

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2009 AND 2008**

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

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## INDEPENDENT AUDITORS' REPORT

The Auditing Committee  
Massachusetts Audubon Society, Inc.  
Lincoln, Massachusetts

We have audited the accompanying statements of financial position of Massachusetts Audubon Society, Inc. (a non-profit organization) as of June 30, 2009 and 2008, and the related statements of activities, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Massachusetts Audubon Society, Inc. management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 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.

Massachusetts Audubon Society, Inc. has consistently followed the practice of recording donated land at a nominal amount because management does not believe the cost and difficulties of obtaining appraisals would be beneficial, given that the organization generally does not sell donated properties. U.S. generally accepted accounting principles require that such donated property be recorded at its fair value at the date of receipt. It was not practicable to determine the effects of this departure from U.S. generally accepted accounting principles on the financial statements.

In our opinion, except for the effects of recording donated land at a nominal amount as discussed in the third paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Massachusetts Audubon Society, Inc. as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

*Tonneson + Co*  
Tonneson + Co

November 11, 2009

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**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30, 2009 AND 2008**

	2009		2008	
	<u>ASSETS</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,003,790	\$ 4,453,249	\$ -	\$ 5,457,039
Investments	4,474,857	39,678,109	55,141,619	99,294,585
Accounts receivable	1,690,973	-	-	1,690,973
Pledges receivable	953,580	2,269,139	702,239	3,924,958
Inventory	294,080	-	-	294,080
Prepaid expenses	255,472	-	-	255,472
Fine arts collection	1,368,422	-	25,000	1,393,422
Property and equipment, net	42,753,414	-	45,384,721	88,138,135
Interfund balances	(3,020,221)	3,135,980	(115,759)	-
<b>TOTAL ASSETS</b>	<b>\$ 49,774,367</b>	<b>\$ 49,536,477</b>	<b>\$ 101,137,820</b>	<b>\$ 200,448,664</b>
			<u>Unrestricted</u>	<u>Temporarily Restricted</u>
			1,493,565	4,333,449
			6,258,594	65,197,670
			572,640	-
			467,736	2,280,892
			282,049	-
			253,956	-
			1,068,422	-
			43,091,827	-
			(2,512,723)	2,656,249
			-	(143,526)
			\$ 50,976,066	\$ 74,468,260
			\$ 100,559,112	\$ 226,003,438
	<u>LIABILITIES AND NET ASSETS</u>			
Accounts payable and accrued expenses	\$ 1,889,248	\$ -	\$ -	\$ 1,889,248
Deferred grants	-	276,095	-	276,095
Accrued pension benefit liability	-	-	-	-
Amount received in advance for future services	2,158,955	20,000	-	2,178,955
Reserve for unemployment benefits	176,154	-	-	176,154
Split-interest agreement liabilities	-	4,797,713	-	4,797,713
Long-term debt	180,055	-	-	180,055
Total liabilities	4,404,412	5,093,808	-	9,498,220
Accumulated other comprehensive loss	-	-	-	-
Total net assets	45,369,955	44,442,669	101,137,820	190,950,444
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 49,774,367</b>	<b>\$ 49,536,477</b>	<b>\$ 101,137,820</b>	<b>\$ 200,448,664</b>
			3,998,780	5,292,943
			(861,405)	-
			47,838,691	69,175,317
			50,976,066	74,468,260
			\$ 100,559,112	\$ 226,003,438

See Notes to Financial Statements.

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**STATEMENTS OF ACTIVITIES**

**YEARS ENDED JUNE 30, 2009 AND 2008**

	2009			2008				
	Unrestricted Operating	Temporarily Restricted	Permanently Restricted	Total	Unrestricted Operating	Temporarily Restricted	Permanently Restricted	Total
<b>Public Support and Revenue</b>								
Public Support								
Gifts and grants	\$ 3,433,116	\$ 300,000	\$ 735,050	\$ 7,295,669	\$ 2,915,667	\$ 5,052,469	\$ 4,050,391	\$ 12,018,527
Government contracts	1,061,103	-	193,886	1,254,989	966,980	175,424	-	1,142,404
Legacies and bequests	1,649,119	-	-	1,649,119	1,532,795	-	-	1,532,795
Total public support	6,143,338	300,000	3,021,389	10,199,777	5,415,442	5,227,893	4,050,391	14,693,726
Revenue								
Membership dues	3,127,745	-	-	3,127,745	3,170,245	141,491	-	3,311,736
Program income	6,309,265	-	149,771	6,459,036	5,987,103	694,750	-	6,681,853
Gain (loss) on investments	-	(3,541,034)	(23,582,424)	(27,394,619)	-	(7,646,169)	23,272	(7,956,099)
Gain on pension termination	-	685,864	-	685,864	-	-	-	-
Interest and dividends	2,857,092	-	132,468	2,989,560	2,708,189	73,706	-	2,781,895
Contributed services	215,119	-	-	215,119	119,135	-	-	119,135
Other revenue	(364)	-	44,519	44,155	-	34,943	-	34,943
Withdrawal for spending rate	2,421,194	(136,729)	(2,284,465)	-	2,117,777	(64,218)	-	-
Fund special projects	(685,864)	(526,011)	1,211,875	-	(81,991)	(724,395)	511,907	-
Net other interfund transfers	72,801	136,729	(324,349)	-	(38,473)	74,073	-	-
Net assets released from restrictions								
Satisfaction of program restrictions	506,352	2,965,085	(3,471,437)	-	405,448	(4,414,564)	627,084	-
Total revenue	14,823,340	(416,096)	(28,124,042)	(13,873,140)	14,387,433	(12,910,523)	1,162,263	4,973,463
Total public support and revenue	20,966,678	(116,096)	(25,102,653)	(3,673,363)	19,802,875	(7,682,630)	5,212,654	19,667,189
<b>Expenses</b>								
Program and member services expenses	16,783,358	2,500,463	-	19,283,821	15,821,608	1,158,541	-	16,980,149
Administration and general expenses	2,057,590	342,476	-	2,400,066	1,914,256	359,384	-	2,273,640
Development expenses	1,232,787	402,644	-	1,635,431	1,261,289	480,605	-	1,741,894
Fund depreciation	(222,724)	222,724	-	-	(220,099)	220,099	-	-
Net interfund transfers	(234,534)	234,534	-	-	(180,040)	180,040	-	-
Total expenses	19,616,477	3,702,841	-	23,319,318	18,597,014	2,398,669	-	20,995,683
Changes in split-interest agreements								
Add surplus unrestricted bequests to endowment	(1,400,673)	1,400,673	-	-	(1,282,828)	1,282,828	-	-
Change in net assets	\$ (50,472)	\$ (2,418,264)	\$ (24,732,648)	\$ (26,622,676)	\$ (76,967)	\$ (8,593,171)	\$ 5,212,654	\$ (2,239,035)

See Notes to Financial Statements.

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**STATEMENTS OF CHANGES IN NET ASSETS**

**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>Unrestricted</u>		<u>Temporarily</u>	<u>Permanently</u>	
	<u>Operating</u>	<u>Other</u>	<u>Restricted</u>	<u>Restricted</u>	<u>Total</u>
BALANCE AT JUNE 30, 2007	\$ 527,652	\$ 46,169,557	\$ 77,768,488	\$ 95,346,458	\$ 219,812,155
Change in net assets	<u>(76,967)</u>	<u>1,218,449</u>	<u>(8,593,171)</u>	<u>5,212,654</u>	<u>(2,239,035)</u>
BALANCE AT JUNE 30, 2008	450,685	47,388,006	69,175,317	100,559,112	217,573,120
Change in net assets	<u>(50,472)</u>	<u>(2,418,264)</u>	<u>(24,732,648)</u>	<u>578,708</u>	<u>(26,622,676)</u>
BALANCE AT JUNE 30, 2009	<u>\$ 400,213</u>	<u>\$ 44,969,742</u>	<u>\$ 44,442,669</u>	<u>\$ 101,137,820</u>	<u>\$ 190,950,444</u>

See Notes to Financial Statements.

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED JUNE 30, 2009 AND 2008**

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (26,622,676)	\$ (2,239,035)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,813,567	1,454,138
Loss on investments	27,394,619	7,956,099
Changes in split-interest agreements	(139,132)	975,217
Forgiveness of long-term debt	(32,305)	(9,000)
Gain on termination of retirement plan	(685,864)	-
Allowance for uncollectible pledges	603,007	589,850
Amortization of pledge discount	206,577	195,764
Donation of fine arts	(300,000)	-
Change in certain assets and liabilities:		
Accounts receivable	(1,118,333)	(95,772)
Pledges receivable	(1,015,035)	(2,140,516)
Inventory	(12,031)	18,522
Prepaid expenses	(1,516)	(17,135)
Accounts payable and accrued expenses	582,794	713,641
Deferred grant revenue	(80,003)	1,228
Amounts received in advance for future services	93,894	269,177
Net cash provided by operating activities	<u>687,563</u>	<u>7,672,178</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(1,475,154)	(5,888,682)
Purchase of investments, net	(910,903)	(3,534,578)
Proceeds from termination of retirement plan	1,328,519	-
Net cash used in investing activities	<u>(1,057,538)</u>	<u>(9,423,260)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term debt	-	(500,000)
Net cash used in financing activities	<u>-</u>	<u>(500,000)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(369,975)	(2,251,082)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>5,827,014</u>	<u>8,078,096</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 5,457,039</u>	<u>\$ 5,827,014</u>

See Notes to Financial Statements.

# MASSACHUSETTS AUDUBON SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

### YEARS ENDED JUNE 30, 2009 AND 2008

#### Note 1 - Summary of Significant Accounting Policies

**Organization** - The Massachusetts Audubon Society, Inc. (Mass Audubon) was established in 1896 and is a state-wide environmental organization working in the areas of land conservation, education, research and advocacy.

The Internal Revenue Service has recognized Mass Audubon as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code which provides for the exemption of organizations that are organized and operated exclusively for religious, charitable, scientific, literary or educational purposes and whose net earnings do not inure to the benefit of any private shareholder or individual. Gifts to Mass Audubon are tax deductible.

**Estimates** - The preparation of financial statements in conformity with U.S. 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.

**Financial Statement Presentation** - In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "*Financial Statements of Not-for-Profit Organizations*," Mass Audubon is required to report 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.

**Contributions** - In accordance with SFAS No. 116, "*Accounting for Contributions Received and Contributions Made*," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

**Recognition of Donor Restrictions** - Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the same reporting period. All other donor-restricted support is reported as an increase in temporarily restricted net assets or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Fine Arts Collection** - Mass Audubon capitalizes fine arts collection items acquired by purchase or contribution in accordance with SFAS No. 116 at fair market value. Collection items that are acquired by purchase or contribution are capitalized at cost.

**Contributed Services** - In accordance with SFAS No. 116, contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Services of volunteers which do not meet these criteria are not recorded in the financial statements.

**Pledges Receivable** - Unconditional promises to give are recognized as revenue or gains in the period received and as assets or decreases of liabilities, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**Cash Equivalents** - Cash equivalents consist of highly liquid investments with original maturities of 90 days or less. Cash equivalents are carried at cost which approximates market.

**Concentration of Credit Risk** - Financial instruments which potentially subject Mass Audubon to concentration of credit risk consist principally of temporary cash investments. Mass Audubon places its temporary cash investments in high quality financial institutions. However, a portion of temporary cash investments may exceed FDIC insured levels from time to time. The maximum loss that would have resulted from the risk amounted to approximately \$5,400,000 at June 30, 2009.



**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2009 AND 2008**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Investments** - Investments in stocks, bonds, mutual funds and limited partnerships are accounted for in accordance with SFAS No. 124, "*Accounting for Certain Investments Held by Not-For-Profit Organizations.*" Such investments are stated at market value. Investments in life income funds, gift annuities funds and charitable remainder unitrusts are stated at the market value of the underlying investment. Unless specific prohibitive clauses are contained in the gift instruments, funds for investment have been combined into one of two investment pools, general investment and life income trusts. All gains and losses arising from the sale, collection, or other disposition of investments and other non-cash assets and unrealized gains and losses on investments are reflected in the statement of activities.

**Endowment 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 the Uniform Prudent Management of Institutional Funds Act requires Mass Audubon to retain as a fund for perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were approximately \$2,853,622 as of June 30, 2009.

**Inventory** - Inventory is stated at the lower of cost or market. Cost is determined on the weighted-average method and market is generally based on net realizable value.

**Property and Equipment** - Buildings, furniture, equipment and motor vehicles are carried at cost less depreciation. Mass Audubon computes depreciation using the straight-line method calculated to amortize the cost of the assets over their estimated useful lives. Depreciation expense amounted to \$1,813,567 and \$1,454,138 for the years ended June 30, 2009 and 2008, respectively.

Purchased land is recorded at acquisition cost. Donated land is recorded at a nominal amount because management does not believe the cost and difficulties of obtaining appraisals would be beneficial, given that Mass Audubon generally does not sell donated properties. The cost of purchasing conservation restrictions and easements is not capitalized but is expensed. For the years ended June 30, 2009 and 2008, no such expenditures were incurred.

Donated buildings and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Mass Audubon reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Mass Audubon reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**Accounting for Uncertain Tax Positions** - In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*. FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination by a tax authority. In accordance with FASB Staff Position FIN 48-3, *Effective Date of FASB Interpretation No 48 for Certain Nonpublic Enterprises*, Mass Audubon has elected to defer implementation of FIN 48 to the first fiscal year beginning after December 15, 2008.

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2009 AND 2008**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Accounting for Uncertain Tax Positions (Continued)** - The determination of uncertain tax positions for financial statements prior to the implementation of FIN 48 uses the tax position reported on Mass Audubon's tax returns. These filings may be subject to amendment or change during an examination by the various taxing authorities, which have not been considered in the determination of Mass Audubon's tax assets or liabilities included in these financial statements. Mass Audubon does not expect that the adoption of FIN 48 will have a material effect on its financial position, results of operations or cash flows.

**Financial State Presentation** - Certain reclassifications have been made to the 2008 financial statements in order to conform to the presentation for 2009.

**Note 2 - Restrictions on Assets**

Temporarily restricted net assets consisted of the following at June 30, 2009 and 2008:

	<b><u>2009</u></b>		<b><u>2008</u></b>
Accumulated appreciation on permanently restricted net assets	\$ 29,744,055	\$	52,841,844
Funds for future operations of specific Mass Audubon programs	<u>14,698,614</u>		<u>16,333,473</u>
	\$ <u>44,442,669</u>	\$	<u>69,175,317</u>

Permanently restricted net assets consist of property required to be held for conservation purposes and the original gift value of investments to be held indefinitely as endowment, the income from which is available to support certain operations of Mass Audubon.

**Note 3 - Pledges Receivable**

Pledges receivable scheduled to be received over future periods consist of the following amounts as of June 30, 2009 and 2008:

<b><u>Fiscal Years</u></b>	<b><u>2009</u></b>		<b><u>2008</u></b>
2009	\$ 2,125,789	\$	1,732,427
2010	1,392,302		1,529,543
2011	805,569		842,145
2012 and thereafter	<u>410,882</u>		<u>401,006</u>
	4,734,542		4,505,121
Less: discounts to net present value	(603,007)		(589,850)
Less: allowance for uncollectible pledges	<u>(206,577)</u>		<u>(195,764)</u>
	\$ <u>3,924,958</u>	\$	<u>3,719,507</u>

Pledges receivable are primarily from foundations, corporations and individuals located throughout Massachusetts. A discount rate of 5% was used to calculate the net present value of pledges receivable at June 30, 2009 and 2008.

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2009 AND 2008**

**Note 4 - Inventory**

Inventory as of June 30, 2009 and 2008 consists of the following:

	<b><u>2009</u></b>		<b><u>2008</u></b>
Retail merchandise at Lincoln shop	\$ 110,383	\$	125,681
Other retail merchandise	36,959		30,947
Publications	64,768		66,322
Mailroom supplies and prepaid postage	41,009		31,631
Field dress	21,233		13,613
Information technology equipment	19,728		13,855
	<u>\$ 294,080</u>	\$	<u>282,049</u>

**Note 5 - Property and Equipment**

Property and equipment, at cost less accumulated depreciation as of June 30, 2009 and 2008 is as follows:

	<b><u>2009</u></b>		<b><u>2008</u></b>
Land	\$ 53,082,939	\$	53,082,939
Buildings and improvements	22,315,152		22,127,115
Capital assets in progress	20,552,175		19,544,292
Office furniture and computer equipment	2,146,736		2,041,624
Maintenance and program equipment	573,094		527,084
Motor vehicles	1,454,500		1,345,342
	100,124,596		98,668,396
Less accumulated depreciation	<u>(11,986,461)</u>		<u>(10,191,848)</u>
	<u>\$ 88,138,135</u>	\$	<u>88,476,548</u>

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2009 AND 2008**

**Note 6 - Investments**

Investments of as of June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
U.S. corporate stocks and mutual funds	\$ 41,441,983	\$ 54,580,496
U.S. corporate and government bonds	10,261,304	18,640,404
International mutual funds	16,635,754	16,999,484
Limited partnerships	20,656,117	24,123,723
Money market funds	2,931,949	2,546,873
Life income funds	1,013,326	1,095,410
Gift annuities	2,413,808	2,709,196
Charitable remainder trusts	3,940,344	5,082,716
	<u>\$ 99,294,585</u>	<u>\$ 125,778,302</u>

The life income funds consist of corporate stocks, bonds and notes and U.S. government and agency bonds. These funds were contributed to Mass Audubon subject to the requirement that Mass Audubon periodically pay the income earned on these funds to the donor or other designated individuals. Payments terminate at a time specified in the life income agreements, usually upon death of the donor or designated individual.

Gift annuities consist of corporate stocks, bonds and notes and U.S. government and agency bonds. These gifts were given to Mass Audubon on the condition that Mass Audubon bind itself to make periodic stipulated payments to the donor or other designated individuals. Charitable remainder unitrusts consist of corporate and U.S. government and agency bonds. These gifts were given to Mass Audubon on the condition that Mass Audubon bind itself to make periodic stipulated payments to the donor or other designated individuals at a stated percentage of the fair market value of the trust. Payments on gift annuity and unitrust agreements terminate at a time specified in the agreements.

Included in U.S. corporate stocks, bonds, and mutual funds is an investment in a privately held company acquired by bequest. Because no market price is available, this investment is carried at the donor's estate tax value as annually adjusted based on the equity of the company. The value at June 30, 2009 and 2008 was \$993,931 and \$1,265,092 respectively.

During the year ended June 30, 2009, Mass Audubon implemented the requirements of Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157) for its financial assets and liabilities. The adoption of SFAS 157 did not have a material impact on Mass Audubon's financial position or results of operations. SFAS 157 refines the definition of fair value, expands disclosure requirements about fair value measurements, and establishes specific requirements as well as guidelines for a consistent framework to measure fair value. SFAS 157 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. Further, SFAS 157 requires Mass Audubon to maximize the use of observable market inputs, minimize the use of unobservable market inputs, and disclose in the form of an outlined hierarchy the details of such fair value measurements. SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Mass Audubon's market assumptions.

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2009 AND 2008**

**Note 6 - Investments (Continued)**

This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than those included in Level 1. For example, quoted prices for similar assets in active markets or quoted prices for identical assets in inactive markets.

Level 3 - Unobservable inputs reflecting management's own assumptions about the inputs used in estimating the value of the asset.

The following table summarizes Mass Audubon's financial assets measured at fair value on a recurring basis in accordance with SFAS 157 as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. corporate stock and mutual funds	\$ 57,083,806	\$ -	\$ -
Common stock - privately held company	-	993,931	-
U.S. corporate and government bonds	10,261,304	-	-
Planned giving assets	7,367,478	-	-
Bank variables - money market funds	2,931,949	-	-
Alternative investments - limited partnerships	-	-	20,656,117
Total investments	<u>\$ 77,644,537</u>	<u>\$ 993,931</u>	<u>\$ 20,656,117</u>
Planned giving liabilities	<u>\$ -</u>	<u>\$ 4,797,713</u>	<u>\$ -</u>
Total liabilities	<u>\$ -</u>	<u>\$ 4,797,713</u>	<u>\$ -</u>

Alternative investments include investments valued at fair value based upon market prices and net asset values and other investments which values have been estimated by the general partner in absence of readily ascertainable market values. Those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and differences could be material.

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that Mass Audubon has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs.

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2009 AND 2008**

**Note 6 - Investments (Continued)**

The following is the changes in Level 3 assets measured at fair value for the year ended June 30, 2009:

Balance at July 1, 2008	\$ 24,123,723
Purchases, sales and settlements, net	(2,343,719)
Realized and unrealized losses, net	<u>(1,123,887)</u>
Balance at June 30, 2009	\$ <u>20,656,117</u>

**Note 7 - Endowment**

Mass Audubon's endowment consists of approximately two hundred fifty-eight individual funds established for a variety of purposes. Its Endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by 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.

Mass Audubon has interpreted the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, Mass Audubon 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 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 net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Mass Audubon.

In accordance with UPMIFA, Mass Audubon 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 Mass Audubon 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 Mass Audubon
7. The investment policies of Mass Audubon

# MASSACHUSETTS AUDUBON SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

### YEARS ENDED JUNE 30, 2009 AND 2008

#### Note 7 – Endowment (Continued)

*Investment Return Objectives, Risk Parameters and Strategies* - The Mass Audubon Pooled Endowment Fund (“the Fund”) has been established over many years by many generous contributors. The Fund provides, from its current income and capital, a substantial portion of the resources used to support Mass Audubon’s environmental and conservation programs and activities. Preservation of that capital, measured by real spending power, is critical to the present as well as future ability of Mass Audubon to accomplish its mission. The overall risk tolerance parameters and objectives established by the Mass Audubon Investment Committee are as follows:

- The foremost responsibility of the Investment Committee is to preserve the purchasing power of the Fund. Preservation shall be measured in terms of real spending power after adjustment for additions to and withdrawals from the Fund.
- Consistency of performance is of paramount importance.
- Moderate volatility of investment return (risk) of the Fund's assets will be tolerated with the expectation that assets will grow at a rate commensurate with the level of risk.
- Capital appreciation is needed by the Fund to keep ahead of inflation over the long run (a real rate of return over inflation).
- Downside market protection is more important than maximizing returns on the upside of the market.

The Investment Committee has established an asset allocation policy, investment guidelines and performance standards for the investment of the Fund's assets, in order to control risk and monitor investment performance. In recognition of the prudence required of fiduciaries, reasonable diversification will be sought where possible. Experience has shown that financial markets and inflation rates are cyclical and therefore, control of volatility will be achieved through diversification of asset classes and, where appropriate, selection of managers of diverse investment styles.

*Spending Policy* - Spending from every restricted endowment fund which is not a Board-restricted fund is governed by the Commonwealth’s Uniform Prudent Management of Institutional Funds Act. In January of each year, the Mass Audubon Investment Committee reviews information showing the market value for Mass Audubon’s Pooled Endowment Fund (less outstanding loans and deferred contributions) at December 31 and for the three preceding calendar quarters and also reviews the amount of spending from the Pooled Endowment Fund in the current fiscal year. The spending amount for the next fiscal year is calculated by: 1) multiplying the current fiscal year spending amount from the Pooled Endowment Fund by one plus the percentage increase in the Consumer Price Index (CPI-U) for the then-ended calendar year and then by seventy percent and 2) by adding to this amount a second amount which is determined by multiplying a trailing average of the market value of the Pooled Endowment Fund at December 31 and the preceding three quarters by a spending rate determined by the Investment Committee and then by thirty percent. In computing the average of the Pooled Endowment Fund to be used for the spending rate decision, net endowment additions for each of the four calendar quarters will be added back. The Investment Committee recommends the amount so calculated for the next fiscal year to the Board of Directors. The Investment Committee determines details of this policy and monitors its implementation.

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2009 AND 2008**

**Note 7 – Endowment (Continued)**

The endowment net asset composition by type of fund as of June 30, 2009 is as follows:

	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>
Donor restricted endowment funds	\$ (2,853,622)	\$ 29,744,055	\$ 55,141,619	\$ 82,032,052
Board designated endowment funds	1,945,270	-	-	1,945,270
	<b><u>\$ (908,352)</u></b>	<b><u>\$ 29,744,055</u></b>	<b><u>\$ 55,141,619</u></b>	<b><u>\$ 83,977,322</u></b>

The changes in endowment net assets for the year ended June 30, 2009 are as follows:

	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>
Endowment Net Assets, Beginning of Year	\$ 2,545,000	\$ 52,841,844	\$ 54,322,038	\$ 109,708,882
Investment loss, net	(2,292,073)	(21,374,473)	(271,161)	(23,937,707)
Contributions	510,104	-	1,003,690	1,513,794
Appropriations of cumulative gains	<u>(1,671,383)</u>	<u>(1,723,316)</u>	<u>87,052</u>	<u>(3,307,647)</u>
Endowment Net Assets, End of Year	<b><u>\$ (908,352)</u></b>	<b><u>\$ 29,744,055</u></b>	<b><u>\$ 55,141,619</u></b>	<b><u>\$ 83,977,322</u></b>

**Note 8 – Defined Contribution Retirement Plan**

Mass Audubon has in place a 403(b) retirement plan in which employees can elect to defer a percentage of their compensation. Mass Audubon also contributes 4% of an employee's salary if the employee meets certain requirements. In addition, Mass Audubon will match a portion of the employee's deferral up to a certain percentage. The employee's elective deferral and Mass Audubon's matching contribution are subject to IRS limitations. For the years ended June 30, 2009 and 2008, Mass Audubon's contribution the plan amounted to approximately \$637,000 and \$566,000, respectively.



**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2009 AND 2008**

**Note 9 – Defined Benefit Pension Plan**

Mass Audubon had a non-contributory defined benefit pension plan covering substantially all of its employees. Mass Audubon amended the pension plan, effective August 31, 2004 to cease further benefit accruals (“benefit freeze”) for all active participants; there were also no new participants after that date. In May of 2009, Mass Audubon received a determination letter from the Internal Revenue Service that accepted all amendments related to the termination of the plan. Mass Audubon completed the distribution of all plan assets prior to June 30, 2009, resulting in a gain on termination of the defined benefit plan of \$685,864 based upon a reversion of funds back to Mass Audubon in the amount of \$1,328,519 in June of 2009.

The following table sets forth the plan's funded status and amounts recognized in Mass Audubon's financial statements as of and for the years ended June 30, 2009 and 2008:

	<b><u>2009</u></b>	<b><u>2008</u></b>
Projected benefit obligation at June 30	\$ -	\$ 12,246,955
Fair value of plan assets at June 30	-	12,028,204
Funded status of the plan	-	(218,751)
(Prepaid) accrued benefit cost	\$ -	\$ (517,658)
Amounts recognized in the statement of financial position consist of:		
Accrued benefit liability	-	218,751
Accumulated other comprehensive loss (AOCL)	-	(861,405)
Net amount recognized	\$ -	\$ (642,654)
Weighted average assumptions used to determine benefit obligations as of:		
Measurement date	N/A	June 30, 2008
Discount rate	N/A	5.00%
Weighted average assumptions used to determine net periodic pension cost for year ended June 30:		
Measurement date	June 30, 2009	June 30, 2008
Discount rate	N/A	5.00%
Expected long-term rate of return on plan assets	N/A	5.00%

A reconciliation of the projected benefit obligation and fair value of plan assets for the years ended June 30, 2009 and 2008, is as follows:

	<b><u>2009</u></b>	<b><u>2008</u></b>
Projected benefit obligation as of the beginning of the year	\$ 12,246,955	\$ 12,354,495
Interest cost	396,961	606,536
Benefits paid	(222,688)	(402,588)
Actuarial (gain) or loss	(21,420)	(311,488)
Settlement loss	(955,933)	-
Settlement payments	(11,443,875)	-
Projected benefit obligation as of the end of the year	\$ -	\$ 12,246,955

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2009 AND 2008**

**Note 9 - Pension Plan (continued)**

	<b><u>2009</u></b>	<b><u>2008</u></b>
Fair value of plan assets as of the beginning of the year	\$ 12,028,204	\$ 11,336,411
Actual return on plan assets	966,878	894,381
Employer contributions	-	200,000
Benefits paid	(222,688)	(402,588)
Settlement payments	(11,443,875)	-
Reversion	(1,328,519)	-
	<hr/>	<hr/>
Fair value of plan assets as of the end of the year	\$ <u>          -</u>	\$ <u>12,028,204</u>
<b>Components of Net Periodic Pension Cost</b>		
Interest cost	\$ 396,961	\$ 606,536
Expected return on plan assets	(367,165)	(555,632)
Amortization of net loss	-	24,100
Settlement gain	(715,661)	-
	<hr/>	<hr/>
Net Periodic Pension Cost	\$ <u>(685,865)</u>	\$ <u>75,004</u>

**Plan Assets:**

<b><u>Asset Category</u></b>	<b>Percentage of Plan Assets at December 31</b>	
	<b><u>2009</u></b>	<b><u>2008</u></b>
Equity securities	N/A	0%
Debt securities	N/A	96%
Other	N/A	4%
	<hr/>	<hr/>
Total	<u>          N/A</u>	<u>          100%</u>

**Cash Flows:**

<b><u>Contributions</u></b>	<b><u>Employer</u></b>	<b><u>Participants</u></b>
2009	\$ -	\$ -
<b><u>Benefit Payments</u></b>		
2009	\$ 222,688	N/A

**Note 10 - Long-Term Debt**

A summary of long-term debt at June 30, 2009 and 2008 is as follows:

	<b><u>2009</u></b>	<b><u>2008</u></b>
Non-interest bearing note payable due on July 1, 2024	\$ 180,055	\$ 209,360
Non-interest bearing note payable	-	3,000
	<hr/>	<hr/>
	180,055	212,360
Less current portion	-	3,000
	<hr/>	<hr/>
Total long-term debt	\$ <u>180,055</u>	\$ <u>209,360</u>

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2009 AND 2008**

**Note 11 - Contributed Services**

The value of donated services and the corresponding expenses included in the accompanying financial statements for the years ended June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Volunteer hours at sanctuaries	\$ <u>215,119</u>	\$ <u>119,135</u>
Total contributed services	\$ <u><u>215,119</u></u>	\$ <u><u>119,135</u></u>

In addition, each year more than six thousand volunteers donate a total of approximately 120,000 hours of time to Mass Audubon's environmental education, advocacy, research and sanctuary program services. No amounts have been reflected in the financial statements for these volunteer services since the contributed services did not meet the criteria for recognition under SFAS No. 116. (Reference is made to Note 1 - Contributed Services.)

**Note 12 - Commitments**

**Employment and Consulting Agreements** - On January 1, 2001, Massachusetts Audubon entered into a consulting agreement with its former president. The agreement provided for two phases: the first, through June 30, 2008, established a monthly consulting fee and reimbursement for certain expenses in return for the former president's services for a fixed number of days per year; the second, which commenced on July 1, 2008, continues until the former president's death, and provides a monthly consulting fee in return for the former president's services for a reduced number of days per year.

**Line-of-Credit Agreement** - Mass Audubon has an unsecured line of credit agreement with a bank, which is subject to renewal on or before December 27, 2009. The maximum borrowings under the agreement are \$1,000,000. The agreement provides that any borrowings are due on or before the expiration date of the agreement and bear interest at the prevailing LIBOR rate. At June 30, 2009 and 2008, there were no outstanding borrowings under the agreement.

**Note 13 - Statement of Cash Flows Supplemental Notes**

Cash paid for interest during the years ended June 30, 2009 and 2008 amounted to \$1,197 and \$5,336, respectively.

## INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION

The Auditing Committee  
Massachusetts Audubon Society, Inc.  
Lincoln, Massachusetts

Our report on our audit of the basic financial statements of Massachusetts Audubon Society, Inc. as of June 30, 2009 and for the year then ended appears on page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information contained on pages 19 and 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have previously reported on the accompanying information presented by function for the preceding year.

*Tonneson + Co*  
Tonneson + Co

Wakefield, Massachusetts  
November 11, 2009

**MASSACHUSETTS AUDUBON SOCIETY, INC.**

**SCHEDULE OF FUNCTIONAL REVENUE  
(UNRESTRICTED OPERATING FUND ONLY)**

**YEAR ENDED JUNE 30, 2009**

**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED 2008)**

	Program Services				Support Services			Total Revenues		
	Sanctuary & Environmental Education	Science & Conservation	Advocacy	Member Services	Program Services	Administration and General	Development	Support Services	2009	2008
Admissions	\$ 297,950	\$ -	\$ -	\$ -	\$ 297,950	\$ -	\$ -	\$ -	\$ 297,950	\$ 290,858
Bird seed sales	7,811	-	-	-	7,811	-	-	-	7,811	10,052
Day and residential camp	2,489,762	-	-	-	2,489,762	-	-	-	2,489,762	2,230,948
Facility and camp rental	397,707	(1,144)	19,122	-	415,685	-	-	-	415,685	394,938
Gifts on sale	6,338	-	-	-	6,338	-	-	-	6,338	4,193
Gifts and grants	1,749,736	360,434	100,495	362	2,211,027	1,034,487	8,091	1,042,578	3,253,605	3,321,115
Government contracts	614,273	313,410	69,619	-	997,302	63,800	-	63,800	1,061,102	966,981
Investment income	3,714,396	378,832	134,969	-	4,228,197	1,050,089	-	1,050,089	5,278,286	4,825,966
Legacies/bequest (unrestricted)	-	-	-	-	-	1,649,119	-	1,649,119	1,649,119	1,532,795
Membership dues	158,970	100	-	8,720	167,790	2,959,955	-	2,959,955	3,127,745	3,170,245
Merchandise sales (margin)	170,376	(72)	46	200,886	371,236	-	30	30	371,266	445,598
Natural history tours (margin)	-	-	-	58,745	58,745	-	-	-	58,745	74,703
Non-school program revenues	1,358,382	284,652	10,353	2,430	1,655,817	160	-	160	1,655,977	1,509,575
Royalties and honoraria	22,760	6,815	681	14,624	44,880	-	130	130	45,010	40,567
School program revenues	715,002	-	2,880	-	717,882	-	-	-	717,882	708,047
Special events	227,763	2,534	785	-	231,082	5,210	285	5,495	236,577	272,958
Watercraft rental	5,897	-	-	-	5,897	-	-	-	5,897	4,666
Contributed services	213,269	1,850	-	-	215,119	-	-	-	215,119	119,135
Transfers	158,225	(16,035)	(14,137)	(41,000)	87,053	(14,251)	-	(14,251)	72,802	(120,465)
<b>Total revenues</b>	<b>\$ 12,308,617</b>	<b>\$ 1,331,376</b>	<b>\$ 324,813</b>	<b>\$ 244,767</b>	<b>\$ 14,209,573</b>	<b>\$ 6,748,569</b>	<b>\$ 8,536</b>	<b>\$ 6,757,105</b>	<b>\$ 20,966,678</b>	<b>\$ 19,802,875</b>

MASSACHUSETTS AUDUBON SOCIETY, INC.

SCHEDULE OF FUNCTIONAL EXPENSES  
(UNRESTRICTED OPERATING FUND ONLY)

YEAR ENDED JUNE 30, 2009

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED 2008)

	Program Services				Support Services			Total Expenses		
	Sanctuary & Environmental Education	Science & Conservation	Advocacy	Member Services	Total Program Services	Administration and General	Development	Total Support Services		
Salary and wages	\$ 7,707,437	\$ 930,152	\$ 379,417	\$ 738,115	\$ 9,755,121	\$ 1,244,018	\$ 788,187	\$ 2,032,205	2009 \$ 11,787,326	2008 \$ 10,968,024
Fringe benefits	1,715,223	218,214	100,775	188,886	2,223,098	328,788	209,284	538,072	2,761,170	2,556,968
Change in accrued vacation	25,751	1,794	4,681	1,498	33,724	10,880	5,867	16,747	50,471	76,967
Total salaries and benefits	9,448,411	1,150,160	484,873	928,499	12,011,943	1,583,686	1,003,338	2,587,024	14,598,967	13,601,959
Advertising and promotion	32,970	-	300	5,892	39,162	647	265	912	40,074	51,498
Animal and bird feed	21,092	-	-	-	21,092	-	-	-	21,092	19,855
Automobile	128,306	10,975	2,580	4	141,865	11,239	-	11,239	153,104	158,286
Awards and scholarships	9,225	4,000	5,331	25	18,581	3,704	95	3,799	22,380	22,251
Bank charges	2,268	-	-	1,037	3,305	22,238	4,739	26,977	30,282	48,379
Building and grounds maintenance	445,236	945	5,099	4,080	455,360	12,610	-	12,610	467,970	425,575
Data processing	69,665	6,655	5,303	8,763	87,863	18,004	3,645	21,649	109,512	104,354
Depreciation	307,687	36,822	8,506	10,917	363,932	56,246	94,038	150,284	514,216	485,186
Electricity	163,374	2,295	3,395	911	169,975	23,032	-	23,032	193,007	159,466
Field dress	17,698	923	64	13	18,698	329	60	389	19,087	18,613
Food	155,427	6,722	2,975	1,834	166,958	26,178	12,408	38,586	205,544	203,438
General insurance	276,595	9,654	6,663	13,318	306,230	28,475	8,000	36,475	342,705	339,419
Heat	167,432	1,264	6,330	1,843	176,869	10,249	-	10,249	187,118	164,200
Interest	327	-	12	824	1,163	35	-	35	1,198	5,336
Meetings, conference and training	24,116	1,668	1,652	425	27,861	10,407	1,657	12,064	39,925	42,220
Membership premiums	1,449	-	100	44,385	45,934	846	-	846	46,780	65,222
Office supplies	51,228	3,232	3,976	8,210	66,646	31,622	6,197	37,819	104,465	144,373
Permits, licenses and taxes	22,701	349	7,467	90	30,607	4,083	-	4,083	34,690	37,332
Photographic supplies	312	314	-	1,450	2,076	50	-	50	2,126	3,032
Postage and freight	59,719	2,961	1,789	288,160	352,629	17,224	22,141	39,365	391,994	436,386
Printing and copies	149,405	5,203	3,167	350,087	507,862	(20,413)	34,393	13,980	521,842	549,970
Professional and consultant fees	302,815	106,350	4,150	250,053	663,368	107,754	21,592	129,346	792,714	809,935
Program supplies and materials	145,087	43,249	379	5,213	193,928	1,248	3,482	4,730	198,658	214,424
Rent	38,920	2,490	22,363	33,168	95,941	4,883	1,501	6,384	102,325	117,421
Rental of vehicles and watercraft	124,349	9,317	-	-	133,666	-	642	642	134,308	116,395
Service contracts	147,997	1,232	3,467	8,548	161,244	66,534	6,985	73,519	234,763	224,919
Subscription and library	15,637	951	7,021	5,607	29,216	3,758	3,239	6,997	36,213	32,319
Telephone	89,467	10,217	14,776	1,952	116,412	18,458	73	28,528	144,940	116,467
Travel	80,699	33,956	15,613	1,743	132,011	14,421	4,296	18,717	150,728	140,586
Water	24,430	38	755	625	25,848	920	-	920	26,768	29,582
Contributed services	213,269	1,850	-	215,119	215,119	-	-	-	215,119	119,135
Transfers	(88,670)	(62,045)	(3,423)	(15,326)	(169,464)	(11,687)	(276,107)	(287,794)	(457,258)	(400,140)
	12,648,643	1,391,747	614,683	1,959,837	16,613,900	2,056,777	956,679	3,013,456	19,627,356	18,607,393
Allocation of administration and general expense/(deduction)	2,217,037	242,687	109,800	348,978	2,918,502	-	(2,929,381)	(2,929,381)	(10,879)	(10,379)
Total expenses	\$ 14,865,680	\$ 1,634,434	\$ 724,483	\$ 2,307,805	\$ 19,532,402	\$ 2,056,777	\$ (1,972,702)	\$ 84,075	\$ 19,616,477	\$ 18,597,014