

AUDUBON CANYON RANCH, INC.
(A California Nonprofit Public Benefit Corporation)

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**For the Years Ended
June 30, 2012 and 2011**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Audubon Canyon Ranch, Inc.
Stinson Beach, California

We have audited the accompanying statements of financial position of Audubon Canyon Ranch, Inc. (a California nonprofit public benefit corporation), as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of functional expenses are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



January 4, 2013

AUDUBON CANYON RANCH, INC.
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 576,254	\$ 308,275
Pledges, grants and bequests receivable (Note 1)	72,544	111,845
Accounts receivable (Note 1)	18,858	49,201
Inventory (Note 2)	24,099	18,351
Prepaid expenses	29,026	30,618
Total current assets	720,781	518,290
Endowment investments (Note 3)	20,697,628	20,647,593
Life income gifts and remainder interest in trusts, at present value (Note 4)	79,614	126,527
Property, equipment and improvements, net of accumulated depreciation of \$2,945,124 at 2012 and \$2,804,115 at 2011 (Notes 1 and 5)	6,975,080	5,593,797
Total assets	\$ 28,473,103	\$ 26,886,207
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 221,415	\$ 208,462
Total liabilities	221,415	208,462
Net assets:		
Unrestricted	10,114,964	2,954,742
Temporarily restricted (Note 6)	4,544,025	12,676,071
Permanently restricted (Note 3)	13,592,699	11,046,932
Total net assets	28,251,688	26,677,745
Total liabilities and net assets	\$ 28,473,103	\$ 26,886,207

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

AUDUBON CANYON RANCH, INC.
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES
For the year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUE AND TRANSFERS				
Public support:				
Gifts and bequests	\$ 402,996	\$ 726,832	\$ 1,115,767	\$ 2,245,595
Grants	291,870	-	-	291,870
In-kind land and services (Note 7)	5,130	-	1,430,000	1,435,130
Total public support	<u>699,996</u>	<u>726,832</u>	<u>2,545,767</u>	<u>3,972,595</u>
Revenue:				
Endowment income transfers (Note 3)	1,673,968	-	-	1,673,968
Special event earned income, net of direct expenses of \$70,942 (Note 8)	(2,648)	-	-	(2,648)
Bookstore sales, net	7,171	-	-	7,171
Contract revenue	45,621	-	-	45,621
Other revenue	27,312	-	-	27,312
Total revenue	<u>1,751,424</u>	<u>-</u>	<u>-</u>	<u>1,751,424</u>
Net assets released from restriction (Note 9)	<u>226,219</u>	<u>(226,219)</u>	<u>-</u>	<u>-</u>
Total public support, revenue and transfers	<u>2,677,639</u>	<u>500,613</u>	<u>2,545,767</u>	<u>5,724,019</u>
EXPENSES				
Program services	1,929,716	-	-	1,929,716
General and administrative	405,673	-	-	405,673
Fundraising	358,691	-	-	358,691
Total expenses	<u>2,694,080</u>	<u>-</u>	<u>-</u>	<u>2,694,080</u>
Change in net assets from operations	(16,441)	500,613	2,545,767	3,029,939
OTHER INCOME (EXPENSE)				
Endowment income (loss), net of transfers (Note 3)	<u>(953,357)</u>	<u>(502,639)</u>	<u>-</u>	<u>(1,455,996)</u>
Change in net assets	(969,798)	(2,026)	2,545,767	1,573,943
Reclassification (Note 3)	8,130,020	(8,130,020)	-	-
Net assets, beginning of year	<u>2,954,742</u>	<u>12,676,071</u>	<u>11,046,932</u>	<u>26,677,745</u>
Net assets, end of year	<u>\$10,114,964</u>	<u>\$ 4,544,025</u>	<u>\$13,592,699</u>	<u>\$ 28,251,688</u>

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

AUDUBON CANYON RANCH, INC.
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES (CONTINUED)
For the year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUE AND TRANSFERS				
Public support:				
Gifts and bequests	\$ 309,043	\$ 221,416	\$ 5,863	\$ 536,322
Grants	335,296	-	-	335,296
In-kind services (Note 7)	41,961	-	-	41,961
Total public support	<u>686,300</u>	<u>221,416</u>	<u>5,863</u>	<u>913,579</u>
Revenue:				
Endowment income transfers (Note 3)	1,608,800	-	-	1,608,800
Special event earned income, net of direct expenses of \$50,899 (Note 8)	5,041	-	-	5,041
Bookstore sales, net	2,348	-	-	2,348
Contract revenue	117,464	-	-	117,464
Other revenue	1,515	-	-	1,515
Total revenue	<u>1,735,168</u>	<u>-</u>	<u>-</u>	<u>1,735,168</u>
Net assets released from restriction (Note 9)	<u>397,214</u>	<u>(397,214)</u>	<u>-</u>	<u>-</u>
Total public support, revenue and transfers	<u>2,818,682</u>	<u>(175,798)</u>	<u>5,863</u>	<u>2,648,747</u>
EXPENSES				
Program services	2,115,177	-	-	2,115,177
General and administrative	401,157	-	-	401,157
Fundraising	370,965	-	-	370,965
Total expenses	<u>2,887,299</u>	<u>-</u>	<u>-</u>	<u>2,887,299</u>
Change in net assets from operations	(68,617)	(175,798)	5,863	(238,552)
OTHER INCOME (EXPENSE)				
Endowment income (loss), net of transfers (Note 3)	<u>(3,555)</u>	<u>2,457,646</u>	<u>-</u>	<u>2,454,091</u>
Change in net assets	(72,172)	2,281,848	5,863	2,215,539
Net assets, beginning of year	<u>3,026,914</u>	<u>10,394,223</u>	<u>11,041,069</u>	<u>24,462,206</u>
Net assets, end of year	<u>\$ 2,954,742</u>	<u>\$12,676,071</u>	<u>\$11,046,932</u>	<u>\$ 26,677,745</u>

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

AUDUBON CANYON RANCH, INC.
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	<u>\$ 1,573,943</u>	<u>\$ 2,215,539</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	157,762	169,357
Loss on disposal of property, equipment and improvements	-	39,588
Donation of marketable securities	(12,329)	(5,136)
Donation of land	(1,430,000)	-
Realized gain on investments	(406,986)	(153,112)
Unrealized gain on investments	646,798	(3,426,277)
Changes in assets and liabilities:		
Pledges, grants and bequests receivable	39,301	132,475
Accounts receivable	30,343	(24,339)
Inventory	(5,748)	4,776
Prepaid expenses	1,592	3,635
Life income gifts and remainder interest in trusts	46,913	(5,094)
Accounts payable and accrued expenses	<u>12,953</u>	<u>(8,713)</u>
Total adjustments	<u>(919,401)</u>	<u>(3,272,840)</u>
Net cash provided (used) by operating activities	<u>654,542</u>	<u>(1,057,301)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (purchases) sales of endowment investments	(277,518)	1,007,860
Purchase of property, equipment and improvements	<u>(109,045)</u>	<u>(208,119)</u>
Net cash (used) provided by investing activities	<u>(386,563)</u>	<u>799,741</u>
Net increase (decrease) in cash and cash equivalents	267,979	(257,560)
Cash and cash equivalents, beginning of year	<u>308,275</u>	<u>565,835</u>
Cash and cash equivalents, end of year	<u>\$ 576,254</u>	<u>\$ 308,275</u>
Non-cash transactions:		
Donation of marketable securities	<u>\$ 12,329</u>	<u>\$ 5,136</u>
Donation of land	<u>\$ 1,430,000</u>	<u>\$ -</u>

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

AUDUBON CANYON RANCH, INC.
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Audubon Canyon Ranch, Inc. (hereafter ACR, or the Corporation), a California nonprofit public benefit corporation, is a system of wildlife sanctuaries and centers of nature education in the counties of Marin and Sonoma, California. ACR has three primary properties: the Martin Griffin Preserve (formerly the Bolinas Lagoon Preserve), Bouverie Preserve, Cypress Grove Research Center, and a number of other properties in Marin, Sonoma and Napa Counties. Audubon Canyon Ranch protects the natural resources of its sanctuaries while fostering an understanding and appreciation of these environments. We educate children and adults, promote ecological literacy that is grounded in direct experience and conduct research and restoration that advances conservation science.

ACR receives the majority of its support and revenue from public and private contributions and earnings from fund investments.

Basis of Presentation - Resources are classified for accounting and reporting purposes into three classes of net assets, according to externally imposed restrictions:

Unrestricted net assets - Net assets that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year.

Temporarily restricted net assets - Net assets resulting (a) from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations, (b) from other asset enhancements and diminishment that are subject to the same kind of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Corporation pursuant to those stipulations.

Permanently restricted net assets - Net assets resulting (a) from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation, (b) from other asset enhancements and diminishment that are subject to the same kinds of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Method of Accounting - The financial statements of the Corporation are prepared using the accrual basis of accounting, which reflects revenue when earned and expenses as incurred.

Cash and Cash Equivalents - Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

AUDUBON CANYON RANCH, INC.
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions - Contributions are recognized when the donor makes a promise to give to the Corporation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Property, Equipment and Improvements - The Corporation records property and equipment in excess of \$2,000 at cost of acquisition or, if donated, fair market value at date of donation. Depreciation is recognized using the straight-line method over the useful lives of the assets, which range from 5 to 39 year for buildings and 5 to 10 years for equipment.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes - The Corporation is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, and is considered by the IRS to be an organization other than a private foundation. In the opinion of management, there is no unrelated business income.

Accounts, Pledges, Grants, and Bequests Receivable - It is the practice of the Corporation to expense uncollectibles only after exhausting all efforts to collect the amounts due. There is no allowance for doubtful accounts and management believes all amounts will be collected in full.

Subsequent Events - Subsequent events have been evaluated through January 4, 2013, which is the date the financial statements were available to be issued.

ASC 740-10, Accounting for Uncertainty in Income Taxes - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Corporation to report information regarding its exposure to various tax positions taken by the Corporation. The Corporation has determined whether any tax positions have met the recognition threshold and have measured the Corporation's exposure to those tax positions. Management believes that the Corporation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Corporation are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Reclassifications - Certain balances at, and for the year ended June 30, 2011, were reclassified to conform with June 30, 2012, balances.

AUDUBON CANYON RANCH, INC.
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 2 INVENTORY

Bookstore inventory items are held for resale and are stated at the lower of cost or market and determined on a first-in, first-out basis. Inventory at June 30, 2012 and 2011, totaled \$24,099 and \$18,351, respectively.

NOTE 3 ENDOWMENT INVESTMENTS AND PERMANENTLY RESTRICTED NET ASSETS

Endowment investments consist of two components:

- *Permanently Restricted Endowment Investments* representing the historic dollar value of contributions restricted by donors for permanent investment.
- *Board Designated Endowment Investments* representing funds allocated to the endowment by the Corporation's Board of Directors.

The following are the major categories of marketable equity securities measured at fair value on a recurring basis during the years ended June 30, 2012 and 2011, using quoted prices in active markets for identified assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

Fair Value Measurements at June 30, 2012, Using

<u>Description</u>	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity securities	\$ 13,598,849	\$ -	\$ -	\$ 13,598,849
Fixed income	7,098,779	-	-	7,098,779
	<u>\$ 20,697,628</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,697,628</u>

Fair Value Measurements at June 30, 2011, Using

<u>Description</u>	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity securities	\$ 13,468,030	\$ -	\$ -	\$ 13,468,030
Fixed income	7,179,563	-	-	7,179,563
	<u>\$ 20,647,593</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,647,593</u>

AUDUBON CANYON RANCH, INC.
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 3 ENDOWMENT INVESTMENTS AND PERMANENTLY RESTRICTED NET ASSETS
(Continued)

The following summarizes the investment income (loss), including operating account activity, during the years ended June 30, 2012 and 2011:

	2012	2011
Realized gain	\$ 406,986	\$ 153,112
Unrealized (loss) gain	(646,798)	3,426,277
Interest and dividend income	527,599	557,408
Investment management fees	(69,815)	(73,906)
	\$ 217,972	\$ 4,062,891

Investment income is presented as follows on the Statements of Activities for the years ended June 30, 2012 and 2011:

	2012	2011
Endowment income transfers	\$ 1,673,968	\$ 1,608,800
Endowment income (loss), net of transfers	(1,455,996)	2,454,091
	\$ 217,972	\$ 4,062,891

ACR's endowment consists of one investment account containing bonds and equities established for a variety of purposes and cash held in a bank account. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Law - The Board of Directors of ACR has interpreted the California State Prudent Management of Institutional Funds Act (SPMIFA) 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, ACR 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, if applicable. 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 SPMIFA.

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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 3 ENDOWMENT INVESTMENTS AND PERMANENTLY RESTRICTED NET ASSETS
(Continued)

Interpretation of Law (Continued) - In accordance with SPMIFA, 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 purpose 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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Endowment Net Asset Composition by Type of Fund as of:</u>				
<u>June 30, 2012</u>				
Donor-restricted endowment funds	\$ -	\$ 2,812,094	\$ 10,617,699	\$ 13,429,793
Board-designated endowment funds	7,247,312	-	-	7,247,312
Total funds	\$ 7,247,312	\$ 2,812,094	\$ 10,617,699	\$ 20,677,105
Cash and cash equivalents	\$ -	\$ 472,275	\$ -	\$ 472,275
Pooled income fund receivable	-	-	7,202	7,202
Endowment investments	7,247,312	2,339,819	10,610,497	20,197,628
	\$ 7,247,312	\$ 2,812,094	\$ 10,617,699	\$ 20,677,105
<u>June 30, 2011</u>				
Donor-restricted endowment funds	\$ -	\$ 3,314,733	\$ 9,501,932	\$ 12,816,665
Board-designated endowment funds	-	8,130,020	-	8,130,020
Total funds	\$ -	\$ 11,444,753	\$ 9,501,932	\$ 20,946,685
Cash and cash equivalents	\$ -	\$ 250,240	\$ -	\$ 250,240
Pooled income fund receivable	-	-	48,852	48,852
Endowment investments	-	11,194,513	9,453,080	20,647,593
	\$ -	\$ 11,444,753	\$ 9,501,932	\$ 20,946,685

AUDUBON CANYON RANCH, INC.
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 3 ENDOWMENT INVESTMENTS AND PERMANENTLY RESTRICTED NET ASSETS
(Continued)

Changes in Endowment Net Assets for the Fiscal Years Ended June 30, 2012 and 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2010	\$ -	\$ 8,987,107	\$ 9,496,069	\$ 18,483,176
Investment return:				
Interest and dividends	-	556,688	-	556,688
Realized gain	-	153,112	-	153,112
Unrealized gain	-	3,426,277	-	3,426,277
Investment fees	-	(69,631)	-	(69,631)
Total investment return	-	4,066,446	-	4,066,446
Contributions	-	-	4,805	4,805
Change in value of pooled income fund, per donor instructions	-	-	1,058	1,058
Total contributions and changes in contributions	-	-	5,863	5,863
Appropriation of endowment assets for expenditure:				
Spending rule	-	(1,078,800)	-	(1,078,800)
Additional appropriations	-	(530,000)	-	(530,000)
Total appropriations	-	(1,608,800)	-	(1,608,800)
Endowment net assets, June 30, 2011	-	11,444,753	9,501,932	20,946,685
Release of Board-designated funds	8,130,020	(8,130,020)	-	-
Investment return:				
Interest and dividends	205,831	318,191	-	524,022
Realized gain	155,983	241,131	-	397,114
Unrealized loss	(278,848)	(431,066)	-	(709,914)
Total investment return	82,966	128,256	-	211,222

AUDUBON CANYON RANCH, INC.
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 3 ENDOWMENT INVESTMENTS AND PERMANENTLY RESTRICTED NET ASSETS
(Continued)

Changes in Endowment Net Assets for the Fiscal Years Ended June 30, 2012 and 2011 (Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions	77,399	-	1,158,721	1,236,120
Change in value of pooled income fund, per donor instructions	-	-	(42,954)	(42,954)
Total contributions and changes in contributions	<u>77,399</u>	<u>-</u>	<u>1,115,767</u>	<u>1,193,166</u>
Appropriation of endowment assets for expenditure:				
Spending rule	(408,108)	(630,895)	-	(1,039,003)
Additional appropriations	<u>(634,965)</u>	<u>-</u>	<u>-</u>	<u>(634,965)</u>
Total appropriations	<u>(1,043,073)</u>	<u>(630,895)</u>	<u>-</u>	<u>(1,673,968)</u>
Endowment net assets, June 30, 2012	<u>\$ 7,247,312</u>	<u>\$ 2,812,094</u>	<u>\$ 10,617,699</u>	<u>\$ 20,677,105</u>

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted
Net Assets (Endowment Only)

Permanently Restricted Net Assets

The portion of perpetual endowment funds that is
required to be retained permanently either by
explicit donor stipulation or by SPMIFA

<u>2012</u>	<u>2011</u>
<u>\$ 10,617,699</u>	<u>\$ 9,501,932</u>

Total endowment funds classified as permanently
restricted net assets

<u>\$ 10,617,699</u>	<u>\$ 9,501,932</u>
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Temporarily Restricted Net Assets

Term endowment funds

\$ -	\$ 5,624,194
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The portion of perpetual endowment funds subject to a
time restriction under SPMIFA:

 Without purpose restrictions

2,587,120	5,511,964
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 With purpose restrictions

<u>224,974</u>	<u>308,595</u>
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Total endowment funds classified as temporarily
restricted net assets

<u>\$ 2,812,094</u>	<u>\$ 11,444,753</u>
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AUDUBON CANYON RANCH, INC.
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 3 ENDOWMENT INVESTMENTS AND PERMANENTLY RESTRICTED NET ASSETS
(Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the organization to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2012 or 2011.

Return Objectives and Risk Parameters

ACR has adopted investment and spending policies for endowment assets that attempt to provide consistent, predictable cash flows for ACR's programs and preserve the purchasing power, or inflation-adjusted value, of the endowment assets. Endowment assets include those assets of the donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner consistent with ACR's organizational and other documents and applicable law. The investment goal is to produce a net average total return, over the long-term, equal to the change in the Consumer Price Index ("CPI") plus 5%. The performance of the portfolio will be measured against an appropriate weighting of specific indices (such as the S&P 500 Index, Russell 3000 Index, MSCI EAFE Index, and Barclays Aggregate Bond Index), as determined by the Investment Committee. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return, the assets will be invested in a manner consistent with the purpose and objectives stated above. The organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

ACR has a policy of appropriating for distribution each year an amount equal to the sum of a) 30% of the average of the fair market value of the portfolio at the close of the preceding four quarters (ending June through March) multiplied by a factor of 0.045 as of July 1, 2011 (0.05 prior to that date), plus b) 70% of the prior year distribution amount, adjusted for inflation, plus c) an adjustment for the amount of the gifts added to the endowment since the previous year's distribution amount was determined. Other withdrawals are only permitted at the authorization of the Board of Directors. For the year ended June 30, 2012, the total spending rate was approximately 5.6% of the donor-restricted portion and 13% of the Board-designated portion; for the year ended June 30, 2011, the total spending rate was approximately 5.7% of the donor-restricted portion and 12% of the Board-designated portion. In establishing this policy, the organization considered the long-term expected return on its endowment. Accordingly, over the long-term, the organization expects the current spending policy to allow its endowment to grow at an average of 2 to 4% annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

AUDUBON CANYON RANCH, INC.
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 3 ENDOWMENT INVESTMENTS AND PERMANENTLY RESTRICTED NET ASSETS
(Continued)

Permanently Restricted Net Assets

In addition to endowment funds, ACR received donations of land and a building donor-restricted as to use and disposal classified as permanently restricted. As of June 30, 2012 and 2011, the Corporation held the following permanently restricted net assets:

	2012	2011
Endowment funds	\$ 10,617,699	\$ 9,501,932
Permanently restricted land and buildings	2,975,000	1,545,000
	\$ 13,592,699	\$ 11,046,932

NOTE 4 LIFE INCOME GIFTS AND REMAINDER INTEREST IN TRUSTS

Life income gifts consisted of funds held in trust at a bank under non-revocable life agreements in which donors retained the right to the income generated by the funds. Upon the death of the donors, the funds were to be given to the Corporation. This receivable was discounted for present value based the estimated life of the donors on income beneficiaries. During the year ended June 30, 2012, the Corporation discontinued this program and amounts were returned to the donor and/or donated to ACR until all amounts were distributed in August 2012.

The Corporation is the charitable remainder beneficiary for several charitable remainder uni-trusts (CRUTs) holding primarily marketable securities. The CRUTs are subject to life estates, whereby the assets, upon death of the income beneficiary, are distributed to ACR.

The following are the major categories of life income gifts and CRUTs measured at fair value using the market approach on a recurring basis during the years ended June 30, 2012 and 2011, using quoted prices in active markets for identified assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

<u>Description</u>	<u>Fair Value Measurements at June 30, 2012, Using</u>			<u>Total</u>
	<u>Quoted Price in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Life income gifts	\$ -	\$ 7,202	\$ -	\$ 7,202
Remainder interest in trusts	-	72,412	-	72,412
	\$ -	\$ 79,614	\$ -	\$ 79,614

AUDUBON CANYON RANCH, INC.
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 4 LIFE INCOME GIFTS AND REMAINDER INTEREST IN TRUSTS (Continued)

<u>Description</u>	<u>Fair Value Measurements at June 30, 2011, Using</u>			<u>Total</u>
	<u>Quoted Price in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Life income gifts	\$ -	\$ 48,852	\$ -	\$ 48,852
Remainder interest in trusts	-	77,675	-	77,675
	<u>\$ -</u>	<u>\$ 126,527</u>	<u>\$ -</u>	<u>\$ 126,527</u>

The following is a reconciliation of the beginning and ending balances for assets, using the market approach, measured at fair value on a recurring basis using significant other observable inputs (Level 2) during the year ended June 30, 2012:

Balance, June 30, 2011	\$ 126,527
Realized gains	1,752
Distributions, life income gifts	(43,967)
Unrealized loss	<u>(4,699)</u>
Balance, June 30, 2012	<u>\$ 79,613</u>

NOTE 5 PROPERTY, EQUIPMENT AND IMPROVEMENTS

Property, equipment and improvements consisted of the following:

<u>Property, Equipment and Improvements, at Cost</u>	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Furniture and Equipment</u>	<u>Total</u>
Balance, June 30, 2010	\$ 4,163,302	\$ 3,495,463	\$ 614,957	\$ 8,273,722
Additions	-	158,764	49,355	208,119
Disposals	<u>-</u>	<u>(60,494)</u>	<u>(23,435)</u>	<u>(83,929)</u>
Balance, June 30, 2011	4,163,302	3,593,733	640,877	8,397,912
Additions	1,430,000	106,926	2,119	1,539,045
Disposal	-	(16,753)	-	(16,753)
Reclassifications	<u>(32)</u>	<u>-</u>	<u>32</u>	<u>-</u>
Balance, June 30, 2012	<u>5,593,270</u>	<u>3,683,906</u>	<u>643,028</u>	<u>9,920,204</u>

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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 5 PROPERTY, EQUIPMENT AND IMPROVEMENTS (Continued)

<u>Accumulated depreciation</u>	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Furniture and Equipment</u>	<u>Total</u>
Balance, June 30, 2010		2,225,151	453,948	2,679,099
Depreciation expense		124,640	44,717	169,357
Disposals		<u>(21,154)</u>	<u>(23,187)</u>	<u>(44,341)</u>
Balance, June 30, 2011		2,328,637	475,478	2,804,115
Depreciation expense		121,705	36,057	157,762
Disposal		(16,753)	-	(16,753)
Reclassifications		<u>7,933</u>	<u>(7,933)</u>	<u>-</u>
Balance, June 30, 2012		<u>2,441,522</u>	<u>503,602</u>	<u>2,945,124</u>
Property, equipment and improvements, net, June 30, 2012	<u>\$ 5,593,270</u>	<u>\$ 1,242,384</u>	<u>\$ 139,426</u>	<u>\$ 6,975,080</u>
Property, equipment and improvements, net, June 30, 2011	<u>\$ 4,163,302</u>	<u>\$ 1,265,096</u>	<u>\$ 165,399</u>	<u>\$ 5,593,797</u>

The Corporation has received donations of land and buildings subject to donor restriction. See Notes 3 and 6 for the values of permanently and temporarily restricted property, equipment and improvement. Associated with the acquisition of land during the year ended June 30, 2012, the Corporation agreed to assignment of various land use restriction agreements.

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Research/education programs	\$ 13,138	\$ 27,208
Mayacamas land restoration	583,570	-
Equipment purchases	18,090	9,558
Land and buildings	943,011	943,011
Land protection/acquisition	42,840	23,477
Time-restricted	119,237	189,519
Founder's Campaign	-	29,502
Other	12,045	9,043
Temporarily Restricted Endowment (see Note 3)	<u>2,812,094</u>	<u>11,444,753</u>
	<u>\$ 4,544,025</u>	<u>\$ 12,676,071</u>

AUDUBON CANYON RANCH, INC.
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 7 IN-KIND SERVICES

The Corporation receives the benefit of in-kind services that either (a) create or enhance a nonfinancial asset or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased by the organization if they had not been provided by contribution. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftspeople.

The following are the major categories of in-kind contributions measured at fair value using the market approach on a non-recurring basis during the years ended June 30, 2012 and 2011, using quoted prices in active markets for identified assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

Fair Value Measurements at June 30, 2012, Using

<u>Description</u>	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Legal services	\$ -	\$ 5,130	\$ -	\$ 5,130
Land	-	1,430,000	-	1,430,000
	<u>\$ -</u>	<u>\$ 1,435,130</u>	<u>\$ -</u>	<u>\$ 1,435,130</u>

Fair Value Measurements at June 30, 2011, Using

<u>Description</u>	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Legal services	\$ -	\$ 41,961	\$ -	\$ 41,961

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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 8 SPECIAL EVENT

During the years ended June 30, 2012 and 2011, the Corporation held a special event resulting in net income as follows:

	2012	2011
Donations, shown as gifts and bequests on the Statements of Activities	\$ 53,046	\$ 24,500
Auction proceeds	45,719	39,820
Ticket sales	22,575	14,950
Other income	-	1,170
	68,294	55,940
Less: direct expenses	70,942	50,899
Net special event earned income	(2,648)	5,041
Total event net income	\$ 50,398	\$ 29,541

NOTE 9 TEMPORARILY RESTRICTED NET ASSETS RELEASED FROM RESTRICTION

The Corporation fulfilled the use restrictions of the following temporarily restricted items and they were released to unrestricted net assets during the years ended June 30, 2012 and 2011:

	2012	2011
Land protection/acquisition	\$ 55,586	\$ 89,527
Founder's Campaign	29,502	-
Mayacamas land restoration	16,430	-
Research/education programs	27,710	59,843
Other	5,147	12,230
Equipment purchases	1,467	1,718
Early Detection, Rapid Response Program	-	2,248
Time-restricted	90,377	231,648
	\$ 226,219	\$ 397,214

AUDUBON CANYON RANCH, INC.
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 10 VEHICLE LOANS

The Corporation purchased two vehicles under two capital loans that matured January 4, 2012. Each loan required monthly payments of \$564. During the years ended June 30, 2012 and 2011, the Corporation paid \$7,899 and \$13,541, respectively, toward these loans, including imputed interest. In the year ended June 30, 2011, the Corporation purchased a truck under a capital lease expiring October 6, 2015. During the years ended June 30, 2012 and 2011, the Corporation paid \$5,389 and \$4,044, respectively, toward this loan, including imputed interest. The total balance of the remaining loan as of June 30, 2012 and 2011 was \$17,523 and \$30,814, respectively, which is included in accounts payable and accrued expenses of the Statements of Financial Position.

The estimated future minimum liability for the vehicle loans for the current and succeeding years are as follows:

Year ending <u>June 30,</u>		
2013	\$	5,392
2014		5,392
2015		5,392
2016		<u>1,347</u>
	<u>\$</u>	<u>17,523</u>

NOTE 11 EQUIPMENT LEASES

The Corporation leases office equipment under several non-cancellable leases. One lease calls for monthly payments of \$193 and matures October 2012. The second lease calls for 60 monthly minimum payments of \$495, plus usage charges, and matures June 2016. The total lease expense for the years ended June 30, 2012 and 2011, was \$9,850 and \$9,244, respectively.

The estimated future minimum payments for the leases for the current and succeeding years are as follows:

Year ending <u>June 30,</u>	<u>Copier #1</u>	<u>Copier #2</u>	<u>Total</u>
2013	\$ 772	\$ 5,940	\$ 6,712
2014	-	5,940	5,940
2015	-	5,940	5,940
2016	<u>-</u>	<u>5,940</u>	<u>5,940</u>
	<u>\$ 772</u>	<u>\$ 23,760</u>	<u>\$ 24,532</u>

AUDUBON CANYON RANCH, INC.
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

NOTE 12 PENSION AND RETIREMENT PLAN

The Corporation has a contributory pension plan established and operated pursuant to the provisions of the Internal Revenue Code Section 403(b) which covers substantially all employees who are 18 year of age or older and have completed one year of service. The annual employer contribution is discretionary up to 15% of gross eligible wages. Pension expense for the years ended June 30, 2012 and 2011, was \$56,898 and \$62,926, respectively.

NOTE 13 MEMORANDUM OF UNDERSTANDING

On December 8, 2008, ACR signed a Fund Agreement indicating the intention of certain donors, but not the promise or pledge, to transfer to ACR certain real property comprised of approximately 1,700 acres in California at the death of the survivor of them. ACR intends, but does not promise or pledge, to accept the transfer. The donors intend that the property be held, in perpetuity, for specified charitable, educational, and scientific purposes following their deaths.

Additionally, the donors intend, but do not promise or pledge, at the death of the survivor of them, to transfer a significant portion of their estates (“Investments”) to the qualified charitable organization that receives the property. If ACR accepts the property and receives the Investments, the Corporation shall hold, administer and distribute such Investments as endowed funds to further the charitable uses and purposes of ACR and the property pursuant to the terms of the Agreement.

As the Agreement is conditional, no amounts related to this potential transaction have been recorded in these financial statements. Subsequent to year end, the donor passed away and ACR is in the process of reviewing the terms of the Agreement.

NOTE 14 CONDITIONAL GIFT

During the year ended June 30, 2012, ACR was notified that it was named as a remainder beneficiary of an estate currently in probate. Because of the nature of the estate documents and other delays, ACR has not received possession of any assets related to this estate as of the report date. Because of the uncertainty of the value of this estate, currently estimated at approximately \$1,249,000, including real estate holdings, and the significant delays associated with its distribution, no amounts related to the estate have been recorded in these financial statements.

NOTE 15 RISKS, UNCERTAINTIES AND CONCENTRATIONS

The Corporation relies on a significant amount of funding received in the form of donations and grants from individuals and foundations as well as investment income to support its operations. The current global financial markets and U.S. economic downturn may have an impact on the level of funding provided by these funding sources and the market value of marketable equity securities held by the Corporation. While it is impracticable to determine the impact of these events, management is taking steps to address potential changes in funding levels and reduce the Corporation’s exposure to impact from these events.

SUPPLEMENTARY INFORMATION

AUDUBON CANYON RANCH, INC.
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SCHEDULES OF FUNCTIONAL EXPENSES
For the year ended June 30, 2012

	Program Services	General and Administrative	Fundraising	Total
Personnel	\$ 1,310,923	\$ 295,598	\$ 227,923	\$ 1,834,444
Library and public education	79,855	2	-	79,857
Research and special projects	33,498	-	-	33,498
Insurance	32,049	23,225	-	55,274
Professional fees and contract services	42,596	25,028	1,931	69,555
Supplies and other general expenses	42,601	3,377	3,325	49,303
Repairs and maintenance	119,425	11,406	9,841	140,672
Utilities and telephone	79,247	18,285	14,082	111,614
Transportation	46,105	3,800	4,148	54,053
Printing	12,797	24	10,553	23,374
Postage and mailing	5,301	1,147	9,755	16,203
Community outreach and recognition	-	-	56,132	56,132
Property taxes	9,970	-	-	9,970
Retirement of equipment	2,369	-	-	2,369
Total expenses before depreciation	<u>1,816,736</u>	<u>381,892</u>	<u>337,690</u>	<u>2,536,318</u>
Depreciation, amortization, and loss on disposal of property, equipment, and improvements	<u>112,980</u>	<u>23,781</u>	<u>21,001</u>	<u>157,762</u>
Total expenses	<u>\$ 1,929,716</u>	<u>\$ 405,673</u>	<u>\$ 358,691</u>	<u>\$ 2,694,080</u>

AUDUBON CANYON RANCH, INC.
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SCHEDULES OF FUNCTIONAL EXPENSES (CONTINUED)
For the year ended June 30, 2011

	Program Services	General and Administrative	Fundraising	Total
Personnel	\$ 1,500,690	\$ 260,484	\$ 210,267	\$ 1,971,441
Library and public education	70,131	-	-	70,131
Research and special projects	63,050	-	-	63,050
Insurance	28,397	20,276	-	48,673
Professional fees and contract services	33,179	60,797	3,553	97,529
Supplies and other general expenses	42,260	2,670	2,373	47,303
Repairs and maintenance	84,054	6,867	6,495	97,416
Utilities and telephone	70,044	15,993	11,266	97,303
Transportation	40,375	4,010	5,472	49,857
Printing	13,775	-	9,282	23,057
Postage and mailing	6,701	1,038	9,304	17,043
Community outreach and recognition	-	-	86,106	86,106
Property taxes	<u>9,445</u>	<u>-</u>	<u>-</u>	<u>9,445</u>
Total expenses before depreciation	1,962,101	372,135	344,118	2,678,354
Depreciation, amortization, and loss on disposal of property, equipment, and improvements	<u>153,076</u>	<u>29,022</u>	<u>26,847</u>	<u>208,945</u>
Total expenses	<u>\$ 2,115,177</u>	<u>\$ 401,157</u>	<u>\$ 370,965</u>	<u>\$ 2,887,299</u>