

**AUDUBON SOCIETY
OF PORTLAND, OREGON**

**Audited Financial
Statements**

**For the Year Ended
June 30, 2011**



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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Audubon Society of Portland, Oregon
Portland, Oregon

We have audited the accompanying statement of financial position of Audubon Society of Portland, Oregon (a nonprofit corporation) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 financial statements and, in our report dated October 19, 2010, we, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of the 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 the Organization'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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Audubon Society of Portland, Oregon as of June 30, 2011, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McDonald Jacobs, P.C.

October 13, 2011

Strength in Numbers

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AUDUBON SOCIETY OF PORTLAND, OREGON
STATEMENT OF FINANCIAL POSITION
June 30, 2011
(With comparative totals for 2010)

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 734,609	\$ 1,106,421
Accounts receivable	93,686	55,327
Inventory	152,257	133,658
Prepaid expenses	38,045	55,213
Investments	1,229,264	914,116
Property and equipment, net	1,390,407	1,298,494
Conservation property	<u>2,003,110</u>	<u>2,003,110</u>
TOTAL ASSETS	<u>\$ 5,641,378</u>	<u>\$ 5,566,339</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 97,095	\$ 75,287
Accrued expenses	85,672	100,099
Deferred revenue	312,647	363,772
Note payable	<u>47,946</u>	<u>70,846</u>
Total liabilities	<u>543,360</u>	<u>610,004</u>
Net assets:		
Unrestricted:		
Available for operations	393,777	507,654
Board designated	396,452	357,613
Conservation property and net property and equipment	<u>1,825,414</u>	<u>1,710,601</u>
Total unrestricted	2,615,643	2,575,868
Temporarily restricted	1,653,250	1,673,987
Permanently restricted	<u>829,125</u>	<u>706,480</u>
Total net assets	<u>5,098,018</u>	<u>4,956,335</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,641,378</u>	<u>\$ 5,566,339</u>

See notes to financial statements.

AUDUBON SOCIETY OF PORTLAND, OREGON
STATEMENT OF ACTIVITIES
For the year ended June 30, 2011
(With comparative totals for 2010)

	2011				2010 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Support and revenue:					
Contributions and grants	\$ 673,714	\$ 183,827	\$ 47,908	\$ 905,449	\$ 922,182
Donated materials and services	77,133	-	-	77,133	81,610
Memberships	177,361	-	-	177,361	170,883
Program service revenue	784,352	-	-	784,352	668,754
Special events revenue, net of direct costs of \$28,421 for 2011 and \$27,336 for 2010	122,388	-	-	122,388	121,754
Sales, net of cost of goods sold of \$444,374 for 2011 and \$376,078 for 2010	215,951	-	-	215,951	192,603
Investment income	13,531	27,773	-	41,304	40,473
Net realized/unrealized gain on investments	62,540	-	74,737	137,277	24,148
Rental income	15,998	-	-	15,998	15,268
Other income	189	-	-	189	3,266
Net assets released from restrictions:					
Satisfaction of purpose restrictions	<u>232,337</u>	<u>(232,337)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,375,494</u>	<u>(20,737)</u>	<u>122,645</u>	<u>2,477,402</u>	<u>2,240,941</u>
Expenses:					
Program services:					
Conservation	556,906	-	-	556,906	486,148
Education	877,680	-	-	877,680	683,825
Nature Store	161,860	-	-	161,860	140,473
Membership and publications	173,942	-	-	173,942	140,886
Sanctuary	<u>157,951</u>	<u>-</u>	<u>-</u>	<u>157,951</u>	<u>135,369</u>
Total program services	1,928,339	-	-	1,928,339	1,586,701
Management and general	236,996	-	-	236,996	219,836
Fundraising	<u>170,384</u>	<u>-</u>	<u>-</u>	<u>170,384</u>	<u>170,460</u>
Total expenses	<u>2,335,719</u>	<u>-</u>	<u>-</u>	<u>2,335,719</u>	<u>1,976,997</u>
Change in net assets	39,775	(20,737)	122,645	141,683	263,944
Net assets:					
Beginning of year	<u>2,575,868</u>	<u>1,673,987</u>	<u>706,480</u>	<u>4,956,335</u>	<u>4,692,391</u>
End of year	<u>\$ 2,615,643</u>	<u>\$ 1,653,250</u>	<u>\$ 829,125</u>	<u>\$ 5,098,018</u>	<u>\$ 4,956,335</u>

See notes to financial statements.

AUDUBON SOCIETY OF PORTLAND, OREGON
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2011
(With comparative totals for 2010)

	Program Services							2011 Total	2010 Total	
	Conservation	Education	Nature Store	Membership and Publications	Sanctuary	Total Program	Management and General			Fundraising
Salaries	\$ 261,746	\$ 264,465	\$ 74,563	\$ 53,023	\$ 85,658	\$ 739,455	\$ 142,135	\$ 49,231	\$ 930,821	\$ 851,170
Payroll taxes	23,158	21,735	6,004	4,617	7,102	62,616	11,425	3,789	77,830	79,356
Employee benefits	33,214	34,616	12,376	10,861	14,946	106,013	13,846	819	120,678	113,583
Contract services	58,756	19,160	-	13,300	11,346	102,562	52,137	51,314	206,013	140,620
Telephone	290	2,095	49	23	955	3,412	4,159	37	7,608	7,314
Postage	420	616	339	21,278	9	22,662	1,056	7,946	31,664	30,688
Printing	1,649	429	129	21,842	32	24,081	2,466	6,728	33,275	37,741
Utilities	-	-	-	-	25,068	25,068	-	-	25,068	21,815
Building maintenance	-	-	-	-	22,491	22,491	-	-	22,491	47,906
Facility rental	-	288,574	-	-	-	288,574	5,199	12,283	306,056	159,261
Equipment maintenance	3,588	908	1,011	6,063	885	12,455	9,547	1,418	23,420	18,000
Vehicle expenses	812	65,681	-	-	-	66,493	118	3,991	70,602	57,313
Travel	7,128	4,844	1,318	-	888	14,178	3,413	8,301	25,892	18,728
Conferences, meetings and training	505	1,561	217	-	-	2,283	3,047	451	5,781	9,758
Supplies	28,313	102,610	17,785	454	5,507	154,669	18,829	2,410	175,908	135,402
Program expenses	20,672	1,181	283	50	6,558	28,744	1,224	8,109	38,077	30,730
Advertising	50	11,912	4,688	-	-	16,650	3,122	5,201	24,973	21,186
Insurance	-	2,987	-	-	-	2,987	25,620	-	28,607	29,071
Professional fees	40,180	-	-	-	13,180	53,360	15,910	-	69,270	74,986
Bank fees	-	956	22,883	1,840	-	25,679	11,161	-	36,840	26,019
Depreciation	-	-	-	-	-	-	60,383	-	60,383	55,277
Interest expense	-	-	-	-	2,488	2,488	-	-	2,488	2,216
Miscellaneous	751	318	687	951	1,291	3,998	1,878	820	6,696	3,825
Website and internet	290	202	-	-	-	492	4,786	-	5,278	5,032
Administration allocation	75,384	52,830	19,528	39,640	(40,453)	146,929	(154,465)	7,536	-	-
Total expenses	\$ 556,906	\$ 877,680	\$ 161,860	\$ 173,942	\$ 157,951	\$ 1,928,339	\$ 236,996	\$ 170,384	\$ 2,335,719	\$ 1,976,997

See notes to financial statements.

AUDUBON SOCIETY OF PORTLAND, OREGON
STATEMENT OF CASH FLOWS
For the year ended June 30, 2011
(With comparative totals for 2010)

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 141,683	\$ 263,944
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	60,383	55,277
Net realized/unrealized gain on investments	(137,277)	(24,148)
Contributions restricted for endowment	(47,908)	(62,441)
Donated library collection	-	(14,500)
Forgiveness of note payable principal	(20,000)	-
(Increase) decrease in:		
Accounts receivable	(38,359)	139,949
Inventory	(18,599)	(17,903)
Prepaid expenses	17,168	(40,490)
Increase (decrease) in:		
Accounts payable and accrued expenses	7,381	61,745
Deferred revenue	(51,125)	105,192
Net cash provided by (used in) operating activities	(86,653)	466,625
Cash flows from investing activities:		
Purchase of property and equipment	(152,296)	(23,008)
Purchase of investments	(395,666)	(485)
Proceeds from investments	217,795	-
Net cash used in investing activities	(330,167)	(23,493)
Cash flows from financing activities:		
Contributions restricted for endowment	47,908	62,441
Principal payments on note payable	(2,900)	(5,000)
Net cash provided by financing activities	45,008	57,441
Net increase (decrease) in cash and cash equivalents	(371,812)	500,573
Cash and cash equivalents - beginning of year	1,106,421	605,848
Cash and cash equivalents - end of year	\$ 734,609	\$ 1,106,421
Supplemental cash flow information:		
Cash paid for interest	\$ 2,488	\$ 1,346
Noncash financing activity:		
Forgiveness of note principal	(20,000)	-

See notes to financial statements.

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. THE ORGANIZATION

Audubon Society of Portland, Oregon (ASoP or the Organization) is a nonprofit organization founded in 1902. ASoP promotes the enjoyment, understanding and protection of native birds, other wildlife and their habitats with a focus on the local area and the Pacific Northwest. ASoP is affiliated with the National Audubon Society but is financially and structurally independent. ASoP's support is provided by a combination of contributions and memberships, program revenues and Nature Store sales.

ASoP's headquarters is located on Cornell Road in Portland, Oregon. Facilities include the Nature Store, administrative offices, the Wildlife Care Center, and the Sanctuary. ASoP also owns the Marmot Cabin and Sanctuary located near Sandy, Oregon and Ten Mile Creek Sanctuary on the Oregon coast.

ASoP's programs are as follows:

Conservation: Promotes the conservation of wildlife and their habitats in Oregon and the Pacific Northwest, as well as conservation of healthy urban watersheds for wildlife and people in the Metropolitan-Portland region. Maintains and operates the Wildlife Care Center (WCC) to provide medical care and rehabilitation of injured or orphaned native birds and other native wildlife. WCC also houses federally-permitted non-releasable birds for educational purposes.

Education: Provides guided tours in the Sanctuary, as well as hands-on natural history programs, local, regional, national and international field trips and tours, nature center exhibits, and programs to local school and community groups.

Nature Store: Sells items that help promote the enjoyment, understanding and protection of the natural world.

Membership and Publications: Distributes a newsletter, "Warbler", and offers programs and classes to members and the general public.

Sanctuary: A 150-acre, free-to-the-public Nature Sanctuary is a showcase for native flora and fauna. It has over four miles of forested hiking trails available to the general public.

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, *Continued*
June 30, 2011

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

ASoP reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met by actions of ASoP or the passage of time.
- Permanently restricted net assets represent net assets subject to donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of ASoP.

Cash and Cash Equivalents

For purposes of the statement of cash flows, ASoP considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents.

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial.

Inventory

Inventory consists primarily of merchandise held for sale by ASoP's Nature Store and is carried at the lower of cost or market value. Cost is determined using an average cost method.

Investments

Investments are carried at fair value.

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment purchased are recorded at cost. Donated assets are reflected as contributions at their estimated values on the date received.

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Depreciation

Depreciation of buildings, equipment and furniture is calculated using the straight-line method over the estimated useful lives of the assets which range from 3 to 40 years.

Program Service Revenue and Deferred Revenue

Program service revenue is recognized in the period the program is conducted. Funds received in advance are recorded as deferred revenue.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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.

Memberships are recorded as revenue when received.

Donated Assets and Services

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

ASoP recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the years ended June 30, 2011 and 2010, donated materials and services consisted of the following:

	2011	2010
Program services:		
Materials and supplies	\$ 36,953	\$ 25,315
Veterinary services	40,180	41,795
Library collection	-	14,500
Total donated materials and services	\$ 77,133	\$ 81,610

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Donated Assets and Services, Continued

In addition, many individuals volunteer a substantial amount of time and perform a variety of tasks that assist the Organization with programs, development and administrative duties. These volunteer services represent approximately 36,800 hours of donated time for 2011 and 37,600 hours for 2010 and are not recognized as contributions in the financial statements since the recognition criteria were not met.

Contributions of Long-Lived Assets

Contributions of equipment and other long-lived assets without donor-imposed stipulations concerning the use of such assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire equipment or other long-lived assets with such donor stipulations are reported as temporarily restricted revenue. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

ASoP uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. During the years ended June 30, 2011 and 2010, advertising expenses approximated \$25,000 and \$21,000, respectively.

Income Tax Status

Audubon Society of Portland, Oregon is a nonprofit corporation exempt from federal and state income tax under section 501(c)(3) of the Internal Revenue Code and applicable state law. No provision for income taxes is made in the accompanying financial statements because ASoP has no activities subject to unrelated business income tax. Management believes that the Organization's information returns for years ended June 30, 2007 and prior are no longer subject to examination by taxing authorities in its major tax jurisdictions. ASoP is not a private foundation.

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of Estimates

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

Subsequent Events

The Organization has evaluated all subsequent events through October 13, 2011, the date the financial statements were available to be issued.

Summarized Financial Information for 2010

The financial information as of June 30, 2010 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of grants, bequests, pledges and other receivables and are unsecured. Management believes all accounts receivable are fully collectible; therefore, no allowance for uncollectible accounts has been recorded. Accounts receivable are as follows at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Grants and pledges receivable:		
Receivable within one year	\$ 33,500	\$ 10,000
Receivable in two years	15,000	-
Other accounts receivable	2,491	6,689
Contracts receivable	<u>42,695</u>	<u>38,638</u>
 Total accounts receivable	 <u>\$ 93,686</u>	 <u>\$ 55,327</u>

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

4. INVESTMENTS

Investments at June 30, 2011 and 2010 are carried at fair value and consist of the following:

	2011	2010
Securities held in perpetual trust:		
Cash and cash equivalents	\$ 20,885	\$ 10,797
Fixed income securities	120,245	120,110
Equity securities	369,608	313,132
	510,738	444,039
Beneficial interest in assets held by OCF	423,605	-
Cash and cash equivalents	78,189	75,822
Certificates of deposit - 6 month and 29 month	52,058	251,747
Mutual funds	164,674	142,508
Total investments	\$ 1,229,264	\$ 914,116

Beneficial interest in assets held by OCF

The Organization established a fund that is held by the Oregon Community Foundation (OCF), an Oregon charitable organization. The Organization's funds are pooled with other assets managed by OCF and are invested in debt and equity securities which are reflected at fair value. Under the terms of the agreement, variance power has been granted to OCF, however, the Organization is the beneficiary of the fund and the transfer is reciprocal in nature. Accordingly, OCF recognizes the fund as a liability on its statement of financial position. Also, under the terms of the agreement, OCF shall distribute not less than annually, a percentage of the fair value of the funds as determined by the board of directors of OCF. However, in no event will the percentage be less than a reasonable rate of return. OCF may make additional distributions from the funds to the Organization upon a majority vote of all of the directors of the Organization, if, in the sole judgment of the board of OCF, the requested distribution is consistent with the objectives and purposes of the Organization.

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2011 and 2010:

	2011	2010
Land	\$ 366,673	\$ 366,673
Buildings	1,772,383	1,620,087
Furniture and equipment	178,378	187,155
Library collection	14,500	14,500
	2,331,934	2,188,415
Less accumulated depreciation	941,527	889,921
Property and equipment, net	\$ 1,390,407	\$ 1,298,494

6. CONSERVATION PROPERTY

In August 2008, ASoP entered into an agreement with the National Audubon Society (NAS) to receive, conserve, and manage land on the Oregon coast, valued at \$1,520,157, as a wildlife sanctuary, known as Ten Mile Creek Sanctuary. The property is subject to a conservation easement between NAS, as grantor, and McKenzie River Trust, as grantee. Other conservation property includes the Hilltop property acquired in July 2007 for \$482,953.

7. NOTE PAYABLE

Note payable represents a loan from an unrelated individual for the remodeling and rehabilitation of the caretaker's house. A total of \$95,000 is available to borrow on the loan. Interest is payable quarterly on outstanding advances at 5% per annum from May 1, 2010 through May 1, 2013 and 8% per annum thereafter, until paid. The outstanding balance is payable in quarterly installments of \$725 plus interest, until paid in full. During the year ended June 30, 2011, the note holder forgave \$20,000 of principal on the note as a contribution to the Organization. The note is unsecured and due and payable on May 1, 2028. Future maturities are as follows:

Year ending June 30, 2012	\$ 2,900
2013	2,900
2014	2,900
2015	2,900
2016	2,900
Thereafter	33,446
	\$ 47,946

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

8. BOARD DESIGNATED NET ASSETS

Board designated net assets consist of unrestricted net assets designated by the Board as a reserve fund for the long-term benefit of ASoP. The reserve fund is intended to be permanent; however, the reserve fund may be utilized in the event of an emergency, opportunity, or unanticipated income shortfall. See Note 11 for further discussion.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of time and purpose-restricted net assets as follows:

	2011	2010
Time restricted	\$ 40,000	\$ -
Various programs	93,093	153,830
Land held for conservation	1,520,157	1,520,157
Total temporarily restricted net assets	\$ 1,653,250	\$ 1,673,987

10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets include a permanently restricted bequest (perpetual trust) received in 2003. The assets are held in trust and administered by a bank. The donor restrictions stipulated that the annual income earned on the trust, determined by the greater of the actual earnings or 5% of the asset value, be released for the care of wild birds and for public education regarding birds. In the event the 5% distribution exceeds actual earnings, the corpus will be reduced accordingly.

In August 2009, ASoP entered into an agreement with the National Audubon Society (NAS) to receive, conserve, and manage land on the Oregon coast, valued at \$1,520,157, as a wildlife sanctuary, known as Ten Mile Creek Sanctuary. NAS also contributed \$190,000 to be held in an endowment for management and maintenance of the property (easement funding). In the event that ASoP conveys the property to a third party, the balance of the easement funding will also be transferred to such third party. An additional contribution of \$10,000 was received for the endowment but is not part of the easement funding. See Note 11 for further discussion of the endowment.

During the year ended June 30, 2010, the Organization established the sanctuary stewardship endowment fund. Contributions will be held in perpetuity, with the earnings to support stewardship of the sanctuary after the fund reaches \$250,000.

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

10. PERMANENTLY RESTRICTED NET ASSETS, Continued

Permanently restricted net assets are summarized as follows:

	2011	2010
Perpetual trust	\$ 510,738	\$ 444,039
Ten Mile Creek Sanctuary endowment (Note 11)	200,000	200,000
Sanctuary stewardship endowment (Note 11)	118,387	62,441
Total permanently restricted net assets	\$ 829,125	\$ 706,480

11. ENDOWMENT FUNDS

Audubon Society of Portland, Oregon's endowment consists of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions or board designations.

Interpretation of Relevant Law

The Board of Directors of Audubon Society of Portland, Oregon has interpreted Oregon's enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act) as requiring the preservation of the fair value 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, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment (b) the original value of subsequent gifts to the 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 the Organization in a manner consistent with the standard of prudence prescribed by the Act.

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

11. ENDOWMENT FUNDS, Continued

Interpretation of Relevant Law, Continued

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Investment Return Objectives, Risk Parameters and Strategies

The Organization has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to fund cash flow needs.

Spending Policy:

The Organization has not yet established a policy for spending for the sanctuary stewardship endowment as the funds have not reached the level required to begin funding. Spending for the Ten Mile Creek Sanctuary endowment is in accordance with the endowment agreement.

Composition of endowment net assets at June 30, 2011 and 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2011				
Donor-restricted	\$ -	\$ -	\$ 318,387	\$ 318,387
Board-designated	396,452	-	-	396,452
	<u>\$ 396,452</u>	<u>\$ -</u>	<u>\$ 318,387</u>	<u>\$ 714,839</u>
June 30, 2010				
Donor-restricted	\$ -	\$ -	\$ 262,441	\$ 262,441
Board-designated	357,613	-	-	357,613
	<u>\$ 357,613</u>	<u>\$ -</u>	<u>\$ 262,441</u>	<u>\$ 620,054</u>

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

11. ENDOWMENT FUNDS, Continued

Changes in endowment net assets for the years ended June 30, 2011 and 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance – June 30, 2009	\$ 205,814	\$ -	\$ 200,000	\$ 405,814
Contributions	143,452	-	62,441	205,893
Investment income	4,170	9,687	-	13,857
Realized/unrealized gain on investments	8,347	-	-	8,347
Appropriated for expenditure	<u>(4,170)</u>	<u>(9,687)</u>	<u>-</u>	<u>(13,857)</u>
Balance – June 30, 2010	357,613	-	262,441	620,054
Contributions	-	-	47,908	47,908
Investment income	4,161	7,773	-	11,934
Realized/unrealized gain on investments	38,839	-	8,038	46,877
Appropriated for expenditure	<u>(4,161)</u>	<u>(7,773)</u>	<u>-</u>	<u>(11,934)</u>
Balance – June 30, 2011	<u>\$ 396,452</u>	<u>\$ -</u>	<u>\$ 318,387</u>	<u>\$ 714,839</u>

12. RETIREMENT PLAN

ASoP has a 401(k) salary deferral retirement plan available to eligible employees. Participants may make contributions through a salary reduction agreement. ASoP's contribution to the plan is discretionary and based on the approval of the Board of Directions. ASoP contributed \$27,064 and \$18,333 to the plan for the years ended June 30, 2011 and 2010.

13. CONCENTRATIONS OF CREDIT RISK

ASoP maintains its cash balances in several financial institutions located in Portland. The balances in each financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2011 and 2010, uninsured cash balances approximate \$326,000 and \$2,000, respectively.

Credit risk for contributions receivable is concentrated as well because at June 30, 2011, 81% of the balance is from three organizations, and at June 30, 2010, 70% of the balance is from three organizations.

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

13. CONCENTRATIONS OF CREDIT RISK, Continued

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

14. FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

AUDUBON SOCIETY OF PORTLAND, OREGON
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

14. FAIR VALUE MEASUREMENTS, Continued

Fair values of assets measured on a recurring basis at June 30, 2011 and 2010 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 3</u>
2011			
Mutual funds:			
Fixed income	\$ 63,247	\$ 63,247	\$ -
Balanced	101,427	101,427	-
Investments held in perpetual trust:			
Fixed income securities	120,245	120,245	-
Equity securities	369,608	369,608	-
Beneficial interest in assets held by OCF	423,605	-	423,605
	<u>\$1,078,132</u>	<u>\$ 654,527</u>	<u>\$ 423,605</u>
2010			
Mutual funds:			
Fixed income	\$ 62,438	\$ 62,438	\$ -
Balanced	80,070	80,070	-
Investments held in perpetual trust:			
Fixed income securities	120,110	120,110	-
Equity securities	313,132	313,132	-
	<u>\$ 575,750</u>	<u>\$ 575,750</u>	<u>\$ -</u>

Fair values for fixed income, equity securities and mutual funds are determined by reference to quoted market prices and other relevant information generated by market transactions. Investments held at OCF in pooled funds are valued at the net asset value per unit as provided by OCF trustees. Net asset value is based on fair value of the underlying assets of the funds using quoted market prices when available.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) include:

Beneficial interest in assets held by OCF:

Beginning of year	\$ -
Contributions	390,000
Investment income, net of fees	1,193
Realized/unrealized gain on investments	50,207
Disbursements	<u>(17,795)</u>
End of year	<u>\$423,605</u>