Consolidated Financial Statements and Report of Independent Certified Public Accountants

Conservation Law Foundation, Inc. and Subsidiaries

July 31, 2013 and 2012

Contents

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Report of Independent Certified Public Accountants

Board of Directors
Conservation Law Foundation, Inc.

We have audited the accompanying consolidated financial statements of Conservation Law Foundation, Inc. and subsidiaries, which comprise the consolidated statements of financial position as of July 31, 2013 and 2012, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial position of Conservation Law Foundation, Inc. and subsidiaries as of July 31, 2013 and 2012, and the results of their operations 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

Boston, Massachusetts
December 27, 2013

CONSERVATION LAW FOUNDATION, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position

July 31, 2013 and 2012

ASSETS		2013		2012
CURRENT ASSETS				
Cash and cash equivalents	$	1,800,679	$	1,384,059
Accounts receivable, net		95,353		277,609
Grants receivable		635,002		910,532
Contributions receivable (note E)		12,200		61,000
Prepaid expenses		148,127		88,954
Total current assets		2,691,361		2,722,154
INVESTMENTS				
Investments (note D)		9,423,904		8,522,929
Investments under charitable remainder trust and charitable gift annuity agreements		780,032		789,130
Total investments		10,203,936		9,312,059
PROPERTY AND EQUIPMENT, NET (note F)		3,614,963		3,767,974
OTHER ASSETS				
Security deposits		14,365		14,365
Bond acquisition costs, net		23,759		26,398
		38,124		40,763
TOTAL ASSETS	$	16,548,384	$	15,842,950
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current portion of long-term debt (note G)	$	152,126	$	143,515
Current portion of capital lease obligations (note I)		11,581		14,007
Current portion of charitable annuity and charitable remainder trust liability		10,116		11,054
Accounts payable		180,582		266,356
Accrued expenses		367,528		323,062
Grant payable		-		26,401
Total current liabilities		721,933		784,395
LONG-TERM LIABILITIES				
Long-term debt (note G)		1,613,818		1,767,254
Capital lease obligations (note I)		20,467		9,250
Security deposits		13,094		13,094
Charitable annuity and charitable remainder trust liability		67,432		76,102
Total long-term liabilities		1,714,811		1,865,700
Total liabilities		2,436,744		2,650,095
NET ASSETS				
Unrestricted		1,465,504		1,444,242
Board Designated		2,405,367		2,101,437
Total unrestricted net assets		3,870,871		3,545,679
Temporarily restricted		4,846,533		4,338,211
Permanently restricted		5,394,236		5,308,965
Total net assets		14,111,640		13,192,855
TOTAL LIABILITIES AND NET ASSETS	$	16,548,384	$	15,842,950

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

CONSERVATION LAW FOUNDATION, INC. AND SUBSIDIARIES
Consolidated Statement of Activities
Year ended July 31, 2013
(with summarized information for the year ended July 31, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
CONTRIBUTED SUPPORT					
Grants	$ 611,022	$ 3,456,363	$ -	$ 4,067,385	$ 3,560,355
Contributions	1,856,936	100,000	80,048	2,036,984	1,601,881
Total contributed support	2,467,958	3,556,363	80,048	6,104,369	5,162,236
EARNED AND OTHER REVENUE					
Fees for services	1,339,657	-	-	1,339,657	1,472,817
Other earned revenue	187,346	-	-	187,346	199,976
Dividend and interest income	43,333	152,608	-	195,941	156,871
Realized/ unrealized gains on investments	243,484	937,546	-	1,181,030	284,373
Changes in the value of split-interest agreements	(21,825)	(37,053)	5,223	(53,655)	(11,619)
Total earned revenue	1,791,995	1,053,101	5,223	2,850,319	2,102,418
NET ASSETS RELEASED FROM RESTRICTION					
Satisfaction of purpose restrictions (grants)	3,766,475	(3,766,475)	-	-	-
Satisfaction of purpose restrictions (contributions)	54,667	(54,667)	-	-	-
Satisfaction of capital campaign restrictions	280,000	(280,000)	-	-	-
Total net assets released from restriction	4,101,142	(4,101,142)	-	-	-
Total revenue and contributed support	8,361,095	508,322	85,271	8,954,688	7,264,654
EXPENSES					
Program	7,158,492	-	-	7,158,492	6,525,355
Fundraising, membership and grant procurement	446,048	-	-	446,048	499,835
General and administrative	431,363	-	-	431,363	811,457
Total expenses	8,035,903	-	-	8,035,903	7,836,647
CHANGE IN NET ASSETS	325,192	508,322	85,271	918,785	(571,993)
NET ASSETS AT BEGINNING OF YEAR	3,545,679	4,338,211	5,308,965	13,192,855	13,764,848
NET ASSETS AT END OF YEAR	$ 3,870,871	$ 4,846,533	$ 5,394,236	$ 14,111,640	$ 13,192,855

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

CONSERVATION LAW FOUNDATION, INC. AND SUBSIDIARIES
Consolidated Statement of Activities
Year ended July 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CONTRIBUTED SUPPORT				
Grants	$ 338,728	$ 3,221,627	$ -	$ 3,560,355
Contributions	1,585,881	16,000	-	1,601,881
Total Contributed Support	1,924,609	3,237,627	-	5,162,236
EARNED AND OTHER REVENUE				
Fees for services	1,472,817	-	-	1,472,817
Other earned revenue	199,976	-	-	199,976
Dividend and interest income	37,425	119,446	-	156,871
Realized/ unrealized gain on investments	67,238	217,135	-	284,373
Changes in the value of split-interest agreements	(11,707)	88	-	(11,619)
Total earned revenue	1,765,749	336,669	-	2,102,418
NET ASSETS RELEASED FROM RESTRICTION				
Satisfaction of purpose restrictions (grants)	3,000,843	(3,000,843)	-	-
Satisfaction of purpose restrictions (individual contributions)	122,000	(122,000)	-	-
Satisfaction of capital campaign restrictions	650,000	(650,000)	-	-
Satisfaction of timing restrictions	64,583	(64,583)	-	-
Total net assets released from restriction	3,837,426	(3,837,426)	-	-
Total revenue and contributed support	7,527,784	(263,130)	-	7,264,654
EXPENSES				
Program	6,525,355	-	-	6,525,355
Fundraising, membership and grant procurement	499,835	-	-	499,835
General and administrative	811,457	-	-	811,457
Total expenses	7,836,647	-	-	7,836,647
CHANGE IN NET ASSETS	(308,863)	(263,130)	-	(571,993)
NET ASSETS AT BEGINNING OF YEAR	3,854,542	4,601,341	5,308,965	13,764,848
NET ASSETS AT END OF YEAR	$ 3,545,679	$ 4,338,211	$ 5,308,965	$ 13,192,855

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

CONSERVATION LAW FOUNDATION, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended July 31, 2013 and 2012

	2013	2012
OPERATING ACTIVITIES:		
Change in net assets	$ 918,785	$ (571,993)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	250,817	247,261
Change in value of split-interest agreements	53,655	11,619
Net realized and unrealized gain on investments	(1,181,030)	(284,373)
(Increase) decrease in:		
Accounts receivable	182,256	50,618
Grants receivable	275,530	(255,391)
Contributions receivable	48,800	(21,000)
Prepaid expenses	(59,173)	6,006
Beneficial interest in charitable remainder trusts	9,098	1,793
Security deposits	-	(22)
Increase (decrease) in:		
Accounts payable	(85,774)	(156,110)
Accrued expenses	31,711	64,196
Grant payable	(26,401)	(84,990)
Charitable annuities obligation	(7,372)	(4,596)
Net cash provided by (used in) operating activities	410,902	(996,982)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(95,165)	(166,745)
Purchases of investments	(1,003,173)	(855,463)
Proceeds from sales and maturities of investments	1,241,016	1,105,464
Net cash provided by investing activities	142,678	83,256
FINANCING ACTIVITIES:		
Payments of debt	(143,515)	(136,743)
Payments of capital leases	8,791	(6,001)
Payments on charitable annuities	(2,236)	(11,689)
Net cash used in financing activities	(136,960)	(154,433)
NET CHANGE IN CASH AND CASH EQUIVALENTS	416,620	(1,068,159)
Cash and cash equivalents at beginning of year	1,384,059	2,452,218
Cash and cash equivalents at end of year	$ 1,800,679	$ 1,384,059
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 52,185	$ 55,829

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

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Conservation Law Foundation, Inc. (the "Foundation") is a public interest environmental law organization, with its primary operating facility located in Boston, Massachusetts. The Foundation's mission is to use the law to the fullest extent to improve the management of natural resources, and protect the environment and public health throughout New England. The Foundation's support comes primarily from individual contributions and foundation grants.

A summary of significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Financial Statement Presentation

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation, CLF Ventures, Inc. ("CLF Ventures") and Environmental Insurance Agency, Inc. (the "Agency").

CLF Ventures was incorporated in January 1997 as a not-for-profit organization under M.G.L. Chapter 180. CLF Ventures is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. CLF Ventures was created to further accomplish the mission of the Foundation (its sole corporate member) by engaging in legal, consulting, community organizing and other such services to be performed with or without a fee and all with the purpose of promoting the public interest and the purposes of the Foundation. A majority of the Board members of CLF Ventures are also Board members of the Foundation.

Environmental Insurance Agency was incorporated in August 1997 as a for-profit organization under M.G.L. Chapter 156(B). The Agency was created to act as an agent in the marketing of personal auto insurance to environmentally conscious consumers. CLF Ventures owns 92% of the Agency with two other unrelated entities each owning 4%.

All intercompany transactions have been eliminated in consolidation.

Classification of Net Assets

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Permanently restricted - A donor-imposed restriction that stipulates that original resources be maintained permanently but permits the Foundation to use or expend the economic benefits derived from the donated assets. Unless otherwise noted, interest and dividends are unrestricted, the principal is permanently restricted, and fund appreciation is temporarily restricted. Appreciation on permanently restricted funds is held in corresponding temporarily restricted appreciation funds.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Permanently restricted net assets are restricted for the following uses at July 31:

	2013	2012
Campaign for CLF State Endowment Funds: To strengthen CLF's financial position and security	$ 3,070,337	$ 3,070,337
The Advocates Endowment Fund: To support ongoing projects that have depleted their resources and to support new initiatives	952,545	952,545
Dave Cavers Fund: To support the hire of summer legal interns	453,355	453,355
Urgent Action Fund: To support ongoing advocacy and major cases	494,189	494,189
The Brush Fund: To support general operations on fund	130,121	130,121
Beneficial Interest in Trust (held by donor's financial institution)	163,641	158,418
Keith L. Miller Fund: To support operations and advocacy in NH	50,000	50,000
Michael Moskow Fund: To support cost of volunteer attorney program	80,048	-
	$ 5,394,236	$ 5,308,965

In order to protect the inviolate nature of the original corpus of permanently restricted gifts against potential market declines in the future, the Foundation does not distribute all cumulative net unrealized and realized gains on permanently restricted net assets. As a result, the cumulative net unrealized and realized appreciation on investments is accounted for as restricted and is not available for distribution except by the express action of the Board of Trustees of the Foundation.

Temporarily restricted - A donor-imposed restriction that permits the Foundation to use or expend the donated assets as specified; these restrictions are satisfied by either the passage of time or by actions of the Foundation. All funds have purpose restrictions, unless otherwise noted.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Temporarily restricted net assets are available for the following at July 31:

	2013	2012
Campaign for CLF (to support general endowment, facilities, state-based advocacy and Urgent Action Fund)	$ 1,400,224	$ 1,480,324
Appreciation on permanently restricted net assets	695,458	213,167
Fosters Charitable Trust: For general support (time restriction)	415,714	381,117
Grant revenue: restricted by time and/ or purpose	2,079,494	2,053,293
RI Founding Donors Fund: To support operations in RI office	111,177	165,844
Other purpose and time restricted contributions	144,466	44,466
Total temporarily restricted	$ 4,846,533	$ 4,338,211

Unrestricted - Assets and contributions that are not restricted by donors or for which restrictions have expired.

The Foundation reports gifts of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets. 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.

The Foundation reports gifts of land, building, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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 the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant estimates made by the Foundation involve allowances for uncollectible accounts receivable, net realizable values of contributions receivable, economic useful lives of buildings and equipment, fair values of investments, beneficial interest in split-interest agreements and present value of annuity payment liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Foundation maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash.

Contributions Receivable and Grants Receivable

The Foundation's contributions are recorded as support at the time the donor makes an unconditional promise to give. The gift will be classified as unrestricted, temporarily restricted, or permanently restricted as determined by the restrictions placed upon the gift, if any. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk adjusted interest rate applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. The Foundation's allowance for uncollectible contributions represents management's estimate of the amounts required to state contributions at their net realizable value. Contributions and grants receivable are written off when deemed uncollectible and recoveries of receivables previously written off are recorded when received. Conditional promises to give are not included as support until the conditions are substantially met.

Accounts Receivable

Accounts receivable include receivables from various organizations. The Foundation's allowance for uncollectible accounts receivable represents management's estimate of the amounts required to state receivables at their net collectible value. Receivables are written off when deemed uncollectible and recoveries of receivables previously written off are recorded when received.

Property and Equipment

Buildings, building improvements and purchases of equipment are recorded at cost. Donated assets are recorded at fair market value determined on the date of donation.

Depreciation and Amortization

Depreciation and amortization are provided in amounts sufficient to allocate costs of depreciable assets to operations over their estimated service lives on the straight line basis. Fixed assets are depreciated and amortized using straight-line methods as follows:

Building	39 years
Furniture and equipment	3-5 years
Building improvements	5-10 years

Bond Issue Costs

Bond issue costs in connection with the bond issuance were deferred and are being amortized on a straight-line basis over the life of the debt issue.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Donated Services

The Foundation recognizes contributions of services if the services received require specialized skills, are provided by individuals possessing those skills, and would typically be purchased if not provided by donation. During the years ended July 31, 2013 and 2012, the Foundation received approximately $940,000 and $841,000, respectively, of donated legal and other professional services. These services would not have been purchased if not donated. As such no contribution is reflected in the consolidated statements of activities.

Taxes

The Conservation Law Foundation and CLF Ventures are qualified as tax-exempt organizations under Section 501 (c)(3) of the Internal Revenue Code and accordingly no provision for income taxes is necessary for these entities.

The Agency is a for-profit entity subject to federal and state income taxes. The Agency accounts for income taxes under ASC 740, “Income Taxes.” This standard requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the Agency’s financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statements carrying amounts and tax bases of existing assets and liabilities, using enacted tax rates in effect in the years in which the differences are expected to reverse.

The Foundation recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Foundation has applied this more-likely-than-not threshold to all tax positions for which the statute of limitations remained open and determined there were no material unrecognized tax benefits as of that date. In addition, there have been no material changes in unrecognized benefits since adoption.

It is the Foundation’s policy to record estimated interest and penalties (if any) as part of management and general expense. Management believes that the income tax returns for fiscal years 2009 and prior are no longer subject to examination by taxing authorities.

Subsequent events

No material subsequent events occurred between July 31, 2013 and December 27, 2013, the date on which the financial statements were issued.

NOTE B - ENDOWMENT

The Foundation's endowment consists of nine individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds and board designated funds. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation has historically viewed the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the Foundation to preserve 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 Foundation 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. This is regarded as the "historic dollar value" of the endowed fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the Foundation's spending policy.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the "historic dollar value". Deficiencies of this nature are reported by a charge to unrestricted net assets. There were no funds with deficiencies as of July 31, 2013 or 2012.

Endowment Investment Policy

The Foundation has adopted an investment philosophy which, combined with the spending rate, attempts to provide a predictable stream of returns thereby making funds available to programs that are supported by its endowment, while at the same time seeking to maintain the purchasing power of the endowment assets.

Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under the Foundation's Investment Policy and spending rate, both of which are approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns in any given year may vary.

NOTE B - ENDOWMENT - Continued

Endowment Spending Policy

The Foundation makes monthly distributions from restricted to unrestricted net assets. Using this methodology, the Foundation established a spending rate of 5% of the market value of invested funds, calculated on a rolling three year average. Distributions are made monthly in an amount equal to the average market value of the restricted funds averaged out over a three year period. In the event that the distributions exceed net investment income, or the Foundation's Board designated endowment funds, they are deducted from unrestricted unrealized/realized gains/losses. Spending distributions (from both endowment, board designated endowment, and invested temporarily restricted funds) as calculated using the spending rate were $421,102, and $393,972, for the years ended July 31, 2013 and 2012, respectively.

In addition, withdrawals from board designated endowments may occur subject to the approval of the Board of Directors. Distributions of $80,000 and $300,000 from board designated endowments were approved and spent during fiscal years 2013 and 2012, respectively.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Finance Committee of the Board is responsible for selecting the fund managers. The rationale for including an array of alternative strategy managers for a portion of the Foundation's portfolio is to reduce overall volatility while providing equity-like returns. See Note C for more detail on how these are valued.

Endowment Fund Net Assets

July 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	**$ -**	**$ 695,458**	**$ 5,230,595**	**$ 5,926,053**
Board-designated funds	**2,405,367**	**-**	**-**	**2,405,367**
	$ 2,405,367	**$ 695,458**	**$ 5,230,595**	**$ 8,331,420**

July 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 213,167	$ 5,150,547	$ 5,363,714
Board-designated funds	2,101,437	-	-	2,101,437
	$ 2,101,437	$ 213,167	$ 5,150,547	$ 7,465,151

NOTE B - ENDOWMENT - Continued

Endowment Fund Activity

July 31, 2013

	Unrestricted	Temporarily restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 2,101,437	$ 213,167	$ 5,150,547	$ 7,465,151
Investment return:				
Investment income	40,983	103,629	-	144,612
Net appreciation	251,780	607,037	-	858,817
Total investment return	292,763	710,666	-	1,003,429
New gifts/ board designations	193,194	-	80,048	273,242
Appropriation of endowment assets for operations (draw)	(90,317)	(228,375)	-	(318,692)
Additional withdrawals from Board designated	(80,000)	-	-	(80,000)
Other charges:				
Total other changes	(11,710)	-	-	(11,710)
Total other charges	(11,710)	-	-	(11,710)
Net assets, end of year	$ 2,405,367	$ 695,458	$ 5,230,595	$ 8,331,420

July 31, 2012

	Unrestricted	Temporarily restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 2,393,363	$ 195,313	$ 5,150,547	$ 7,739,223
Investment return:				
Investment income	36,672	81,103	-	117,775
Net appreciation	66,665	147,434	-	214,099
Total investment return	103,337	228,537	-	331,874
Appropriation of endowment assets for operations (draw)	(95,290)	(210,743)	-	(306,033)
Additional withdrawals from Board designated	(300,000)	-	-	(300,000)
Other changes:	27	60	-	87
Net assets, end of year	$ 2,101,437	$ 213,167	$ 5,150,547	$ 7,465,151

NOTE C - FAIR VALUE MEASUREMENTS

The Foundation follows ASC 820, *Fair Value Measurements*. This standard clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Contributions Receivable

Contributions receivable are valued based on non-recurring fair value measurements. Any multi-year pledges received during the fiscal year are recorded at the present value of future cash flows with a discount rate adjusted for any market conditions to arrive at fair value. There was no discount recorded at July 31, 2013 or 2012, due to the immateriality of the amount.

Investments

Investments whose values are valued based on quoted market prices in active markets are classified as Level 1 or Level 2 inputs.

Annuities and Unitrusts Payable

Annuities and unitrust liabilities are non-recurring Level 3 fair value measurements. These instruments are initially recorded at the present value of future cash flows with a discount rate adjusted for any market conditions to arrive at fair value.

The Foundation has entered into several charitable gift annuity agreements whereby the donor contributes assets in exchange for distributions over a specific period of time to the donor or other beneficiaries. At the end of the specified time, the remaining assets are available for the Foundation's use. Charitable gift annuities are recognized in the period in which the contract is executed. The difference between the fair value of the assets received and the liability to the donor or other beneficiaries is recognized as contribution revenue. Assets held under charitable gift annuities totaled $200,700 and $221,571 at July 31, 2013 and 2012, respectively, and are reported as investments under charitable remainder trust and charitable gift annuity agreements within the Foundation's consolidated statements of financial position. The liability related to charitable gift annuities was $77,548 and $87,156 at July 31, 2013 and 2012, respectively.

NOTE C - FAIR VALUE MEASUREMENTS - Continued

The Foundation is the beneficiary of an additional charitable remainder unitrust. This charitable remainder trust provides for the payment of distributions to certain designated beneficiaries over the trust's term. At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the consolidated statements of activities as a temporarily restricted contribution. During fiscal year 2013 the term of the unitrust ended and the assets were transferred into the general investments of the Foundation. Assets held in this charitable remainder trust are recorded at fair value and totaled approximately $185,000 at July 31, 2013 and 2012, respectively, and are included as a component of Investments within the Foundation's consolidated statements of financial position. The related liability payable to designated beneficiaries was $4,310 at July 31, 2012.

Charitable Remainder Trusts

The Foundation is the beneficiary of one charitable remainder trust where the respective assets are controlled and invested by an independent third party. On an annual basis the Foundation re-values its interest in those assets. In addition, the Foundation is the beneficiary of a charitable lead trust where the respective assets are controlled and invested by an independent third party. The Foundation recorded an asset based upon the present value of the fixed future distributions expected to be received by the Foundation according to the agreement. The assets recorded under these charitable remainder and lead trusts were $415,691 and $409,140 at July 31, 2013 and 2012, respectively. They are reported under Investments in Charitable Remainder Trust and Charitable Gift Annuity Agreements within the Foundation's Consolidated Statements of Financial Position. Also in that category is a beneficial interest in trust, which is also maintained by a third party. The asset value under this split interest agreement was $163,641 at July 31, 2013 and $158,418 at July 31, 2012, respectively.

The following table sets forth the Foundation's financial assets and liabilities that were accounted for at fair value on a recurring basis as of July 31, by level within the fair value hierarchy.

	2013		
Description	(Level 1)	(Level 2)	(Level 3)
Cash and equivalents	$ 315,372	$ -	$ -
U.S. Government bonds	-	10,016	-
Corporate bonds	-	1,994,942	-
Corporate stocks	6,656,838	-	-
Mutual funds	446,736	-	-
Charitable Remainder Trusts/ Gift Annuities	-	-	780,032
	$ 7,418,946	$ 2,004,958	$ 780,032

NOTE C - FAIR VALUE MEASUREMENTS - Continued

Description	2012 (Level 1)	(Level 2)	(Level 3)
Money market funds	$ 686,165	$ -	$ -
U.S. Government bonds	-	10,421	-
Corporate bonds	-	1,843,521	-
Corporate stocks	5,598,331	-	-
Mutual funds	384,491	-	-
Charitable Remainder Trusts/ Gift Annuities	-	-	789,130
	$ 6,668,987	$ 1,853,942	$ 789,130

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value using significant unobservable inputs (Level 3) that occurred in these assets during fiscal years 2013 and 2012:

	2013	2012
Beginning balance at August 1	$ **789,130**	$ 802,542
Total gains or losses included in change in net assets	**(9,098)**	(13,412)
Ending balance July 31	$ **780,032**	$ 789,130

NOTE D - INVESTMENTS

Investments are recorded at fair value. Changes in fair values are reflected in the statement of activities as gains or losses on investments. The fair value was as follows at July 31:

	2013	2012
Money market funds	**$ 315,372**	$ 686,165
U.S. Government bonds	**10,016**	10,421
Corporate bonds	**1,994,942**	1,843,521
Corporate stocks	**6,656,838**	5,598,331
Mutual funds	**446,736**	384,491
Total Investments	**$ 9,423,904**	$ 8,522,929

The Corporate and U.S. Government bonds mature at various dates, with final maturity in March 2017.

NOTE E - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at July 31:

	2013	2012
Amounts due in less than one year	$ **12,200**	$ 61,000
Total due	**-**	61,000
Less: allowance for doubtful accounts	**-**	-
Net contributions receivable	$ **12,200**	$ 61,000

NOTE F - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at July 31:

	2013	2012
Land	$ **397,501**	397,501
Building	**4,553,136**	4,553,136
Furniture and equipment	**572,612**	559,968
Building improvements	**319,369**	273,789
	5,842,618	5,784,394
Less accumulated depreciation and amortization	**(2,227,655)**	(2,016,420)
Net property and equipment	$ **3,614,963**	$ 3,767,974

NOTE G - LONG-TERM DEBT

Long-term debt consists of the following on July 31:

	2013	2012
Obligation with MassDevelopment (formerly Massachusetts Health and Educational Facilities Authority ("MHEFA")), Capital Asset Program Issue, Series O-1, variable interest rate (0.089% at July 31, 2013) with balance due in full on June 15, 2022.	$ **1,778,699**	$ 1,910,769
Less: Current portion	**(152,126)**	(143,515)
Non-current portion	$ **1,626,573**	$ 1,767,254

NOTE G - LONG-TERM DEBT - Continued

Principal payments on debt are due as follows:

Years ending July 31	
2014	$ 152,126
2015	161,254
2016	170,929
2017	181,184
Thereafter	1,113,206
	$ 1,778,699

Interest expense and fees associated with the debt were $50,712 and $55,289 for the years ended July 31, 2013 and 2012, respectively.

In connection with the MHEFA obligation, the Foundation entered into a letter of credit agreement with a financial institution totaling $2,720,000, expiring in fiscal year 2023. The letter of credit is secured by all business assets of the Foundation including a first mortgage on the buildings and contains certain covenants, the most restrictive of which are debt service coverage and leverage ratios. In addition, the Foundation must maintain unrestricted cash and eligible investment levels, as defined in the agreement, of $1,000,000 on a consolidated basis. The Foundation was in compliance with all covenants at July 31, 2013.

NOTE H - BENEFIT PLANS

The Foundation maintains a thrift plan under Internal Revenue Code Section 403(b)(7) for eligible employees who elect to participate. The Foundation matches employee contributions on a dollar for dollar basis up to 2% of their annual compensation. An employee becomes eligible for the employer match after one year of service to the Foundation. The Foundation retains the right to change employer matching contribution amounts. Total employer contributions were $60,287 and $47,029 for the years ended July 31, 2013 and 2012, respectively.

NOTE I - CAPITAL LEASE OBLIGATIONS

The Foundation leases equipment under capital leases that expire at various dates through 2016. At July 31, 2013, minimum future lease payments, exclusive of interest and fees, are as follows:

2014	$ 11,581
2015	5,486
2016	5,484
2017	9,497
Total minimum lease payments	32,048
Less current portion	11,581
Non-current portion	$ 20,467

NOTE J - COMMITMENTS

The Foundation leases office space and equipment under operating lease agreements that have initial or non-cancelable lease terms in excess of one year. At July 31, 2013, minimum future lease obligations are as follows:

2014	$ 36,780
2015	32,509
Minimum future lease payments	$ 69,289

Rent expense for the years ended July 31, 2013 and 2012 was approximately $88,061 and $84,000, respectively