
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**Research and Development Cluster:**

**National Science Foundation:**

Citizen Science and Conservation	47.076
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**Criteria:**

In accordance with OMB Circular A-122, a cost is allowable under an award if the cost meets the following general criteria:

- Be reasonable for the performance of the award and be allocable in accordance with A-122.
- Conform to any limitations or exclusions set forth in A-122 or in the award.
- Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2013**

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- Be accorded consistent treatment.
- Be determined in accordance with generally accepted accounting principles in the United States of America (“US GAAP”).
- Not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program in either the current or a prior period.
- Be adequately documented.
- Be net of all applicable credits.

**Condition:**

Audubon had errors in the payroll allocation to federal programs which were individually and in the aggregate, less than \$1,000. Three (3) payroll expenses charged to the federal programs during fiscal 2013 were in excess of the actual amount of expense incurred and four (4) payroll expenses charged to the federal programs during fiscal 2013 were less than the actual amount of expense incurred. Additionally, fourteen (14) timesheets for individuals working on federal programs during fiscal 2013 were lacking evidence of a documented review and approval by an authorized individual prior to the expenses being reported to the funding agencies. All related payroll expenses were allowable under program guidelines and were incurred within the programs period of availability.

**Context:**

Payroll expenses in excess of the actual amount charged to the federal program during fiscal 2013:

- CFDA 10.443 - 1 instance out of 25 payroll expenses tested from a population of 118 payroll transactions.
- CFDA 10.902 - 2 instances out of 25 payroll expenses tested from a population of 156 payroll transactions.

Payroll expenses less than the actual amount charged to the federal program during fiscal 2013:

- CFDA 10.443 - 4 instances out of 25 payroll expenses tested from a population of 118 payroll transactions.

Timesheets lacking documented approval for payroll expenses charged to the federal program during fiscal 2013:

- CFDA 10.443 - 4 instances out of 25 payroll expenses tested from a population of 118 payroll transactions.
- CFDA 11.463 - 3 instances out of 8 payroll expenses tested from a population of 74 payroll transactions.
- CFDA 15.608 - 4 instances out of 25 payroll expenses tested from a population of 192 payroll transactions.
- CFDA 20.219 - 2 instances out of 10 payroll expenses tested for the Highway Planning and Construction Cluster from a population of 104 payroll transactions.
- CFDA 47.076 - 1 instance out of 25 payroll expenses tested for the Research and Development Cluster from a population of 16 payroll transactions.

**Questioned Costs:**

None to report.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2013**

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**Cause:**

Audubon's policy requires individuals to complete timesheets each pay period to track actual time and effort spent on federal programs and for the individuals' supervisors to review and provide a documented approval of those timesheets prior to requesting reimbursement from the funding agencies. However, certain approvals were not obtained, not documented or not maintained, prior to requesting reimbursement for the expenses.

Additionally, Audubon's policy requires that the payroll expenses charged to the federal programs be calculated using the individual's approved pay rate at the time the expense was incurred, however certain payroll expenses were incorrectly calculated, resulting in errors which amounted to less than \$1,000.

**Effect:**

While the individual payroll expenses were incurred within the respective programs period of availability, the reports submitted to the funding agencies did not include the correct amount of expenses incurred for the respective reporting period.

**Recommendation:**

We recommend that Audubon put additional procedures in place to ensure that payroll charges are properly calculated and appropriately charged to the federal grant and that documentation of approval of the expenses be obtained and maintained in accordance with Audubon's policies and the respective program guidelines.

**Views of Responsible Officials and Planned Corrective Action:**

Management acknowledges the importance of accurate time and effort reporting. During fiscal 2013, Audubon changed its payroll provider, which contributed to the issues cited. Audubon has adopted new procedures for reviewing and verifying all payroll allocations.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Summary Schedule of Prior Year (2012) Audit Findings and Corrective Action Plan**  
**For the year ended June 30, 2013**

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**Finding 2012-01 – Reporting (Significant Deficiency)**

**U.S. Department of Interior:**

North American Wetlands Conservation Grant	15.623
Waterbird Habitat Restoration Grant	15.623

**U.S. Department of Agriculture:**

Outreach and Assistance for Socially Disadvantage Farmers and Ranchers	10.443
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**Research and Development Cluster - U.S. Department of Defense:**

**U.S. Army Corps of Engineers:**

CERP Recover Monitor Forested Wetlands South Florida	12.114
Camp Pendleton Least Tern Snowy Plover	12.300
Dune Enhancement and Avian Management	12.300
Corp Monitoring Effort	12.630

**U.S. Department of Commerce:**

**National Oceanic and Atmospheric Administration:**

Habitat Conservation	11.463
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**Criteria:**

Each recipient must report program outlays (disbursements) and program income (receipts) on the cash or accrual basis of accounting, as prescribed by the federal awarding agency. Audubon has opted to report such program activity on the accrual basis of accounting.

**Condition:**

Approximately \$168,000 of expenses charged to federal programs during fiscal 2012, which were allowable under program guidelines and within the programs period of availability, were incurred in the prior fiscal year.

**Context:**

Approximately \$168,000 of expenses reported during fiscal 2012 were not reported in the appropriate fiscal year.

**Questioned Costs:**

None noted.

**Cause:**

Although Audubon's policy is to charge expenses to federal grants in the period that the expense is incurred, certain expenditures were not reported to funding agencies or on the Schedule of Expenditures of Federal Awards in the correct period.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Summary Schedule of Prior Year (2012) Audit Findings and Corrective Action Plan**  
**For the year ended June 30, 2013**

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**Effect:**

While the individual expenses were allowable under program guidelines, and were incurred within the respective programs period of availability, the reports submitted to the funding agencies did not include the correct amount of expenses incurred for the respective reporting period. The fiscal 2012 Schedule of Expenditures of Federal Awards includes these amounts as they were not previously reported on the fiscal 2011 Schedule of Expenditures of Federal Awards. Therefore, the fiscal 2011 Schedule of Expenditures of Federal Awards was understated by approximately \$168,000 and the fiscal 2012 Schedule of Expenditures of Federal Awards is overstated by that amount.

**Recommendation:**

We recommend that Audubon refine its cut-off procedures to ensure that expenses relating to federal grants are reported within the appropriate fiscal year (i.e., reported in the period incurred, consistent with the accrual basis of accounting).

**Views of Responsible Officials and Planned Corrective Action:**

Management is in the process of evaluating our procedures to ensure that expenses related to federal grants are properly reported in the fiscal year in which they are incurred. We will specifically reconcile all amounts recorded in the general ledger with the Schedule of Federal Awards.

**Current Year Status Update:**

See Finding 2013-01.

Financial Statements and OMB Circular A-133  
Supplementary Information Together with  
Reports of Independent Certified Public Accountants

**NATIONAL AUDUBON SOCIETY, INC.**

June 30, 2012 and 2011

# NATIONAL AUDUBON SOCIETY, INC.

## TABLE OF CONTENTS

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	<b>Page</b>
Report of Independent Certified Public Accountants	1 - 2
Financial Statements:	
Statements of Financial Position as of June 30, 2012 and 2011	3
Statement of Activities for the year ended June 30, 2012	4
Statement of Activities for the year ended June 30, 2011	5
Statement of Functional Expenses for the year ended June 30, 2012	6
Statement of Functional Expenses for the year ended June 30, 2011	7
Statements of Cash Flows for the years ended June 30, 2012 and 2011	8
Notes to Financial Statements	9 - 34
OMB Circular A-133 Supplementary Information:	
Schedule of Expenditures of Federal Awards for the year ended June 30, 2012	35 - 39
Notes to Schedule of Expenditures of Federal Awards for the year ended June 30, 2012	40
Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters	41 - 42
Report of Independent Certified Public Accountants on Compliance Related to Major Programs (OMB Circular A-133) and on Internal Control Over Compliance	43 - 44
Schedule of Findings and Questioned Costs for the year ended June 30, 2012:	
Section I - Summary of Auditors' Results	45 - 46
Section II - Financial Statement Findings	46
Section III - Federal Award Findings and Questioned Costs	47 - 48
Summary Schedule of Prior Year Findings and Questioned Costs	49 - 50



## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of  
**National Audubon Society, Inc.:**

We have audited the accompanying statements of financial position of National Audubon Society, Inc. (“Audubon”) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Audubon’s management. 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 established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Audubon’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Audubon Society, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012, on our consideration of Audubon’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Audubon’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements as of and for the years ended June 30, 2012 and 2011 taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2012 required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the 2012 financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2012 financial statements. This information has been subjected to the auditing procedures applied in the audit of the 2012 financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the 2012 financial statements or to the 2012 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the 2012 financial statements as a whole.

*Grant Thornton LLP*

New York, New York  
December 17, 2012

**NATIONAL AUDUBON SOCIETY, INC.**  
**Statements of Financial Position**  
**As of June 30, 2012 and 2011**

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
Cash and cash equivalents (Notes 2 and 13)	\$ 30,051,059	\$ 29,764,416
Other receivables, net (Notes 2 and 5)	7,120,113	6,333,348
Prepaid expenses and other assets (Note 2 and 9)	2,865,779	2,839,481
Pledges receivable, net (Notes 2 and 5)	3,738,481	3,102,777
Investments (Notes 2, 4 and 13)	203,067,152	202,515,178
Beneficial interest in charitable trusts (Notes 2, 4 and 12)	39,402,611	41,754,378
Buildings and equipment, net (Notes 2, 3 and 6)	50,904,248	52,460,229
Land (Notes 2 and 6)	95,796,374	94,892,917
TOTAL ASSETS	<u>\$ 432,945,817</u>	<u>\$ 433,662,724</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 3,686,472	\$ 3,796,938
Accrued payroll and related liabilities	974,882	2,104,203
Accrued vacation	2,880,626	2,849,034
Deferred rent, tuition and other (Note 9)	5,717,595	5,032,120
Funds held for others (Note 2)	2,016,652	1,981,035
Obligations under charitable trusts (Notes 2, 3, 4 and 12)	5,548,110	5,530,053
Pension and postretirement benefit liability (Note 10)	19,771,464	11,725,089
Loan payable (Note 11)	7,175,000	-
Total liabilities	<u>47,770,801</u>	<u>33,018,472</u>
 <b>NET ASSETS</b>		
Unrestricted (Note 2)	126,556,867	130,504,346
Temporarily restricted (Note 3)	166,994,917	176,528,090
Permanently restricted (Note 3)	91,623,232	93,611,816
Total net assets	<u>385,175,016</u>	<u>400,644,252</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 432,945,817</u>	<u>\$ 433,662,724</u>

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

**NATIONAL AUDUBON SOCIETY, INC.**  
**Statement of Activities**  
**For the year ended June 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING ACTIVITIES</b>				
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Contributions and grants (Note 2)	\$ 43,421,647	\$ 15,417,933	\$ 581,680	\$ 59,421,260
Bequests (Note 2)	5,732,678	1,499,436	842,359	8,074,473
Earned income (Note 2)	10,664,710	-	-	10,664,710
Investment earnings on non-pooled funds, net (Note 4)	1,706,221	24,011	-	1,730,232
Investment earnings on pooled funds - appropriated, net (Note 4)	5,907,823	576,591	-	6,484,414
Royalties, net and other revenue	3,551,497	-	-	3,551,497
Net assets released from restrictions (Note 7)	<u>22,810,248</u>	<u>(22,810,248)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>93,794,824</u>	<u>(5,292,277)</u>	<u>1,424,039</u>	<u>89,926,586</u>
<b>EXPENSES (Note 1)</b>				
Conservation programs:				
Field conservation programs	51,589,136	-	-	51,589,136
National conservation programs	<u>22,538,057</u>	<u>-</u>	<u>-</u>	<u>22,538,057</u>
	<u>74,127,193</u>	<u>-</u>	<u>-</u>	<u>74,127,193</u>
Fundraising:				
Membership development	3,623,690	-	-	3,623,690
Other development	<u>6,395,574</u>	<u>-</u>	<u>-</u>	<u>6,395,574</u>
	<u>10,019,264</u>	<u>-</u>	<u>-</u>	<u>10,019,264</u>
Management and general				
Total expenses	<u>88,987,725</u>	<u>-</u>	<u>-</u>	<u>88,987,725</u>
Change in net assets from operations	4,807,099	(5,292,277)	1,424,039	938,861
<b>NON-OPERATING ACTIVITIES</b>				
Gain on sales of property	2,849,595	1,000	-	2,850,595
Transfers of net assets (Note 3)	250,715	1,214,822	(1,465,537)	-
Investment loss on pooled funds not appropriated, net (Note 4)	(1,581,123)	(5,056,172)	-	(6,637,295)
Charitable trust additions (Note 2)	-	339,557	-	339,557
Change in value of charitable trusts (Notes 2, 3, and 4)	<u>-</u>	<u>(740,103)</u>	<u>(1,947,086)</u>	<u>(2,687,189)</u>
Change in net assets before pension and postretirement related changes other than net periodic costs	6,326,286	(9,533,173)	(1,988,584)	(5,195,471)
Pension and postretirement related changes other than net periodic costs (Note 10)	<u>(10,273,765)</u>	<u>-</u>	<u>-</u>	<u>(10,273,765)</u>
Change in net assets	(3,947,479)	(9,533,173)	(1,988,584)	(15,469,236)
Net assets, beginning of year	<u>130,504,346</u>	<u>176,528,090</u>	<u>93,611,816</u>	<u>400,644,252</u>
Net assets, end of year	<u>\$ 126,556,867</u>	<u>\$ 166,994,917</u>	<u>\$ 91,623,232</u>	<u>\$ 385,175,016</u>

*The accompanying notes are an integral part of this financial statement.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Statement of Activities**  
**For the year ended June 30, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING ACTIVITIES</b>				
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Contributions and grants (Note 2)	\$ 40,317,885	\$ 17,956,992	\$ 140,880	\$ 58,415,757
Bequests (Note 2)	4,324,256	926,193	1,151,097	6,401,546
Earned income (Note 2)	9,610,545	-	-	9,610,545
Investment earnings on non-pooled funds, net (Note 4)	1,614,780	31,406	-	1,646,186
Investment earnings on pooled funds - appropriated, net (Note 4)	6,025,732	966,076	-	6,991,808
Royalties, net and other revenue	1,473,469	-	-	1,473,469
Net assets released from restrictions (Note 7)	<u>22,627,379</u>	<u>(22,627,379)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>85,994,046</u>	<u>(2,746,712)</u>	<u>1,291,977</u>	<u>84,539,311</u>
<b>EXPENSES (Note 1)</b>				
Conservation programs:				
Field conservation programs	48,474,527	-	-	48,474,527
National conservation programs	<u>21,579,788</u>	<u>-</u>	<u>-</u>	<u>21,579,788</u>
	<u>70,054,315</u>	<u>-</u>	<u>-</u>	<u>70,054,315</u>
Fundraising:				
Membership development	4,100,141	-	-	4,100,141
Other development	<u>6,673,802</u>	<u>-</u>	<u>-</u>	<u>6,673,802</u>
	10,773,943	-	-	10,773,943
Management and general				
	<u>5,074,583</u>	<u>-</u>	<u>-</u>	<u>5,074,583</u>
Total expenses	<u>85,902,841</u>	<u>-</u>	<u>-</u>	<u>85,902,841</u>
Change in net assets from operations	91,205	(2,746,712)	1,291,977	(1,363,530)
<b>NON-OPERATING ACTIVITIES</b>				
Gain on sales of property	12,044,584	-	-	12,044,584
Transfers of net assets (Note 3)	-	(817,124)	817,124	-
Investment earnings on pooled funds not appropriated, net (Note 4)	7,780,721	11,619,867	-	19,400,588
Charitable trust additions (Note 2)	-	485,901	-	485,901
Change in value of charitable trusts (Notes 2, 3 and 4)	<u>-</u>	<u>3,685,054</u>	<u>4,357,752</u>	<u>8,042,806</u>
Change in net assets before pension and postretirement related changes other than net periodic costs	19,916,510	12,226,986	6,466,853	38,610,349
Pension and postretirement related changes other than net periodic costs (Note 10)	<u>(342,622)</u>	<u>-</u>	<u>-</u>	<u>(342,622)</u>
Change in net assets before cumulative effect change	19,573,888	12,226,986	6,466,853	38,267,727
Cumulative effect change - NYPMIFA adoption (Note 3)	<u>(8,534,484)</u>	<u>8,534,484</u>	<u>-</u>	<u>-</u>
Change in net assets	11,039,404	20,761,470	6,466,853	38,267,727
Net assets, beginning of year	<u>119,464,942</u>	<u>155,766,620</u>	<u>87,144,963</u>	<u>362,376,525</u>
Net assets, end of year	<u>\$ 130,504,346</u>	<u>\$ 176,528,090</u>	<u>\$ 93,611,816</u>	<u>\$ 400,644,252</u>

*The accompanying notes are an integral part of this financial statement.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Statement of Functional Expenses**  
**For the year ended June 30, 2012**

	Conservation Program Expenses			Fundraising Expenses			Management and General	Total
	Field Programs	National Programs	Total Program Expenses	Membership Development	Other Development	Total Development Expenses		
Salaries	\$ 23,750,396	\$ 6,529,357	\$ 30,279,753	\$ 162,767	\$ 3,581,511	\$ 3,744,278	\$ 2,206,439	\$ 36,230,470
Payroll taxes and fringe benefits (Note 10)	6,597,275	1,780,036	8,377,311	43,318	1,037,399	1,080,717	629,321	10,087,349
Travel	1,309,669	588,306	1,897,975	3,018	235,617	238,635	84,046	2,220,656
Meetings	436,967	241,474	678,441	1,689	215,920	217,609	72,429	968,479
Postage and mailing	195,384	2,630,593	2,825,977	1,302,003	75,979	1,377,982	14,320	4,218,279
Grants and scholarships	2,507,542	1,743,968	4,251,510	94	4,599	4,693	5,118	4,261,321
Chapter grants and support	946,297	43,364	989,661	902	-	902	-	990,563
Professional services	4,373,310	1,623,700	5,997,010	198,764	397,784	596,548	262,967	6,856,525
Telemarketing	-	24,359	24,359	18,865	-	18,865	-	43,224
Occupancy (Note 9)	2,170,276	964,057	3,134,333	17,566	206,276	223,842	594,461	3,952,636
Telephone and telecommunications	511,775	163,736	675,511	2,049	48,282	50,331	80,040	805,882
Maintenance and equipment rental	2,261,481	17,974	2,279,455	1,960	37,723	39,683	98,873	2,418,011
Supplies	1,240,552	778,766	2,019,318	6,097	80,146	86,243	172,986	2,278,547
Printing and promotion	443,376	1,876,379	2,319,755	1,204,141	116,058	1,320,199	-	3,639,954
Membership fulfillment	287,172	542,047	829,219	342,333	50,129	392,462	233,509	1,455,190
Magazine printing	-	903,431	903,431	-	-	-	-	903,431
Commissions	-	413,162	413,162	52,686	-	52,686	-	465,848
Service bureaus	403,532	569,007	972,539	123,904	114,696	238,600	146,232	1,357,371
Insurance	985,662	123,533	1,109,195	1,529	47,819	49,348	31,895	1,190,438
Taxes	252,092	7,381	259,473	906	8,578	9,484	11,178	280,135
Advertising	117,441	-	117,441	28	59,644	59,672	95	177,208
Licenses and fees	70,937	28,780	99,717	7,511	6,072	13,583	4,872	118,172
Depreciation and amortization	2,726,526	120,660	2,847,186	3,269	39,378	42,647	178,879	3,068,712
Uncollectible pledge expense	1,474	-	1,474	-	-	-	-	1,474
Other	-	823,987	823,987	128,291	31,964	160,255	13,608	997,850
<b>TOTAL EXPENSES</b>	<b>\$ 51,589,136</b>	<b>\$ 22,538,057</b>	<b>\$ 74,127,193</b>	<b>\$ 3,623,690</b>	<b>\$ 6,395,574</b>	<b>\$ 10,019,264</b>	<b>\$ 4,841,268</b>	<b>\$ 88,987,725</b>

*The accompanying notes are an integral part of this financial statement.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Statement of Functional Expenses**  
**For the year ended June 30, 2011**

	Conservation Program Expenses			Fundraising Expenses			Management and General	Total
	Field Programs	National Programs	Total Program Expenses	Membership Development	Other Development	Total Development Expenses		
Salaries	\$ 22,953,751	\$ 6,457,249	\$ 29,411,000	\$ 199,173	\$ 3,845,669	\$ 4,044,842	\$ 2,575,745	\$ 36,031,587
Payroll taxes and fringe benefits (Note 10)	6,457,805	1,845,213	8,303,018	47,135	1,171,368	1,218,503	135,154	9,656,675
Travel	1,286,097	495,990	1,782,087	4,967	241,345	246,312	64,753	2,093,152
Meetings	385,441	215,908	601,349	2,412	212,892	215,304	74,915	891,568
Postage and mailing	212,943	2,577,962	2,790,905	1,605,124	58,081	1,663,205	32,038	4,486,148
Grants and scholarships	797,279	1,016,551	1,813,830	47	5,971	6,018	1,586	1,821,434
Chapter grants and support	906,407	35,221	941,628	37,274	-	37,274	-	978,902
Professional services	4,110,127	1,246,147	5,356,274	148,283	219,864	368,147	71,834	5,796,255
Telemarketing	-	87,053	87,053	92,126	-	92,126	-	179,179
Occupancy (Note 9)	2,203,229	959,420	3,162,649	24,380	243,964	268,344	563,554	3,994,547
Telephone and telecommunications	557,808	176,634	734,442	3,263	55,963	59,226	91,573	885,241
Maintenance and equipment rental	2,367,018	141,509	2,508,527	4,512	49,526	54,038	110,032	2,672,597
Supplies	1,288,570	404,658	1,693,228	6,377	69,927	76,304	118,744	1,888,276
Printing and promotion	368,550	1,648,079	2,016,629	1,395,728	120,229	1,515,957	2,390	3,534,976
Membership fulfillment	8,893	702,938	711,831	120,486	11	120,497	623,224	1,455,552
Magazine printing	-	1,378,795	1,378,795	-	-	-	-	1,378,795
Commissions	3,777	376,030	379,807	72,232	731	72,963	2,751	455,521
Service bureaus	482,633	590,600	1,073,233	182,316	62,806	245,122	161,487	1,479,842
Insurance	951,510	128,741	1,080,251	3,580	51,279	54,859	54,533	1,189,643
Taxes	215,919	5,577	221,496	276	4,119	4,395	9,236	235,127
Advertising	117,603	-	117,603	15,126	139,002	154,128	9,193	280,924
Licenses and fees	80,440	23,010	103,450	3,282	8,057	11,339	4,121	118,910
Depreciation and amortization	2,707,477	129,983	2,837,460	5,597	50,416	56,013	187,012	3,080,485
Uncollectible pledge expense	11,250	33,764	45,014	242	3,149	3,391	8,088	56,493
Other	-	902,756	902,756	126,203	59,433	185,636	172,620	1,261,012
<b>TOTAL EXPENSES</b>	<b>\$ 48,474,527</b>	<b>\$ 21,579,788</b>	<b>\$ 70,054,315</b>	<b>\$ 4,100,141</b>	<b>\$ 6,673,802</b>	<b>\$ 10,773,943</b>	<b>\$ 5,074,583</b>	<b>\$ 85,902,841</b>

*The accompanying notes are an integral part of this financial statement.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Statements of Cash Flows**  
**For the years ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (15,469,236)	\$ 38,267,727
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	3,068,712	3,080,485
Net realized and unrealized loss (gains) on investments	5,312,866	(19,319,434)
Decrease (increase) in beneficial interests in charitable trusts	2,351,767	(5,633,113)
Gains on sales of property	(2,850,595)	(12,044,584)
Donated land	(666,255)	(461,247)
Decrease in estimate of allowance for uncollectible pledges, and other receivables	(649,588)	(487)
Pledge discount amortization	(104,233)	(1,096)
Long-term contributions, bequests and additions to charitable trusts	(4,088,298)	(2,887,681)
Change in operating assets and liabilities:		
Increase in receivables and pledges	(668,648)	(2,099,992)
Increase in prepaid expenses and other assets	(26,298)	(310,883)
(Decrease) increase in accounts payable, accrued expenses, funds held for others and obligations under charitable trusts	(1,154,521)	783,604
Increase in deferred rent, tuition and other	685,475	969,632
Increase (decrease) in pension and postretirement benefit liability	8,046,375	(5,179,587)
Net cash used in operating activities	<u>(6,212,477)</u>	<u>(4,836,656)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(23,423,536)	(34,786,224)
Proceeds from sales of investments	17,558,696	37,484,434
Additions to property	(4,190,335)	(5,623,752)
Proceeds from sales of property	5,290,997	12,441,312
Net cash (used in) provided by investing activities	<u>(4,764,178)</u>	<u>9,515,770</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loan payable	7,175,000	-
Proceeds from contributions, bequests and charitable trusts restricted for:		
Endowment	1,486,039	1,291,977
Capital projects	2,102,653	1,109,803
Charitable trust additions	499,606	485,901
Net cash provided by financing activities	<u>11,263,298</u>	<u>2,887,681</u>
Net increase in cash and cash equivalents	286,643	7,566,795
Cash and cash equivalents, beginning of the year	<u>29,764,416</u>	<u>22,197,621</u>
Cash and cash equivalents, end of the year	<u>\$ 30,051,059</u>	<u>\$ 29,764,416</u>

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



# NATIONAL AUDUBON SOCIETY, INC.

## Notes to Financial Statements

June 30, 2012 and 2011

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### 1. ORGANIZATION AND NATURE OF ACTIVITIES

National Audubon Society, Inc. (“Audubon” or the “Organization”) was incorporated in 1905. Audubon’s mission is to conserve and restore natural ecosystems, focusing on birds and other wildlife, for the benefit of humanity and the earth’s biological diversity. A powerful combination of science, education and policy expertise combine in efforts ranging from protection and restoration of local habitats to the implementation of policies that safeguard birds, other wildlife and the resources that sustain us all—in the U.S. and across the Americas.

During the years ended June 30, 2012 and 2011, Audubon incurred total expenses related to program services of \$74,127,193 and \$70,054,315, respectively. These programs are further described as follows:

**Conservation Programs:** In 2012, Audubon adopted a new strategic plan with the goal of focusing and aligning Audubon’s unparalleled network to meet today’s unprecedented environmental challenges. Reflecting the expertise and input of staff, Chapters, board members, and other volunteers and partners, this "Roadmap for Hemispheric Conservation" will enable Audubon to deliver conservation impact at scale. The flyways traveled by migratory birds each spring and fall inspire Audubon’s new model for organizational alignment.

**Field Conservation Programs:** By connecting the work of the Audubon network— Chapters, Centers, national and state staff, volunteers, partners, and other supporters—along each of the four flyways of the Americas, Audubon can weave a seamless web of conservation for both migratory and non-migratory species. By working toward common flyway conservation goals, we can have greater impact. And by coordinating resources and expertise, we can increase our efficiency across the network.

Audubon maximizes its conservation results by focusing on programming on five strategies critical for birds:

1. *Putting working lands to work for birds and people:* Partnering with landowners to make working lands work for birds, people, and communities.
2. *Sharing our seas and shores:* Protecting the vital habitat along America’s coasts where people and birds intersect.
3. *Saving Important Bird Areas:* Identifying and protecting the most important places for birds.
4. *Shaping a healthy climate and clean energy future:* Reducing and mitigating the impacts of climate change and fostering a clean energy future.
5. *Creating bird-friendly communities:* Working with communities to improve urban habitats for birds and other wildlife.

**National Conservation Programs** provide strategy, expertise and leadership for Audubon’s conservation work at both national and field levels, and integrate all efforts for maximum effectiveness.

- **The Science program** maintains a high level of technical competency and knowledge among Audubon’s field instructors and conservation professionals. This program encompasses activities such as assistance with conservation planning, ecological analysis, environmental sciences, bird

# NATIONAL AUDUBON SOCIETY, INC.

## Notes to Financial Statements

June 30, 2012 and 2011

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- migration studies and coordinating the efforts of thousands of volunteers (citizen scientists) to monitor bird populations and habitat. The experts in Audubon's science program also help identify actions individuals can take to make a difference for conservation in their day-to-day lives that can be used at the field level for education purposes.
- ***The Public Policy program*** employs unprecedented combination of strategies, from advancing transformational policies that reduce carbon emissions and support well-sited green energy to leading adaptive land management practices that will mitigate the impact of sea level rise and climate change. A combination of grassroots organizing, advocacy and communications has earned Audubon a reputation as a respected and influential voice on public policy issues. The Policy program supports large state and multi-state efforts such as: the restoration of large iconic ecosystems, like the Arctic Slope in Alaska, the wetlands of the Everglades, the Mississippi River Delta and the Northeast's Long Island Sound; protection of 2,544 Important Bird Areas covering 378 million acres of public and private lands; and safeguarding common sense laws like the Clean Air Act, Clean Water Act, Endangered Species Act and the Neotropical Migratory Bird Conservation Act.
  - ***The Community Conservation & Education program*** recognizes that people are at the heart of the conservation solution. By inspiring more people in more places to value and protect the natural world, we are laying the foundation for future conservation. Audubon Centers are one of the principle elements of our education work reaching more than one million visitors each year. Programs like Audubon at Home, Urban Oasis and Lights Out empower people to make bird-friendly lifestyle choices. Partnership efforts like Toyota and Audubon's TogetherGreen is helping to diversify the environmental movement through fellowships, grants and volunteer activities.
  - ***The International Alliances Program*** protects the birds and biodiversity of the Americas. Providing science, education, and policy development tools to build the conservation capacities of in-country organizations directly involved in the fate of key landscapes in Latin America and the Caribbean. Audubon collaborates with international partners to extend a web of protection throughout the Western hemisphere.

**Communications** efforts include a wide range of publications and strategies to engage a broad and diverse audience in our conservation work. These include public websites, social media, email marketing, and printed materials such as *AUDUBON Magazine*, which reaches 1.8 million readers. The goal of our outreach is to motivate individuals and communities to take action for birds and the environment.

**Fundraising** relates to activities in raising contributions, grants and planned giving gifts for Audubon. Development expenses fund staff efforts associated with raising contributed income to fund operations and capital projects for use in both current and future years. Also included in this expense are all the costs associated with Membership Development, such as recruiting and retaining more than 400,000 members. During the years ended June 30, 2012 and 2011, Audubon incurred joint costs of approximately \$8,286,000 and \$8,571,000 for informational material and activities that included development appeals. Of those costs approximately \$3,628,000 and \$4,007,000 were allocated to fundraising and approximately \$4,658,000 and \$4,564,000 were allocated to program.

**Management and general** are those expenses that are not allocated to a program, fundraising activity or membership development activity and include certain activities of the President's Office, as well as support areas such as Information Services, Legal, Human Resources, Finance and Donor Data Management and Operations.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

**Cash and Cash Equivalents**

Audubon considers all cash not intended for investment purposes and all non-pooled investments purchased with original maturities of 90 days or less to be cash equivalents.

**Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value, generally determined on the basis of quoted market prices. Audubon also invests in alternative investments that are unlisted or thinly traded. Alternative investments are stated at estimated fair value based on the net asset value ("NAV"), as a practical expedient, reported by the investment managers or general partners. NAV may differ significantly from the values that would have been reported had a ready market for these investments existed. Audubon reviews and evaluates the values provided by the investment managers or general partners and has determined that the valuation methods and assumptions used in determining the fair value of the alternative investments are reasonable.

Audubon manages its investments on a total return basis and has established budgeted spending limits for specific endowment funds of either 2.0%, 3.5% or 4.5% of the average of the rolling five calendar year-end market values, subject to limitations where applicable under donor restrictions or regulatory requirements.

**Prepaid Expenses and Other Assets**

Prepaid expenses and other assets include inventories of retail store merchandise of approximately \$391,000 and \$418,000 as of June 30, 2012 and 2011, which are valued at the lower of cost or market, on a first-in, first-out basis.

**Charitable Trust Agreements**

Audubon is the beneficiary of charitable trust agreements under varying terms and conditions. The basis for recognition of the assets recorded by Audubon is its share of the fair value of the underlying assets. Some of the agreements require specified payments to third parties for varying periods. Accordingly, Audubon applies present value techniques to accrue amounts recognized. The discount rates and actuarial assumptions used in the present value calculation for future payments are the prevailing rates of interest for similar types of high quality, fixed income investments of immediate to short term duration and are locked in at the date the charitable trust is established. For the years ended June 30, 2012 and 2011, the discount rates used to value charitable trust agreements ranged between 2.80% and 7.40%.

**Property**

In 1978, Audubon adopted the policy of capitalizing, depreciating and amortizing property. Because historical costs were not available for buildings and art works, other basis were used to establish the initial carrying values of such property. Property tax appraisals adjusted to market and insurance appraisals were used to value buildings, and appraised net current retail values were used for the art collection. Assets acquired subsequent to July 1, 1978 have been recorded at cost. Depreciation of buildings and equipment is

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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provided over the estimated useful lives of the assets on a straight-line basis. Leasehold improvements are amortized over the lesser of the related useful life of the asset or the lease term. Artwork is not depreciated. Audubon capitalizes property with a cost of \$2,500 or more and a useful life of greater than one year.

**Land**

Land consists of approximately 104,700 acres on which some of Audubon's state offices, sanctuaries, research, and education centers are located. Land is valued at cost when purchased or, if donated, at fair value on the date of acquisition. Included in permanently restricted net assets is land of approximately \$10,300,000 as of both June 30, 2012 and 2011. Included in unrestricted net assets is land of approximately \$85,400,000 and \$84,600,000 as of June 30, 2012 and 2011, respectively. A significant portion of the land included in unrestricted net assets is subject to legally binding contractual restrictions on use and/or disposition. Land purchased or donated to Audubon during the years ended June 30, 2012 and 2011 totaled approximately \$2,400,000 and \$3,100,000, respectively. Land sold or donated to other organizations during the years ended June 30, 2012 and 2011 totaled approximately \$1,600,000 and \$374,000, respectively.

**Chapters**

Audubon has approximately 470 independent chapters throughout the United States. The financial statements do not include the assets, liabilities, net assets, revenues and expenses of Audubon's chapters since such chapters are independent organizations.

**Contributions and Grants**

Audubon reports gifts of cash and other assets as an increase in restricted net assets if they are received with donor stipulations limiting the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted gifts and grants, received and utilized in the same year, are reflected in the statement of activities in the unrestricted class of net assets. Bequests are recognized as revenue once the probate process is complete.

Revenue from federal grants is recognized to the extent that qualifying reimbursable expenses have been incurred over the terms of the respective agreements.

Gifts of long-lived assets and gifts of cash or other assets that must be used to acquire long-lived assets are reported as an increase in restricted net assets.

**Earned Income**

Earned income includes advertising revenue, tuition and admission revenue, retail sales and program revenue.

**Receivables**

Receivables are recorded at net realizable value if expected to be collected in one year and at fair value (using credit adjusted discount rates) if expected to be collected in more than one year. Receivables are stated net of an allowance for uncollectible receivables of approximately \$745,000 and \$1,395,000 as of June 30, 2012 and 2011. Such estimated allowances are based on management's assessment of the credit worthiness of its donors, the aged basis of the receivables, and historical information. Receivables are

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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written off in the period they are deemed uncollectible and payments subsequently received are recorded as income in the period received.

Other receivables include grant receivables and receivables due from other organizations.

**Funds Held for Others**

As of June 30, 2012 and 2011, funds held for others included approximately \$686,000 and \$350,000 in agency funds held for other nonprofit organizations and independent Audubon chapters and \$1,330,000 and \$1,630,000 in funds held for employees and former employees of Audubon related to a deferred compensation plan to which funds are no longer being contributed. Such amounts are included in investments and funds held for others in the accompanying statements of financial position.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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.

**Fair Value Measurements**

Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels as follows:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2 - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed. Also included in level 2 are investments measured using a NAV per share, or its equivalent, that may be redeemed at the NAV at the statement of financial position date or in the near term, which is generally considered to be within 90 days.
- Level 3 - Securities that have little to no observable pricing. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at NAV at the statement of financial position date or in the near term or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

In determining fair value, Audubon utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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**Income Taxes**

Audubon is a Type B New York State not-for-profit membership corporation under Section 201(b) of the Not-For-Profit Corporation Law of New York State, and is exempt from federal income taxation by virtue of being an organization described in Section 501(c)(3) of the Internal Revenue Code. Nevertheless, Audubon may be subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The tax years ending June 30, 2009, 2010 and 2011 are still open to audit for both federal and state purposes.

Audubon recognizes the tax effects from an uncertain tax position in the financial statements only if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. Management has determined that Audubon has no uncertain tax positions that would require financial statement recognition or disclosure.

**Reclassifications**

Certain reclassifications were made to the 2011 financial statements in order to conform to the 2012 presentation.

**3. NET ASSETS**

The New York Prudent Management of Institutional Funds Act (“NYPMIFA”) was enacted in September 2010. Audubon has interpreted NYPMIFA as requiring the preservation of the original gift, as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Audubon classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Audubon in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of Audubon and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Audubon
- The investment policies of Audubon
- Where appropriate, alternatives to spending from donor-restricted endowment funds and the possible effects on Audubon

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

Audubon's endowment investment policy is based on a study of its assets and liabilities. The risk tolerance of the portfolio is directly related to Audubon's overall finances and its restricted and endowment funds. Investments are allocated across capital markets beginning with a careful review of the world capital market allocation and are adjusted to reflect Audubon's unique circumstances with a controlled opportunistic overlay. The portfolio's investment strategy combines both passive and active investment solutions, the selection of which is governed by rules elaborated in Audubon's Statement of Investment Policy. Audubon relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Annual spending from the endowment funds is described in Note 2.

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 NYPMIFA requires Audubon to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature, if they occurred, are reported in unrestricted net assets. As of June 30, 2012 and 2011, there were 5 and 4 donor endowment funds, respectively, whose fair value of approximately \$535,000 and \$234,000 were below the original gift amount of approximately \$542,000 and \$237,000 by approximately \$7,000 and \$3,000, respectively.

During the year ended June 30, 2012, approximately \$1,466,000 was transferred from permanently restricted to temporarily restricted and unrestricted net assets. The most significant transfer was the transfer of an endowment of \$1,000,000 to an independent Audubon chapter. This endowment was established to support 1,600 acres of unrestricted land with a book value of \$300,000 that was also transferred to the Audubon chapter. This Audubon chapter owns adjacent land and can more efficiently manage the combined property in accordance with Audubon's mission. The balance of the transfers were also in accordance with donor restrictions.

During the year ended June 30, 2011, approximately \$817,000 was transferred from temporarily restricted net assets to permanently restricted net assets in accordance with donor restrictions.

Changes in endowment net assets, excluding permanently restricted land, for the years ended June 30, 2012 and 2011 were as follows:

	<b>2012</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ (2,841)	\$ 41,479,949	\$ 83,316,443	\$ 124,793,551
Investment activity:				
Interest, dividends and realized gains	-	4,669,531	-	4,669,531
Unrealized losses on investments	(4,000)	(4,779,916)	-	(4,783,916)
Change in value of charitable trusts	-	-	(1,947,086)	(1,947,086)
Total investment activity	(4,000)	(110,385)	(1,947,086)	(2,061,471)
Amounts appropriated for expenditure	-	(3,170,266)	-	(3,170,266)
Contributions to endowments	-	-	581,680	581,680
Bequests	-	-	842,359	842,359
Transfers of net assets	-	(146,864)	(1,465,537)	(1,612,401)
<b>Endowment net assets, end of year</b>	<b>\$ (6,841)</b>	<b>\$ 38,052,434</b>	<b>\$ 81,327,859</b>	<b>\$ 119,373,452</b>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

	<b>2011</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
<b>Endowment net assets, beginning of year</b>	\$ 6,868,909	\$ 25,306,192	\$ 76,849,590	\$ 109,024,691
Net asset reclassification based on change in law	<u>(8,534,484)</u>	<u>8,534,484</u>	<u>-</u>	<u>-</u>
Endowment net assets after reclassification	(1,665,575)	33,840,676	76,849,590	109,024,691
Investment activity:				
Interest, dividends and realized gains	184,493	5,620,284	-	5,804,777
Unrealized gains on investments	1,478,241	4,957,321	-	6,435,562
Change in value of charitable trusts	<u>-</u>	<u>-</u>	<u>4,357,752</u>	<u>4,357,752</u>
Total investment activity	1,662,734	10,577,605	4,357,752	16,598,091
Amounts appropriated for expenditure	-	(3,172,040)	-	(3,172,040)
Contributions to endowments	-	-	140,880	140,880
Bequests	-	-	1,151,097	1,151,097
Transfers of net assets	<u>-</u>	<u>233,708</u>	<u>817,124</u>	<u>1,050,832</u>
<b>Endowment net assets, end of year</b>	<u>\$ (2,841)</u>	<u>\$ 41,479,949</u>	<u>\$ 83,316,443</u>	<u>\$ 124,793,551</u>

Endowment net assets of \$119,373,452 and \$124,793,551 as of June 30, 2012 and 2011, respectively, are included within the investments and beneficial interest in charitable trusts in the accompanying statements of financial position.

Temporarily restricted net assets as of June 30, 2012 and 2011 are available for the following:

	<b>2012</b>	<b>2011</b>
Purpose restrictions:		
Field Conservation Programs	\$ 146,280,940	\$ 146,511,697
National Conservation Programs	8,832,963	12,734,377
Time restrictions	<u>11,881,014</u>	<u>17,282,016</u>
	<u>\$ 166,994,917</u>	<u>\$ 176,528,090</u>

Temporarily restricted net assets above are further characterized by Audubon in the following manner as of June 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Accumulated earnings on endowment funds	\$ 38,052,434	\$ 41,479,949
Property funded by restricted contributions	45,301,792	45,932,674
Charitable trusts, net of obligations	9,249,363	9,654,044
Other time restricted funds	7,103,680	7,529,940
Other purpose restricted funds	<u>67,287,648</u>	<u>71,931,483</u>
	<u>\$ 166,994,917</u>	<u>\$ 176,528,090</u>



**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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Permanently restricted net assets, excluding permanently restricted land of \$10,295,373, represent gifts to be held in perpetuity and generate income that was available to support the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Purpose restrictions:		
Field conservation programs	\$ 49,992,803	\$ 51,866,351
National conservation programs	8,832,899	8,996,229
General purposes	<u>22,502,157</u>	<u>22,453,863</u>
	<u>\$ 81,327,859</u>	<u>\$ 83,316,443</u>

**4. INVESTMENTS**

Audubon's investments consisted of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 14,224,896	\$ 15,746,879
U.S. government and agency obligations	1,872,808	1,933,927
Equities	3,689,741	6,112,121
Bonds	4,015,891	13,212,001
Mutual funds -equity	2,815,952	2,967,386
Mutual funds -fixed income	17,810,296	11,702,427
Exchange traded funds- equity	28,288,297	28,115,537
Exchange traded funds- international equity	21,955,192	26,452,207
Exchange traded funds - fixed income	82,697	-
Collective trust funds - fixed income	63,408,644	47,716,757
Common trust funds	5,610,114	5,732,758
Alternative investments	<u>39,292,624</u>	<u>42,823,178</u>
	<u>\$ 203,067,152</u>	<u>\$ 202,515,178</u>

As of June 30, 2012 and 2011, concentrations of Audubon's investments in excess of 10% of the fair value of its portfolio included approximately 31% and 29% invested in the BGI Government Bond Index Fund, approximately 10% and 12% in the iShares MSCI EAFE Index Fund, and approximately 11% and 11% in Standard & Poors Depository Receipts "SPDR".

Investments are subject to market volatility that could change their carrying values substantially in the near term. Alternative investments consist primarily of investments in several fund-of-fund managers and partnerships.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

Investment income (loss) consists of the following for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 7,222,092	\$ 10,818,641
Net realized gains	4,687,542	4,281,232
Net unrealized (losses) gains	(10,000,408)	15,038,202
Investment fees	<u>(426,065)</u>	<u>(450,445)</u>
	<u>\$ 1,483,161</u>	<u>\$ 29,687,630</u>

Investment income is reported as follows in the accompanying statements of activities for the years ended June 30, 2012 and 2011:

	<u>2012</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains, and support:			
Investment earnings on nonpooled funds - net	\$ 1,706,221	\$ 24,011	\$ 1,730,232
Investment earnings on pooled funds – appropriated - net	5,907,823	576,591	6,484,414
Nonoperating items:			
Investment loss on pooled funds not appropriated - net	(1,581,123)	(5,056,172)	(6,637,295)
Included in change in value of charitable trust agreements	<u>-</u>	<u>(94,190)</u>	<u>(94,190)</u>
	<u>\$ 6,032,921</u>	<u>\$ (4,549,760)</u>	<u>\$ 1,483,161</u>

	<u>2011</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains, and support:			
Investment earnings on nonpooled funds - net	\$ 1,614,780	\$ 31,406	\$ 1,646,186
Investment earnings on pooled funds – appropriated - net	6,025,732	966,076	6,991,808
Nonoperating items:			
Investment earnings on pooled funds not appropriated - net	7,780,721	11,619,867	19,400,588
Included in change in value of charitable trust agreements	<u>-</u>	<u>1,649,048</u>	<u>1,649,048</u>
	<u>\$ 15,421,233</u>	<u>\$ 14,266,397</u>	<u>\$ 29,687,630</u>

Included in investment income for the years ended June 30, 2012 and 2011 is approximately \$1,456,000 and \$1,408,000 related to assets held in trust, where Audubon is a designated income beneficiary.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

Financial assets and liabilities carried at fair value at June 30, 2012 and 2011 are classified in the tables below in one of the three levels as follows:

	<b>2012</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Assets Carried at Fair Value:				
Investments:				
Cash and cash equivalents	\$ 14,224,896	\$ -	\$ -	\$ 14,224,896
U.S. government and agency obligations	1,872,808	-	-	1,872,808
Equities	3,689,741	-	-	3,689,741
Bonds	-	4,015,891	-	4,015,891
Mutual funds -equity	2,815,952	-	-	2,815,952
Mutual funds -fixed income	17,810,296	-	-	17,810,296
Exchange traded funds- equity	28,288,297	-	-	28,288,297
Exchange traded funds- international equity	21,955,192	-	-	21,955,192
Exchange traded funds - fixed income	82,697	-	-	82,697
Collective trust fund - fixed income	-	63,408,644	-	63,408,644
Common trust funds	-	5,610,114	-	5,610,114
Alternative investments	-	31,160,756	8,131,868	39,292,624
Total investments	<u>90,739,879</u>	<u>104,195,405</u>	<u>8,131,868</u>	<u>203,067,152</u>
Beneficial interest in charitable trusts	-	-	39,402,611	39,402,611
Total Assets Carried at Fair Value	<u>\$ 90,739,879</u>	<u>\$ 104,195,405</u>	<u>\$ 47,534,479</u>	<u>\$ 242,469,763</u>
Liabilities Carried at Fair Value:				
Obligations under charitable trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,548,110</u>	<u>\$ 5,548,110</u>
Total Liabilities Carried at Fair Value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,548,110</u>	<u>\$ 5,548,110</u>
<b>2011</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Assets Carried at Fair Value:				
Investments:				
Cash and cash equivalents	\$ 15,746,879	\$ -	\$ -	\$ 15,746,879
U.S. government and agency obligations	1,933,927	-	-	1,933,927
Equities	3,637,121	-	2,475,000	6,112,121
Bonds	-	13,212,001	-	13,212,001
Mutual funds -equity	2,967,386	-	-	2,967,386
Mutual funds -fixed income	11,702,427	-	-	11,702,427
Exchange traded funds- equity	28,115,537	-	-	28,115,537
Exchange traded funds- international equity	26,452,207	-	-	26,452,207
Collective trust fund - fixed income	-	47,716,757	-	47,716,757
Common trust funds	-	5,732,758	-	5,732,758
Alternative investments	-	34,585,064	8,238,114	42,823,178
Total investments	<u>90,555,484</u>	<u>101,246,580</u>	<u>10,713,114</u>	<u>202,515,178</u>
Beneficial interest in charitable trusts	-	-	41,754,378	41,754,378
Total Assets Carried at Fair Value	<u>\$ 90,555,484</u>	<u>\$ 101,246,580</u>	<u>\$ 52,467,492</u>	<u>\$ 244,269,556</u>
Liabilities Carried at Fair Value:				
Obligations under charitable trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,530,053</u>	<u>\$ 5,530,053</u>
Total Liabilities Carried at Fair Value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,530,053</u>	<u>\$ 5,530,053</u>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

**Equity Securities**

Valued at the closing price reported on the active market on which the individual securities are traded or the net asset value of shares held by Audubon at year end.

**Alternative Investments**

Alternative investments in hedge funds and fund of funds are designated as Level 2 or 3 as indicative of the investment manager's classification of Audubon's investment in the funds. It is not meant to be indicative of the classification of the investments in the underlying portfolio of these funds. The fair value of alternative investments is provided by the general partner or fund manager, and may be based on historical cost, appraisals and obtainable prices for similar assets or other estimates.

**U.S. Government and Agency Obligations**

Investments in U.S. government and agency obligations are valued using market prices in active markets (Level 1), except for Audubon's interest in a common/collective trust which is valued using the NAV provided by the administrator of the trust and which is categorized under Level 2 in the fair value hierarchy. The NAV is based on the value of the underlying assets owned by the trust, less the trust's liabilities and then divided by the number of shares outstanding.

**Bonds**

Municipal and corporate bonds are designated as Level 2 instruments and valuations are obtained from readily-available pricing sources for comparable instruments (credit risk/grade, maturities, etc.)

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

The following tables list investments valued at NAV as of June 30, 2012 and 2011:

2012							
Name/Type	Strategy	Number of Funds	NAV in Funds	Remaining of Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Alternative investment - International Value Equity Fund	To achieve long-term growth primarily by investing in a diversified portfolio of equity securities of companies located in any country other than the US. Will invest primarily in established international markets; but may invest a portion in emerging markets.	1	\$12,718,815	N/A	N/A	May redeem all or part of units on the first business day of each month by providing written notice at least six (6) business days prior to the month end.	Redemptions ordinarily must equal or exceed \$500,000. Notice & minimum redemption requirements may be waived.
Alternative investment - Open-ended Interval Fund	Seeks long-term growth of capital by investing primarily in equity securities of issuers in developing countries.	1	4,768,550	N/A	N/A	30 days written notice with a monthly frequency.	N/A
Alternative investment - Limited Partnerships	Venture capital and private equity	5	6,953,199	1-4 years	1,593,209	N/A	Not permitted to withdraw.
Alternative investment - Limited Partnership	The partnership is organized for the purpose of earning attractive rates of return through an investment program of "alternative investment strategies" including general or limited partnerships or other pooled vehicles and with managers of separately managed accounts.	1	12,458,104	N/A	N/A	90 days written notice as of each June 30th and December 31st.	N/A
Alternative investment - Guernsey Corporation	Invests in venture capital partnerships	1	165,279	In liquidation	N/A	N/A	Not permitted to withdraw.
Alternative investment - Open-ended Investment Company	Seeks to achieve attractive risk adjusted returns by investing in, on margin or otherwise, a diversified portfolio of public & private securities, primarily involving high yield fixed income securities, syndicated leveraged loans (bank debt), credit derivatives and to a	1	1,215,287	N/A	N/A	Shares may be redeemed annually on June 30 with notice not less than 90 days prior to the intended redemption date.	N/A
Alternative investment - Limited Partnership	Objective is to achieve superior risk-adjusted returns through opportunistic investments across the credit spectrum.	1	1,013,390	N/A	N/A	Quarterly with 90 days prior written notice required.	Certain lock-up and redemption restrictions.
Collective trust fund - Blackrock Institutional Trust Company	The Fund invests in a broad market of investment grade bonds consisting of UST treasury, US Agency and domestic corporate bonds.	1	63,408,644	N/A	N/A	Daily	N/A
Common trust funds - State Street	The objectives of the funds are to approximate the performance of S&P 500 Index, Russell 2000 Index, MSCI EAFE Index and S&P MidCap 400 Index.	9	5,610,114	N/A	N/A	Daily/Monthly	N/A

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

2011							
Name/Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Alternative investment - International value equity fund	- To achieve long-term growth primarily by investing in a diversified portfolio of equity securities of companies located in any country other than the US. Will invest primarily in established international markets; but may invest a portion in emerging markets.	1	\$14,088,712	N/A	N/A	May redeem all or part of units on the first business day of each month by providing written notice at least six (6) business days prior to the month end.	Redemptions ordinarily must equal or exceed \$500,000. Notice & minimum redemption requirements may be waived.
Alternative investment - Open-ended interval fund	- Seeks long-term growth of capital by investing primarily in equity securities of issuers in developing countries.	1	6,089,255	N/A	N/A	30 days written notice with a monthly frequency.	N/A
Alternative investment - Limited partnerships	- Venture capital and private equity	5	7,227,032	1-3 years	1,109,143	N/A	Not permitted to withdraw.
Alternative investment - Limited partnership	- The partnership is organized for the purpose of earning attractive rates of return through an investment program of "alternative investment strategies" including general or limited partnerships or other pooled vehicles and with managers of separately managed accounts.	1	12,781,513	N/A	N/A	90 days written notice as of each June 30th and December 31st.	N/A
Alternative investment - Guernsey Corporation	- Invests in venture capital partnersh	1	167,682	1 year	N/A	N/A	Not permitted to withdraw.
Alternative investment - Open-ended investment company	- Seeks to achieve attractive risk adjusted returns by investing in, on margin or otherwise, a diversified portfolio of public & private securities, primarily involving high yield fixed income securities, syndicated leveraged loans (bank debt), credit derivatives and to a lesser extent, equities.	1	1,196,792	N/A	N/A	Shares may be redeemed annually on June 30 with notice not less than 90 days prior to the intended redemption date.	N/A
Alternative investment - Limited partnership	- Objective is to achieve superior risk-adjusted returns through opportunistic investments across the credit spectrum.	1	1,272,192	N/A	N/A	Quarterly with 90 days prior written notice required.	Certain lock-up and redemption restrictions.
Collective trust fund - Blackrock Institutional Trust Company	- The Fund invests in a broad market of investment grade bonds consisting of US Treasury, US Agency and domestic corporate bonds.	1	47,716,757	N/A	N/A	Daily	N/A
Common trust funds - State Street	- The objectives of the funds are to approximate the performance of S&P 500 Index, Russell 2000 Index, MSCI EAFE Index and S&P MidCap 400 Index.	9	5,732,758	N/A	N/A	Daily/Monthly	N/A

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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The changes in investment assets measured at fair value for which Audubon has used Level 3 inputs to determine fair value were as follows for the years ended June 30, 2012 and 2011:

<b>Balance at June 30, 2010</b>	\$ 17,315,713
Purchases	180,000
Redemptions	(6,998,278)
Unrealized gain	215,679
<b>Balance at June 30, 2011</b>	<u>10,713,114</u>
Purchases	878,287
Redemptions	(2,743,353)
Unrealized loss	(716,180)
<b>Balance at June 30, 2012</b>	<u>\$ 8,131,868</u>

**Beneficial Interest in Charitable Trusts**

Beneficial interest in charitable trusts and obligations under charitable trusts are designated as Level 3. The changes in assets and liabilities measured at fair value for which Audubon has used Level 3 inputs to determine fair value was as follows for the years ended June 30, 2012 and 2011.

	<b>Beneficial Interest in Charitable Trusts</b>	<b>Obligations under Charitable Trusts</b>
<b>Balance at June 30, 2010</b>	\$ 36,121,265	\$ 6,019,504
New agreements	-	999,020
Payments to annuitants	-	(806,813)
Change in fair value of trust assets	5,633,113	-
Change in value due to actuarial valuations	-	(681,658)
<b>Balance at June 30, 2011</b>	<u>41,754,378</u>	<u>5,530,053</u>
New agreements	51,250	558,489
Payments to annuitants	-	(843,714)
Change in fair value of trust assets	(2,403,017)	-
Change in value due to actuarial valuations	-	303,282
<b>Balance at June 30, 2012</b>	<u>\$ 39,402,611</u>	<u>\$ 5,548,110</u>

**Financial Instruments**

The carrying amounts of cash and cash equivalents, receivables, prepaid expenses and other assets, and accounts payable and accrued expenses approximate fair value due to the short maturity of these financial instruments. The carrying value of receivables has been reduced by an appropriate allowance for uncollectible accounts, based on historical collection experience and therefore approximates net realizable value.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**5. RECEIVABLES**

Receivables consist of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Unconditional pledges receivable:		
Due within 1 year	\$ 2,580,607	\$ 2,530,658
Due within 2 to 5 years	1,241,374	1,354,640
Due in over 5 years	<u>-</u>	<u>25,000</u>
	3,821,981	3,910,298
Present value discount (at rates ranging from .11% to 5%)	-	(104,233)
Allowance for uncollectible pledges	<u>(83,500)</u>	<u>(703,288)</u>
Total pledges receivable, net	3,738,481	3,102,777
Other receivables (net of allowance of \$661,736 and \$691,536)	<u>7,120,113</u>	<u>6,333,348</u>
	<u>\$ 10,858,594</u>	<u>\$ 9,436,125</u>

Audubon has received new conditional pledges of approximately \$7,348,000 during the year ended June 30, 2012. Audubon did not receive any new conditional pledges during the year ended June 30, 2011. Audubon has recorded revenue of approximately \$6,922,000 and \$6,947,000 for the years ended June 30, 2012 and 2011, the extent to which the conditions on the pledges have been met. As of June 30, 2012 and 2011, Audubon had conditional pledges outstanding of \$4,551,000 and \$4,125,000, respectively. Pledge payments due over the ensuing three to four years are conditional based on progress and reporting satisfactory to the donor.

**6. LAND, BUILDINGS AND EQUIPMENT**

A summary of property as of June 30, 2012 and 2011 follows:

	<u>Estimated Useful Lives</u>	<u>2012</u>	<u>2011</u>
Buildings and building improvements	20 - 40 years	\$ 42,555,216	\$ 39,804,111
Construction in progress (see Note 9)		439,282	2,820,767
Equipment	4 - 10 years	9,677,849	10,458,685
Land improvements	10 - 40 years	91,936	91,936
Leasehold improvements	5 - 40 years	<u>23,308,366</u>	<u>22,653,497</u>
		76,072,649	75,828,996
Less accumulated depreciation and amortization		<u>(25,992,155)</u>	<u>(24,192,521)</u>
Buildings and equipment, net		50,080,494	51,636,475
Assets not subject to depreciation:			
Artwork		823,754	823,754
Land available for sale		1,500	1,500
Land - Sanctuaries		<u>95,794,874</u>	<u>94,891,417</u>
Total land, buildings and equipment		<u>\$ 146,700,622</u>	<u>\$ 147,353,146</u>



**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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Audubon, for the past several years, has been in the process of developing various nature centers that are to be used for educational purposes. These projects have slowed during fiscal 2012 with not as much construction happening this year as in previous years. Construction in progress reflects construction costs and pre-construction professional fees associated with these projects. See note 9 for further information regarding commitments related to these projects.

**7. NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from donor restrictions during the years ended June 30, 2012 and 2011 by satisfying the following restrictions:

	<u>2012</u>	<u>2011</u>
Program restrictions accomplished:		
Field Conservation programs	\$ 15,120,377	\$ 14,116,296
National Conservation programs	7,342,018	7,841,817
Time restrictions accomplished	<u>347,853</u>	<u>669,266</u>
	<u>\$ 22,810,248</u>	<u>\$ 22,627,379</u>

**8. IN-KIND CONTRIBUTIONS**

Audubon receives in-kind contributions in the form of donated goods and land which are recorded at their estimated fair value at the date of receipt. A number of volunteers donate substantial amounts of time to Audubon's program services. Donated services are evaluated to determine if they meet the criteria for recognition in the financial statements. The value of such in-kind contributions was approximately \$808,000 and \$668,000 for the years ended June 30, 2012 and 2011, respectively, and is reflected in the accompanying financial statements as contribution revenue and applicable functional expenses or capitalized asset as appropriate.

**9. COMMITMENTS**

Audubon entered into a twenty year lease agreement for its national headquarters in New York. The lease commenced September 1, 2007 and was later amended on November 1, 2007. Rental payments commenced May 1, 2008 and call for approximately the following commitments for years subsequent to June 30, 2012:

	<u>Base Rent</u>	<u>Operating Expenses</u>	<u>Total</u>
2013	\$ 1,159,000	\$ 161,000	\$ 1,320,000
2014	1,195,000	201,000	1,396,000
2015	1,195,000	243,000	1,438,000
2016	1,195,000	286,000	1,481,000
2017	1,195,000	330,000	1,525,000
Thereafter	<u>14,177,000</u>	<u>6,629,000</u>	<u>20,806,000</u>
	<u>\$ 20,116,000</u>	<u>\$ 7,850,000</u>	<u>\$ 27,966,000</u>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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As of June 30, 2012 and 2011, Audubon substituted a standby letter of credit in the amount of \$273,211 in lieu of a security deposit for its office lease. As required by Audubon's bank, a certificate of deposit with a balance of \$289,163 and \$286,719 as of June 30, 2012 and 2011, respectively, is included in prepaid expenses and other assets in the accompanying statements of financial position and secures this letter of credit.

Audubon occupies other office space under long-term lease agreements with varying expiration dates through the year ended June 30, 2023. Future minimum annual rental commitments under operating leases are approximately as follows for years subsequent to June 30, 2012:

2013	\$ 987,000
2014	653,000
2015	467,000
2016	449,000
2017	457,000
Thereafter	<u>1,860,000</u>
	<u>\$ 4,873,000</u>

Rent credits and charges are accounted for on a straight-line basis over the life of the lease. Included in the accompanying statements of financial position as of June 30, 2012 and 2011 is a liability of approximately \$3,909,000 and \$3,623,000, respectively, related to the tenant improvement credit and deferred rent under the straight-line method of accounting.

The minimum rental payments are subject to adjustments based on increases in real estate taxes, insurance and other operating expenses. Total rent expense for the years ended June 30, 2012 and 2011 amounted to approximately \$3,090,000 and \$3,160,000, respectively.

Audubon has entered into arrangements with multiple suppliers for office equipment such as copiers and personal computers. These leases have terms that range from 3 to 5 years with total annual lease costs of \$200,000 to \$250,000.

As discussed in Note 6, Audubon has been in the process of developing several centers, which are in various stages of completion. As of June 30, 2012 and 2011, Audubon had remaining commitments on construction and related agreements amounting to approximately \$54,000 and \$620,000, respectively. The lower construction in progress balance in fiscal year 2012 is due to two projects being completed in fiscal year 2012, and two active projects that are in the very early stages of design.

Audubon has investments in several limited partnerships under which Audubon is committed to make capital contributions in future periods of approximately \$1.6 million and \$1.1 million as of June 30, 2012 and 2011, respectively.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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Audubon is a defendant in various lawsuits. Management of Audubon is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on Audubon's financial position, changes in net assets or cash flows.

Audubon receives significant federal grants which are subject to audit by federal agencies. Management is of the opinion that disallowances, if any, would not have a significant effect on the financial position, changes in net assets or cash flows of Audubon.

**10. PENSION AND OTHER RETIREMENT BENEFIT PLANS**

**Cash Balance Pension Plan**

Effective January 1, 1998, Audubon changed its noncontributory, defined benefit trustee administered retirement plan (the "Prior Plan"), to a hybrid Cash Balance Pension Plan. All employees who were vested at the time of the change will receive the greater of the "Prior Plan" benefit or the cash balance benefit upon termination or retirement.

The Cash Balance Pension Plan (the "Cash Balance Plan") is a defined benefit pension plan covering substantially all employees of Audubon. Individuals who met the applicable age and service requirements while they were Audubon employees are entitled to vested pension benefits under the Cash Balance Plan. All employees hired before October 1, 2004 are always 100% vested in their benefits. Employees hired on or after October 1, 2004 become fully vested after completing three years of service with Audubon. Participants who were active as of January 1, 2000 and who had 5 years of service at December 31, 1997 were grandfathered and receive a benefit based on a final average pay formula. Plan participants at January 1, 1998 who were not grandfathered had an opening balance established based on their accrued benefit at December 31, 1997. For the period between December 31, 1997 and June 30, 2010, the participant account was credited with an amount equal to 3% (4% for the 2000 plan year) of the participant's eligible earnings. In addition, interest is credited each year using the applicable interest rate, determined each January 1, based on short-term interest rates in effect at the end of the prior year. Benefits generally are available to employees upon retirement. The plan was frozen effective June 30, 2010. After that date, no new participants were accepted into the Plan. Compensation paid after June 30, 2010, is disregarded, but participants continue to accrue interest credits.

**403(b) Plan**

In addition to the Cash Balance Plan, Audubon maintains a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code, in which all employees, as defined, are eligible to participate. Participants may make voluntary contributions, subject to plan limitations. Effective July 1, 2010, Audubon changed its contribution to provide all eligible employees with a 4% contribution of eligible compensation subject to plan limitations and an additional matching contribution up to another 4% of eligible compensation subject to plan limitations. For the years ended June 30, 2012 and 2011, Audubon contributed approximately \$2,262,000 and \$2,076,000, respectively, to this retirement plan. All contributions vest immediately and are held in accounts owned by the employees.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**Retiree Medical and Life Plan**

Audubon also maintains an unfunded group medical and life insurance plan. The medical plan is the primary provider of benefits up to age 65; after the age of 65, Medicare becomes the primary provider. In connection with this change, a new prior service credit base of \$1,448,781 was established at June 30, 2010 to account for the decrease in benefit obligation due to this plan change. The recognition of the prior service credit will be spread over the average remaining years of service of the participants remaining in the plan. Employees who separated from service after February 1, 2007 are no longer eligible for retiree life insurance coverage. The following table sets forth the plan's funded status and benefit obligation at June 30, 2012 and 2011:

	2012		2011	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plan
Change in benefit obligation:				
<b>Benefit obligation-beginning of year</b>	\$ 37,836,574	\$ 2,068,800	\$ 35,358,347	\$ 2,038,766
Service cost	333,000	192,049	183,000	153,613
Interest cost	1,915,372	130,166	1,930,153	97,453
Participant contributions and retiree drug subsidy	-	116,252	-	119,802
Actuarial loss (gain)	6,974,475	756,531	2,371,789	(154,321)
Benefits paid and expenses	<u>(2,231,383)</u>	<u>(170,440)</u>	<u>(2,006,715)</u>	<u>(186,513)</u>
<b>Benefit obligation – end of year</b>	<u>44,828,038</u>	<u>3,093,358</u>	<u>37,836,574</u>	<u>2,068,800</u>
Change in plan assets:				
<b>Fair value of plan assets – beginning of year</b>	28,180,285	-	20,492,437	-
Actual return	(323,970)	-	3,304,563	-
Employer contributions	2,525,000	54,188	6,390,000	66,711
Participant contributions and retiree drug subsidy	-	116,252	-	119,802
Benefits paid	(1,942,569)	(170,440)	(1,673,421)	(186,513)
Administrative expenses	<u>(288,814)</u>	<u>-</u>	<u>(333,294)</u>	<u>-</u>
<b>Fair value of plan assets – end of year</b>	<u>28,149,932</u>	<u>-</u>	<u>28,180,285</u>	<u>-</u>
Funded status	<u>\$ (16,678,106)</u>	<u>\$ (3,093,358)</u>	<u>\$ (9,656,289)</u>	<u>\$ (2,068,800)</u>
Accumulated benefit obligation	<u>\$ 44,828,038</u>	<u>(3,093,358)</u>	<u>\$ 37,836,574</u>	<u>\$ 2,068,800</u>

Amounts recognized as a liability in the accompanying statements of financial position consisted of the following as of June 30, 2012 and 2011:

	2012		
	Cash Balance Plan	Retiree Medical and Life Plan	Total
Accrued benefit liability	<u>\$ (16,678,106)</u>	<u>\$ (3,093,358)</u>	<u>\$ (19,771,464)</u>

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

	<b>2011</b>		
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Total</b>
Accrued benefit liability	\$ (9,656,289)	\$ (2,068,800)	\$ (11,725,089)

The following table provides the components of net periodic benefit cost for the plans for the years ended June 30, 2012 and 2011:

	<b>2012</b>		<b>2011</b>	
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>
Service cost	\$ 333,000	\$ 192,049	\$ 183,000	\$ 153,613
Interest cost	1,915,372	130,166	1,930,153	97,453
Expected return on plan assets	(1,804,870)	-	(1,477,695)	-
Amortization of prior service credit	-	(1,452,359)	-	(1,452,359)
Amortization of net loss	904,811	133,629	1,397,501	102,836
Net periodic benefit cost (credit)	<u>\$ 1,348,313</u>	<u>\$ (996,515)</u>	<u>\$ 2,032,959</u>	<u>\$ (1,098,457)</u>

The components of the unfunded liability as of June 30, 2012 and 2011 but not yet reflected in net periodic benefit cost consisted of the following:

	<b>2012</b>		<b>2011</b>	
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>
Prior service credit	\$ -	\$ 6,953,680	\$ -	\$ 8,406,039
Accumulated loss	<u>(18,755,032)</u>	<u>(1,670,887)</u>	<u>(10,556,528)</u>	<u>(1,047,985)</u>
Amounts recognized in unrestricted net assets	(18,755,032)	5,282,793	(10,556,528)	7,358,054
Cumulative employer contributions in excess of net periodic benefit cost	<u>2,076,926</u>	<u>(8,376,151)</u>	<u>900,239</u>	<u>(9,426,854)</u>
Net amount recognized in the statement of financial position	<u>\$ (16,678,106)</u>	<u>\$ (3,093,358)</u>	<u>\$ (9,656,289)</u>	<u>\$ (2,068,800)</u>

For the years ended June 30, 2012 and 2011, Audubon recognized pension and postretirement related changes other than net periodic costs of \$(10,273,765) and \$(342,622), respectively. Such amounts represent the change in the amounts reflected in unrestricted net assets for the years ended June 30, 2012 and 2011 and consists of \$(8,198,504) and \$852,580 for the Cash Balance Plan and \$(2,075,261) and \$(1,195,202) for the Retiree Medical and Life plan.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

Other changes in plan assets and benefit obligations recognized in the change in unrestricted net assets for the years ended June 30, 2012 and 2011 are as follows:

	2012		2011	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plan
Net (gain) loss arising during period	\$ 9,103,315	\$ 756,531	\$ 544,921	\$ (154,321)
Amortization of prior service credit	-	1,452,359	-	1,452,359
Amortization of actuarial loss	(904,811)	(133,629)	(1,397,501)	(102,836)
Change in unrestricted net assets	<u>\$ 8,198,504</u>	<u>\$ 2,075,261</u>	<u>\$ (852,580)</u>	<u>\$ 1,195,202</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ 9,546,817</u>	<u>\$ 1,078,746</u>	<u>\$ 1,180,379</u>	<u>\$ 96,745</u>

The estimated actuarial loss and prior service credit for the Cash Balance Plan that will be amortized from the unrestricted net asset balance into net periodic benefit cost over the next fiscal year are \$2,018,703 and \$0, respectively. The estimated actuarial loss and prior service credit for the Retiree Medical and Life Plan that will be amortized from the unrestricted net asset balance into net periodic benefit cost over the next fiscal year are \$143,322 and \$1,452,359, respectively.

The weighted average assumptions used to determine benefit obligations as of June 30, 2012 and 2011 consisted of the following:

	2012		2011	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plans
Discount rate	3.80 %	3.80 %	5.25 %	5.25 %
Rate of compensation increase	N/A	N/A	N/A	N/A

The weighted average assumptions used to determine net periodic benefit cost for the years ended June 30, 2012 and 2011 consisted of the following:

	2012		2011	
	Cash Balance Plan	Retiree Medical and Life Plan	Cash Balance Plan	Retiree Medical and Life Plans
Discount rate	5.25 %	5.25 %	5.25 %	5.25 %
Expected return on plan assets	6.50 %	N/A	6.50 %	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A
Medical cost trend rate	N/A	8.31 %	N/A	8.59 %

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

The assumed health care cost trend rate at June 30, 2012 and 2011 consisted of the following:

	<b>2012</b>		<b>2011</b>	
	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>
Health care cost trend rate assumed for next year	N/A	8.04 %	N/A	8.31 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	4.50 %	N/A	4.50 %
Year that the rate reaches the ultimate trend rate	N/A	2029	N/A	2029

Audubon expects to contribute approximately \$1.7 million to its Cash Balance Plan and \$121,000 to its Retiree Medical and Life Plan during the year ending June 30, 2013.

Future benefit payments are expected to be as follows:

<b><u>Fiscal</u></b>	<b>Cash Balance Plan</b>	<b>Retiree Medical and Life Plan</b>
2013	\$ 1,816,000	\$ 121,000
2014	1,911,000	155,000
2015	2,021,000	191,000
2016	2,197,000	205,000
2017	2,340,000	222,000
Next 5 years	12,564,000	1,617,000

The weighted average asset allocation of the Cash Balance Plan as of June 30, 2012 and 2011 consisted of the following:

	<b>2012</b>	<b>2011</b>
Equities - domestic	21.96 %	21.96 %
Equities - international	20.98 %	25.06 %
Debt securities	32.97 %	30.26 %
Cash and cash equivalents	15.19 %	12.71 %
Alternative investments	8.90 %	10.01 %
	<u>100.00 %</u>	<u>100.00 %</u>

The Cash Balance Plan's expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocations and estimates of future long-term returns by asset class.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

The composition of the Cash Balance Plan's assets is intended to provide a long-term annualized investment return that will provide for future benefit payments. Volatility is reduced by asset class diversification. The target asset mix is periodically reviewed based on future expectations and performance and rebalanced as deemed necessary.

The fair value hierarchy defines three levels, as further described in Note 2. Cash Balance Plan assets carried at fair value at June 30, 2012 and 2011 are classified in the table as follows:

	<b>2012</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Investments:			
Equities - domestic	\$ 6,182,226	\$ -	\$ 6,182,226
Equities - international	5,905,786	-	5,905,786
Collective trust fund	-	9,281,131	9,281,131
Cash and cash equivalents	4,277,066	-	4,277,066
Alternative investments	-	2,503,723	2,503,723
Total assets carried at fair value	<u>\$ 16,365,078</u>	<u>\$ 11,784,854</u>	<u>\$ 28,149,932</u>
	<b>2011</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Investments:			
Equities - domestic	\$ 6,187,690	\$ -	\$ 6,187,690
Equities - international	7,061,961	-	7,061,961
Collective trust fund	-	8,527,288	8,527,288
Cash and cash equivalents	3,582,980	-	3,582,980
Alternative investments	-	2,820,366	2,820,366
Total assets carried at fair value	<u>\$ 16,832,631</u>	<u>\$ 11,347,654</u>	<u>\$ 28,180,285</u>

The Cash Balance Plan did not have any Level 3 investments at June 30, 2012 and 2011.

The following table lists Audubon's Cash Balance Plan investment which is valued at NAV as of June 30, 2012 and 2011:

<b>2012</b>							
<b>Type</b>	<b>Strategy</b>	<b>Number of Funds</b>	<b>NAV in Funds</b>	<b>Remaining Life</b>	<b>\$ Amount of Unfunded Commitments</b>	<b>Redemption Terms</b>	<b>Redemption Restrictions</b>
Alternative investment - Limited partnership	The partnership is organized for the purpose of earning attractive rates of return through an investment program of "alternative investment strategies" including general or limited partnerships or other pooled vehicles and with managers of separately managed accounts.	1	\$ 1,501,154	18	N/A	90 days written notice as of each June 30th and December 31st.	Restrictions for withdrawals of 90% or more.
Collective trust fund - Blackrock Institutional Trust Company	Fixed income fund	1	\$ 9,281,131	N/A	N/A	Daily	N/A
Alternative investment - Open-ended Interval Fund	Seeks long-term growth of capital by investing primarily in equity securities of issuers in developing countries.	1	\$ 1,002,569	N/A	N/A	30 days written notice with a monthly frequency.	N/A



**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

		2011						
Type	Strategy	Number of Funds	NAV in Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions	
Alternative investment - Limited partnership	The partnership is organized for the purpose of earning attractive rates of return through an investment program of "alternative investment strategies" including general or limited partnerships or other pooled vehicles and with managers of separately managed accounts.	1	\$ 1,540,124	19	N/A	90 days written notice as of each June 30th and December 31st.	Restrictions for withdrawals of 90% or more.	
Collective trust fund - Blackrock Institutional Trust Company	Fixed income fund	1	8,527,288	N/A	N/A	Daily	N/A	
Alternative investment - Open-ended Interval Fund	Seeks long-term growth of capital by invest	1	1,280,242	N/A	N/A	30 days written notice with a monthly frequency.	N/A	

**11. LOAN PAYABLE**

During fiscal 2012, Audubon borrowed \$7.175 million from a lender under a note and security agreement. This note payable states an interest rate of 0.46% per annum and is secured by certain collectibles ("Collectibles"). The principal balance of the note payable is due and payable on June 30, 2014. In conjunction with the note and security agreement, the parties entered into an option agreement, consideration for which was the waiver of the 0.46% annual interest due on the note payable. Under the option agreement, the lender has an option to purchase the Collectibles at a purchase price of \$7.175 million through August 11, 2014 under certain terms and conditions.

**12. CHARITABLE TRUSTS**

Beneficial interests in charitable trusts consisted of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Held by third-party trustees	<u>\$ 39,402,611</u>	<u>\$ 41,754,378</u>
Held by Audubon as trustee:		
Charitable gift annuities	\$ 8,660,177	\$ 8,924,668
Pooled income fund	<u>1,669,170</u>	<u>1,686,785</u>
	<u>\$ 10,329,347</u>	<u>\$ 10,611,453</u>

Most assets held by third-party trustees are invested in diversified portfolios.

Assets held by Audubon as trustee are invested in diversified portfolios and are included within Audubon's investment portfolio as further described in Note 4 to the accompanying financial statements.

As trustee of certain trusts, Audubon has an obligation to make periodic payments to beneficiaries. Obligations under charitable trusts amounted to approximately \$5,548,000 and \$5,530,000 as of June 30, 2012 and 2011, respectively.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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**13. CONCENTRATIONS**

Cash, cash equivalents, and investments are exposed to interest rate, market, and credit risks. Audubon maintains its cash and cash equivalents in various bank deposit accounts that may exceed federally insured limits at times. To minimize risk, Audubon places its cash accounts with high credit quality financial institutions. Audubon does not anticipate any losses in such accounts.

Investment concentrations are disclosed in Note 4 to the accompanying financial statements.

**14. SUBSEQUENT EVENTS**

Audubon has evaluated, for potential recognition and disclosure, events subsequent to the statement of financial position date of June 30, 2012 through December 17, 2012, the date the financial statements were available to be issued. Audubon is not aware of any subsequent events that would require adjustment to or disclosure in the financial statements.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2012**

<b>Direct Awards: Federal Grantor/Program Title</b>	<b>Contract Agreement #</b>	<b>Federal CFDA#</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Agriculture:</b>			
Direct Counter Program Cotton Soybeans	Farm 2366 / 3300	10.055	\$ 2,459
CRP Cropland Certification Program	Farm 2366 / 3300	10.069	3,250
Conservation Reserve Program	Farm#3110	10.069	3,040
Conservation Reserve Program	03CRP	10.069	1,076
Conservation Reserve Program	Farm 6680	10.069	461
Conservation Reserve Program	Farm 577	10.069	325
Conservation Reserve Program	CRP	10.069	23,717
Conservation Reserve Program	CRP-CP38E	10.069	1,683
Conservation Reserve Program	1979A	10.069	1,990
Conservation Reserve Program	2009 0023	10.069	4,768
Wetlands Reserve Program	66-9104-4-287	10.072	84,095
Outreach and Assistance for Socially Disadvantage Farmers and Ranchers	59-2501-10-022-1	10.443	399,879
Challenge Cost Share Agreement	10-CS-11011800-023	10.652	2,000
Floodplain Forest Bird Habitat Conservation	2010-0065-040	10.683	34,176
2010 Audubon at Home Grant	68-7482-9-485	10.902	6,562
Soil and Water Conservation	68-7482-10-144	10.902	105,116
California Migratory Bird Conservation Program	68-06-11-MB04	10.902	74,382
NRCS WRP Monitoring	68-4639-11-0022	10.902	6,289
NRCS SG Trunks	68-8E49-1-117	10.902	23,298
NRCS Golden-Winged Warbler Initiative	1112-045-NCA	10.902	15,842
Forest Management Plan for Miles Wildlife Sanctuary	741106090FD	10.912	4,605
Forest Management Sharon	2008-74110609087	10.912	5,508
Enhance Habitat for Declining Birds	69-3A75-10-159	10.912	79,655
New York GLRI Equip Contribution	68-36-11-GL03	10.912	18,904
Wildlife Habitat Incentives Program	721106080C7	10.914	12,211
Wildlife Habitat Incentives Program	729104092JD	10.914	13,000
Wildlife Habitat Incentives Program	7216446A116	10.914	770
Wildlife Habitat Incentives Program	7291040928P	10.914	26,259
WHIP for Upland Habitat 2012-2016 Starr Ranch	08-729104114TD	10.914	5,805
AGO WHIP TA Contribution Agreement	68-2C31-1-193	10.914	5,720
Conservation Security Program	CSP 2008 819104100B2	10.921	55,180
Forest Stewardship Challenge	10-CS-11080900-010	10.000	8,407
Western Hummingbird Partnership Coordinator	11-CS-11052007	10.000	15,166
<b>Total U.S. Department of Agriculture</b>			<b>1,045,598</b>
<b>U.S. Department of Commerce:</b>			
<b>National Oceanic and Atmospheric Administration:</b>			
Bird Use of Coastal Habitat During Migration	CZ1:2010-PS.04	11.419	33,726
Fish Communities of the Coastal Wetland of Biscayne Bay	WC133F10SE2229	11.435	58,042
Audubon Watershed Experience	NA08NMF4570446	11.457	46,778
Marine and Estuarine Goal Setting for South Florida (MARES)	NA09NOS4780226	11.478	34,813
Derelict Blue Crab Pots 2011	WC133F09SE4838	11.000	2,629
<b>Total U.S. Department of Commerce</b>			<b>175,988</b>

*The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2012**

<b>Direct Awards: Federal Grantor/Program Title</b>	<b>Contract Agreement #</b>	<b>Federal CFDA#</b>	<b>Total Federal Expenditures</b>
<b>Research and Development Cluster - U.S. Department of Defense:</b>			
<b>U.S. Army Corps of Engineers:</b>			
CERP Recover Monitor Forested Wetlands South Florida	W912HZ-11-2-0037	12.114	\$ 336,490
Camp Pendleton Least Tern Snowy Plover	N6247309-2-0025	12.300	2,530
Dune Enhancement and Avian Management	W9126G-10-2-0011	12.300	66,086
Corp Monitoring Effort	W912HZ-11-2-0044	12.630	63,524
<b>Total Research and Development Cluster - U.S. Department of Defense</b>			<b>468,630</b>
<b>U.S. Department of Housing and Urban Development:</b>			
Facilities renovation of Visitor's Center	B-05-SP-CT-0399	14.251	1,369
EDI Special Project Grant	B-06-SP-CT-0179	14.251	83,785
<b>Total U.S. Department of Housing and Urban Development</b>			<b>85,154</b>
<b>U.S. Department of Interior:</b>			
Habitat Restoration of Key Deer, Piping Plover, Lower Key Marsh Rabbits	41580-4730-KDR4	15.062	48,171
River Pathways	L10AC20330	15.231	88,128
NFWF Red Knott Project	N/A	15.608	32,295
Beach Nesting Birds Eastern LI	2010-0071-031	15.608	17,956
Enhancing Tidal Mudflats and Marshes Aramburu Island	2011-0006-006	15.608	50,227
Rio Grande Environmental Water Transaction Program	0203.12.30753	15.608	44,366
Jay Watch Citizen Science Florida Scrub	11276	15.615	12,951
Waterbird Habitat Restoration Grant	F10AP00809	15.623	25,704
North American Wetlands Conservation Grant	NY-N331A	15.623	990,226
Coastal Program for support of Breeding Bird Surveys	F10AC00471	15.630	834
Maine Coastal Program	F10AC00478	15.630	15,000
Coastal Stewardship Program	1448-20181-A-J827	15.630	8,227
Seabird Nesting Island Warden	40181AJ177	15.630	11,350
Bird Habitat Management	40181AJ137	15.630	7,363
Coastal Bird Monitoring	N/A	15.630	1,332
Colonial Waterbird Plan	F11AC00877	15.630	5,984
Conservation Assessment and Planning on Kenai Peninsula Lowlands	F12AC00444	15.630	3,452
Dry Creek Oak / Riparian Restoration Project	81420-J	15.631	217
USFWS Partnership Program	81420AJ522	15.631	12,898
Educational Wetland Yountin Tract	NE-64850-10-46	15.631	2,775
Davis Ranch Sycamore Slough	81620-A-J125	15.631	21,769
Rowe Sanctuary Central Platte Habitat Restoration Project	60181AJ461	15.631	3,304
Black Prairie	ARFO-3898-09-0	15.631	7,344
Coastal Sage Scrub Restoration	F11AC01457	15.631	15,600
USFWS Blue Oak	F11AC01405	15.631	13,187
USFWS DeMartini	F11AC01166	15.631	7,886
Wildlife Coop Corkscrew 77 Acres	F11AC01489	15.631	30,800
Wildlife Cooperative Extension Agreement	401818J530	15.632	5,500
Education Workshops	01G-09-R11-FWD02	15.634	13,024
NE Marshbird Survey	N/A	15.634	28,699
Louisiana Breeding Bird Survey	N/A	15.634	18,706

*The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2012**

<b>Direct Awards: Federal Grantor/Program Title</b>	<b>Contract Agreement #</b>	<b>Federal CFDA#</b>	<b>Total Federal Expenditures</b>
Prioritize and Conserve IBA's in Alaska	COOP-12-007	15.634	\$ 34,253
Grassland Bird Conservation	NY-N301	15.635	35,668
Bird Conservation Minnesota	301817J128	15.637	2,824
BH - SF Joint Venture	1C-A	15.637	6,000
Red River Valley Avian Conservation	F12AC00183	15.637	13,456
Maine Coastal Islands National Wildlife Refuge Program	53532-1261-CHCS	15.642	20,000
Tidal Marsh Enhancement Mosquito Source Reduction Tolay Creek	81640-8-J089	15.642	4,045
Metro Bird Plan	30181AG126	15.647	4,817
Indy Parks Bird Survey	30181AG118	15.647	1,715
Environmental Education and Community Conservation	97310AJ020	15.649	218,885
Tricolored Blackbird Census for 2008 in California	10154-7-J104	15.650	26,378
USFWS Bangladesh	F11AP00288	15.650	26,300
McKinney NWR CCP Process	53546-B-J001	15.654	7,500
Migratory Bird Outreach and Conservation at Huguenot Park	401539995	15.655	11,676
Mountain Plover Survey	80211-AJ109	15.655	13,478
Future of Climate Changes on Species	91200-1-9700	15.655	156,121
City Bird Plan Implementation	N/A	15.655	15,295
Digitizing Lakefront Migratory Bird Info	F11AP00393	15.662	10,060
SFNRC Cape Sable Wading Bird Monitor	J5297100082	15.808	11,550
<b>Total U.S. Department of Interior</b>			<b><u>2,165,296</u></b>
<b>Institute of Museum and Library Services:</b>			
Evaluation of Nature Preschool Program	MA-06-10-0262-10	45.301	29,357
Preliminary Research and Analysis of the Value of Nature Centers in Communities	N/A	45.312	24,302
<b>Total Institute of Museum and Library Services</b>			<b><u>53,659</u></b>
<b>National Science Foundation:</b>			
Citizen Science and Conservation	1010609	47.076	109,886
<b>Total National Science Foundation</b>			<b><u>109,886</u></b>
<b>Total Direct Awards</b>			<b><u>\$ 4,104,211</u></b>

*The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2012**

<b>Pass-Through Awards: Federal Grantor/Program Title</b>	<b>Pass-Through Grantor</b>	<b>Sub-contract Agreement#</b>	<b>Federal CFDA#</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Agriculture:</b>				
Cooperative Forestry Assistance	North Carolina Department of Environment and Natural Resources	3335	10.664	\$ 1,575
National Fish and Wildlife Foundation	Cornell University	PO 745807	10.683	1,500
National Fish and Wildlife Foundation	National Fish and Wildlife Federation	GNFW02	10.683	1,500
Soil and Water Conservation	Pheasants Forever, Inc.	N/A	10.902	25,000
Environmental Quality Incentives Program	Hamilton Trust	N/A	10.912	3,240
Environmental Quality Incentives Program	Lange Twins, Inc.	N/A	10.912	21,609
<b>Total U.S. Department of Agriculture</b>				<b>54,424</b>
<b>U.S Department of Commerce:</b>				
<b>National Oceanic and Atmospheric Administration:</b>				
Coastal Zone Management Administration Awards	Pennsylvania Department of Environmental Protection	CZM: 2009PS.08	11.419	13,165
Habitat Conservation	National Fish and Wildlife Foundation	2007-0089-006	11.463	140,198
Habitat Conservation	National Association of Counties	DOC.749.03	11.463	45,000
Habitat Conservation	National Fish and Wildlife Foundation	2008-0073-035	11.463	140,276
Habitat Conservation	National Fish and Wildlife Foundation	2008-0073-052	11.463	52,861
Project Design & Permitting for Restoration Action in the Lower Santa Ynez River & Estuary	California Department of Fish and Game	P1050010	11.000	22,581
<b>Total U.S. Department of Commerce</b>				<b>414,081</b>
<b>U.S Department of Defense:</b>				
<b>U. S. Army Corps of Engineers:</b>				
Lake Isabella Willow Flycatcher Restoration	National Fish and Wildlife Foundation	1998-0107-000 / DACW059820001	12.000	60,976
Migrating Bird Project	Tetra Tech, Inc.	1064118	12.000	15,944
<b>Total U.S. Department of Defense</b>				<b>76,920</b>
<b>U. S. Department of Interior:</b>				
Fish, Wildlife and Plant Conservation Resource Management	Wyoming Game and Fish	000883	15.231	3,000
Fish and Wildlife Management Assistance	National Fish and Wildlife Foundation	2009-0003-000	15.608	108,524
Fish and Wildlife Management Assistance	National Fish and Wildlife Foundation	2009-0010-002	15.608	267
North American Wetlands Conservation Grant	Fish and Wildlife Service	F12AP00995	15.623	41,456
Landowner Incentive	Point Reyes Bird Observatory	N/A	15.633	2,093
State Wildlife Grants	Illinois Department of Natural Resources	RC09T57D1	15.634	2,213
State Wildlife Grants	Arkansas Game and Fish Commission	T-32-02	15.634	27,044
State Wildlife Grants	Arkansas Game and Fish Commission	T-32-03	15.634	22,312
State Wildlife Grants	Maryland Department of Natural Resources	K00P7201405	15.634	5,873
State Wildlife Grants	Nebraska Game & Parks Commission	N/A	15.634	25,076
State Wildlife Grants	Minnesota Department of Natural Resources	B41455	15.634	18,385
State Wildlife Grants	Vermont Fish and Wildlife Service	06120FY1109	15.634	17,713
Migratory Bird Monitoring, Assessment and Conservation	City of Phoenix	F11AP00184CITY	15.655	29,327
Endangered Species Conservation	State of Maine Department of Inland Fisheries & Wildlife	09A-20100428*5	15.657	2,340
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	1401.11.027926	15.663	5,954
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	26842	15.663	8,792
State Wildlife Grants	Louisiana Wildlife and Fisheries	CFMS#714472	15.634	25,393
Service Training and Technical Assistance	Pennsylvania Wildlife Management	PO4300277481	15.649	4,614
Land and Water Stewardship	Bureau of Reclamation	11FC-UT-1750	15.000	22,404
<b>Total U.S. Department of Interior</b>				<b>372,780</b>

*The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2012**

<b>Pass-Through Awards: Federal Grantor/Program Title</b>	<b>Pass-Through Grantor</b>	<b>Sub-contract Agreement#</b>	<b>Federal CFDA#</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Transportation:</b>				
Highway Planning and Construction	Washington State Department of Transportation	LA-6275	20.205	\$ 117,253
Highway Planning and Construction	Washington State Department of Transportation	LA-6255	20.205	4,864
Recreational Trails Program	Texas Parks and Wildlife Department	185009	20.219	30,054
Recreational Trails Program	Mississippi Department of Transportation	28-RTP-199	20.219	89,099
<b>Total U.S. Department of Transportation</b>				<b>241,270</b>
<b>U.S. Environmental Protection Agency:</b>				
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements	New England Interstate Water Pollution Control Commission	LS-2010-025	66.436	3,506
Long Island Sound Program	The Connecticut Agricultural Experiment Station	CAES-FH-2011-01	66.437	3,694
Long Island Sound Program	National Fish and Wildlife Foundation	1401.11.027926	66.437	3,349
Long Island Sound Program	National Fish and Wildlife Foundation	26842	66.437	35,168
Environmental Education Grants	Cornell University	N/A	66.951	6,500
Nonpoint Source Implementation Grants	MO Department of Natural Resources	G11-NPS-14	66.460	23,488
<b>Total U.S. Environmental Protection Agency</b>				<b>75,705</b>
<b>Total Pass-Through Awards</b>				<b>\$ 1,235,180</b>
<b>Total Awards (Includes Direct and Pass-Through Awards)</b>				<b>\$ 5,339,391</b>

*The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.*

**NATIONAL AUDUBON SOCIETY, INC.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2012**

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (“Schedule”) for the year ended June 30, 2012 includes the federal grant activity of National Audubon Society, Inc. (“Audubon”), and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**2. SUBRECIPIENTS**

Of the federal expenditures presented on the Schedule, Audubon provided federal awards to subrecipients during the year ended June 30, 2012, as follows:

<b>Federal Grantor/Program Title</b>	<b>Federal CFDA #</b>	<b>Amounts Provided to Subrecipients</b>
U.S. Department of Interior: Environmental Education and Community Conservation	15.649	\$ 33,448
U.S. Department of Agriculture: 2010 Audubon at Home Grant	10.902	1,803
U.S. Department of Agriculture: Outreach and Assistance for Socially Disadvantage Farmers and Ranchers	10.443	47,360
U.S. Department of Agriculture: Soil and Water Conservation	10.902	3,000
U.S. Department of Interior: Fish and Wildlife Management Assistance	15.608	36,466
National Science Foundation: Citizen Science and Conservation	47.076	16,310
U.S. Department of Commerce: Habitat Conservation	11.463	93,110
U.S. Department of Commerce: Habitat Conservation	11.463	46,664
Research and Development Cluster - U.S. Department of Defense: US Army Corp of Engineers: Corp Monitoring Effort	12.630	25,000
U.S. Environmental Protection Agency: Long Island Sound Program	66.437	11,979
U.S. Department of Interior: National Fish and Wildlife Foundation	15.663	2,995
<b>Total Federal Awards Provided to Subrecipients</b>		<u>\$ 318,135</u>



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS**

To the Board of Directors of  
**National Audubon Society, Inc.:**

We have audited the financial statements of National Audubon Society, Inc. (“Audubon”) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Audubon’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Audubon’s internal control over financial reporting. Accordingly, we express no such opinion.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in Audubon’s internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Audubon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management of Audubon in a separate letter dated December 17, 2012.

This report is intended solely for the information and use of Audubon's Board of Directors, Audit Committee, Management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

New York, New York  
December 17, 2012

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON  
COMPLIANCE RELATED TO MAJOR PROGRAMS (OMB CIRCULAR A-133)  
AND ON INTERNAL CONTROL OVER COMPLIANCE**

To the Board of Directors of  
**National Audubon Society, Inc.:**

**Compliance**

We have audited the compliance of National Audubon Society, Inc. (“Audubon”) with the types of compliance requirements described in the *U.S. Office of Management and Budget (“OMB”) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Audubon’s major federal programs are identified in the summary of auditors’ results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of Audubon’s management. Our responsibility is to express an opinion on Audubon’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Audubon’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Audubon’s compliance with those requirements.

In our opinion, Audubon complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our audit procedures disclosed an instance of noncompliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2012-01, that is required to be reported in accordance with *OMB Circular A-133*.

## **Internal Control Over Compliance**

Management of Audubon is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Audubon's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of Audubon's internal control over compliance. Accordingly, we express no such opinion.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in Audubon's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Our audit was also not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as finding 2012-01, that we consider to be a significant deficiency in Audubon's internal control over compliance.

We did not audit Audubon's written response to the matters described in the accompanying Schedule of Findings and Questioned Costs and accordingly, we express no opinion on it.

This report is intended solely for the information and use of Audubon's Board of Directors, Audit Committee, Management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



New York, New York  
March 29, 2013

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2012**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements:

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weakness(es)?  yes  none reported
- Noncompliance material to financial statements noted?  yes  no

Federal Awards:

Internal control over the major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditors' report issued on compliance for the major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?  yes  no

**Identification of the major programs:**

<b>Federal Grantor/Program or Cluster Title</b>	<b>Federal CFDA#</b>
<b>U.S. Department of Interior:</b>	
North American Wetlands Conservation Grant	15.623
Waterbird Habitat Restoration Grant	15.623
NFWF Red Knott Project	15.608
Beach Nesting Birds Eastern LI	15.608
Enhancing Tidal Mudflats and Marshes Aramburu Island	15.608
Rio Grande Environmental Water Transaction Program	15.608
Fish and Wildlife Management Assistance	15.608

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2012**

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<b>Federal Grantor/Program or Cluster Title</b>	<b>Federal CFDA#</b>
<b>U.S. Department of Agriculture:</b>	
Outreach and Assistance for Socially Disadvantage Farmers and Ranchers	10.443
2010 Audubon at Home Grant	10.902
Soil and Water Conservation	10.902
California Migratory Bird Conservation Program	10.902
NRCS WRP Monitoring	10.902
NRCS SG Trunks	10.902
NCRS Golden-Winged Warbler Initiative	10.902
<b>Research and Development Cluster - U.S. Department of Defense:</b>	
<b>U.S. Army Corps of Engineers:</b>	
CERP Recover Monitor Forested Wetlands South Florida	12.114
Camp Pendleton Least Tern Snowy Plover	12.300
Dune Enhancement and Avian Management	12.300
Corp Monitoring Effort	12.630
<b>U.S. Department of Commerce:</b>	
<b>National Oceanic and Atmospheric Administration:</b>	
Habitat Conservation	11.463
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	___ yes <u> X </u> no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

None noted.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2012**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2012-01 – Reporting (Significant Deficiency)**

**U.S. Department of Interior:**

North American Wetlands Conservation Grant	15.623
Waterbird Habitat Restoration Grant	15.623

**U.S. Department of Agriculture:**

Outreach and Assistance for Socially Disadvantage Farmers and Ranchers	10.443
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**Research and Development Cluster - U.S. Department of Defense:**

**U.S. Army Corps of Engineers:**

CERP Recover Monitor Forested Wetlands South Florida	12.114
Camp Pendleton Least Tern Snowy Plover	12.300
Dune Enhancement and Avian Management	12.300
Corp Monitoring Effort	12.630

**U.S. Department of Commerce:**

**National Oceanic and Atmospheric Administration:**

Habitat Conservation	11.463
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**Criteria:**

Each recipient must report program outlays (disbursements) and program income (receipts) on the cash or accrual basis of accounting, as prescribed by the federal awarding agency. Audubon has opted to report such program activity on the accrual basis of accounting.

**Condition:**

Approximately \$168,000 of expenses charged to federal programs during fiscal 2012, which were allowable under program guidelines and within the programs period of availability, were incurred in the prior fiscal year.

**Context:**

Approximately \$168,000 of expenses reported during fiscal 2012 were not reported in the appropriate fiscal year.

**Questioned Costs:**

None noted.

**Cause:**

Although Audubon's policy is to charge expenses to federal grants in the period that the expense is incurred, certain expenditures were not reported to funding agencies or on the Schedule of Expenditures of Federal Awards in the correct period.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2012**

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**Effect:**

While the individual expenses were allowable under program guidelines, and were incurred within the respective programs period of availability, the reports submitted to the funding agencies did not include the correct amount of expenses incurred for the respective reporting period. The fiscal 2012 Schedule of Expenditures of Federal Awards includes these amounts as they were not previously reported on the fiscal 2011 Schedule of Expenditures of Federal Awards. Therefore, the fiscal 2011 Schedule of Expenditures of Federal Awards was understated by approximately \$168,000 and the fiscal 2012 Schedule of Expenditures of Federal Awards is overstated by that amount.

**Recommendation:**

We recommend that Audubon refine its cut-off procedures to ensure that expenses relating to federal grants are reported within the appropriate fiscal year (i.e., reported in the period incurred, consistent with the accrual basis of accounting).

**Views of Responsible Officials and Planned Corrective Action:**

Management is in the process of evaluating our procedures to ensure that expenses related to federal grants are properly reported in the fiscal year in which they are incurred. We will specifically reconcile all amounts recorded in the general ledger with the Schedule of Federal Awards.



**NATIONAL AUDUBON SOCIETY, INC.**  
**Summary Schedule of Prior Year Findings and Questioned Costs**  
**For the year ended June 30, 2012**

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**Finding 2011-01 -- Reporting (Material Weakness)**

**U.S. Department of Interior** - Coastal Impact Assistance Program (CIAP) (CFDA # 15.426)  
Pass -Through Agency – Mississippi Department of Marine Resources  
Award period April 2007 – March 2011

**Criteria**

CIAP recipients must submit performance reports as required by 43 CFR 12.80. Semi-annual reports are due 30 days after the reporting period. CIAP recipients must also submit financial reports as required by 43 CFR 12.81 using the SF-425 Federal Financial Report. A semi-annual SF 425 Federal Financial Report is due within 30 days of the end of the reporting period.

**Condition**

Audubon did not submit certain performance and financial reports in accordance with 43 CFR 12.80-.81.

**Context**

Audubon did not submit any performance reports for the year ended June 30, 2011. In addition, although Audubon did report certain financial information to the grantor, the information was not reported in the required format or timing required.

**Cause**

Audubon did not establish procedures to ensure that reports required by 43 CFR 12.80-.81 were submitted on time.

**Effect**

As a result, Audubon did not comply with the reporting requirements of the grant.

**Questioned Costs**

None.

**Recommendation**

Although, Audubon did report information to the grantor, the information was not reported in the required format. We recommend that Audubon strengthen its monitoring controls over the timely submission of required reports, to ensure that the proper reports are submitted within the required timeframe.

**View of Responsible Officials and Planned Corrective Actions:**

Audubon was informed that its CIAP grant had been approved in January 2007 and began work on the project in good faith believing that an agreement would be forthcoming. Due to delays outside of Audubon's control, the grant agreement between MMS (Mineral Management Service) and the County (Jackson County MS), and the subsequent subaward between the County and Audubon were not signed until May and June of 2010. Throughout this pre-award period, Audubon continually reached out to the County to ensure that the agreement would be signed and requested guidance on reporting. Audubon was advised to hold all reporting until the agreement was in place.

**NATIONAL AUDUBON SOCIETY, INC.**  
**Summary Schedule of Prior Year Findings and Questioned Costs**  
**For the year ended June 30, 2012**

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In July 2010, after the signing of the agreement, Audubon submitted to the County a performance report and payment request form, both in the proper format, for the period of 4/2007-12/2009. Audubon did prepare an SF-425 at the time but was told by the County Grants Administrator that this was not required for a subrecipient therefore Audubon did not submit this form. Audubon and the County also initiated a request for an amendment to the agreement to extend the grant time frame and total award amount at this time.

Audubon continued to routinely request guidance from the County questioning what reporting was needed now that the agreement was in place. Due to the general confusion surrounding the award administration caused by the unusual delay by MMS and the County in providing the actual award document, as well as general unresponsiveness from MMS, Audubon did not receive timely clarification and guidance required by granting agencies in the circulars. Audubon did provide a payment request and detailed financial reporting for the period of 1/2010 through 3/2010. The County advised Audubon that it was not required to prepare the SF-425 but that it was the County's responsibility to prepare and submit this form to MMS. The County included the financial information provided by Audubon in the SF-425 they prepared for MMS in July 2011.

During fiscal year 2011, although Audubon staff were in routine communication with the County Grants Administrator providing regular updates and information regarding performance and financial information, they were told to hold any programmatic and financial reporting until completion of the amendment and end of the grant period. Audubon maintained detailed, contemporaneous records of grant expenses and program performance, had performance and financial reports drafted and ready for submission, and coordinated events inviting MMS and County representatives to see and review the program's progress.

In summary, Audubon was aware of the reporting requirements but received conflicting directives from the County regarding reporting. When Audubon drafted required reports and advised the county, they were directed to hold these reports by the grantor. While the reports admittedly may not have been submitted in accordance with technical requirements, Audubon believes that it acted in good faith and under direction of the grantor.

**2012 Update:**

No such finding identified in fiscal year 2012.