

Consolidated Financial Statements Together with  
Report of Independent Certified Public Accountants

**NATIONAL AUDUBON SOCIETY, INC.**

For the years ended 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



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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

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

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. 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 the entity’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 net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

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)	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</b>				
Conservation programs:				
Field conservation programs	49,951,033	-	-	49,951,033
National conservation programs	21,509,509	-	-	21,509,509
	<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	7,106,392	-	-	7,106,392
	<u>10,846,385</u>	<u>-</u>	<u>-</u>	<u>10,846,385</u>
Management and general				
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)	-	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 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**

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- ***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**

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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>	<u>\$ -</u>	<u>\$ 52,669,139</u>	<u>\$ 91,273,962</u>	<u>\$ 143,943,101</u>

**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**

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	<u>(9,939,618)</u>	<u>(467,092)</u>	<u>(12,047,140)</u>	<u>(794,260)</u>
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	<u>368,187</u>	<u>(6,057,820)</u>	<u>827,260</u>	<u>(7,236,564)</u>
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	<u>(991,431)</u>	<u>(33,296)</u>	<u>(1,967,177)</u>	<u>(102,498)</u>
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.