

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**For the Years Ended  
June 30, 2013 and 2012**

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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 financial statements of Audubon Canyon Ranch, Inc. (a California nonprofit public benefit corporation), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related 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 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 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Audubon Canyon Ranch, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for 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 as a whole.

*Doran & Associates*

November 18, 2013

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

**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2013 and 2012**

	2013	2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 617,625	\$ 576,254
Restricted cash (Note 1)	133,466	-
Pledges, grants and bequests receivable (Note 1)	41,792	72,544
Accounts receivable (Note 1)	24,667	18,858
Inventory (Note 2)	28,935	24,099
Prepaid expenses	<u>32,833</u>	<u>29,026</u>
Total current assets	879,318	720,781
Endowment investments (Note 3)	25,747,068	20,697,628
Life income gifts and remainder interest in trusts, at present value (Note 4)	78,347	79,614
Work in progress (Note 5)	66,490	-
Property, equipment and improvements, net of accumulated depreciation of \$3,094,131 at 2013 and \$2,945,124 at 2012 (Notes 1 and 5)	<u>9,365,051</u>	<u>6,975,080</u>
Total assets	<u>\$ 36,136,274</u>	<u>\$ 28,473,103</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 314,345</u>	<u>\$ 221,415</u>
Total liabilities	<u>314,345</u>	<u>221,415</u>
Net assets:		
Unrestricted	10,903,958	10,114,964
Temporarily restricted (Note 6)	6,117,956	4,544,025
Permanently restricted (Note 3)	<u>18,800,015</u>	<u>13,592,699</u>
Total net assets	<u>35,821,929</u>	<u>28,251,688</u>
Total liabilities and net assets	<u>\$ 36,136,274</u>	<u>\$ 28,473,103</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**  
**For the year ended June 30, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT, REVENUE AND TRANSFERS</b>				
Public support:				
Gifts and bequests	\$ 1,074,018	\$ 101,474	\$ 3,497,316	\$ 4,672,808
Grants	193,663	20,000	-	213,663
In-kind land, building, and services (Note 7)	<u>19,228</u>	<u>631,000</u>	<u>1,710,000</u>	<u>2,360,228</u>
Total public support	<u>1,286,909</u>	<u>752,474</u>	<u>5,207,316</u>	<u>7,246,699</u>
Revenue:				
Endowment income transfers (Note 3)	1,805,485	-	-	1,805,485
Special event earned income, net of direct expenses of \$54,665 (Note 8)	7,627	-	-	7,627
Bookstore sales, net	7,477	-	-	7,477
Contract revenue	27,825	-	-	27,825
Other revenue	<u>15,596</u>	<u>-</u>	<u>-</u>	<u>15,596</u>
Total revenue	<u>1,864,010</u>	<u>-</u>	<u>-</u>	<u>1,864,010</u>
Net assets released from restriction (Note 9)	<u>126,341</u>	<u>(126,341)</u>	<u>-</u>	<u>-</u>
Total public support, revenue and transfers	<u>3,277,260</u>	<u>626,133</u>	<u>5,207,316</u>	<u>9,110,709</u>
<b>EXPENSES</b>				
Program services (see Note 7)	1,759,072	-	-	1,759,072
General and administrative	506,154	-	-	506,154
Fundraising	<u>331,879</u>	<u>-</u>	<u>-</u>	<u>331,879</u>
Total expenses	<u>2,597,105</u>	<u>-</u>	<u>-</u>	<u>2,597,105</u>
Change in net assets from operations	680,155	626,133	5,207,316	6,513,604
<b>OTHER INCOME (EXPENSE)</b>				
Endowment income (loss), net of transfers (Note 3)	<u>108,839</u>	<u>947,798</u>	<u>-</u>	<u>1,056,637</u>
Change in net assets	788,994	1,573,931	5,207,316	7,570,241
Net assets, beginning of year	<u>10,114,964</u>	<u>4,544,025</u>	<u>13,592,699</u>	<u>28,251,688</u>
Net assets, end of year	<u>\$10,903,958</u>	<u>\$ 6,117,956</u>	<u>\$18,800,015</u>	<u>\$ 35,821,929</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, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT, REVENUE AND TRANSFERS</b>				
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)	<u>5,130</u>	<u>-</u>	<u>1,430,000</u>	<u>1,435,130</u>
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	<u>27,312</u>	<u>-</u>	<u>-</u>	<u>27,312</u>
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>
<b>EXPENSES</b>				
Program services (see Note 7)	1,929,716	-	-	1,929,716
General and administrative	405,673	-	-	405,673
Fundraising	<u>358,691</u>	<u>-</u>	<u>-</u>	<u>358,691</u>
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
<b>OTHER INCOME (EXPENSE)</b>				
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 CASH FLOWS**  
**For the years ended June 30, 2013 and 2012**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	<u>\$ 7,570,241</u>	<u>\$ 1,573,943</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	149,007	157,762
Donation of marketable securities	-	(12,329)
Donation of land and buildings	(2,341,000)	(1,430,000)
Realized gain on investments	(674,429)	(406,986)
Unrealized (gain) loss on investments	(1,750,081)	646,798
Changes in assets and liabilities:		
Pledges, grants and bequests receivable	30,752	39,301
Accounts receivable	(5,809)	30,343
Inventory	(4,836)	(5,748)
Prepaid expenses	(3,807)	1,592
Life income gifts and remainder interest in trusts	1,267	46,913
Accounts payable and accrued expenses	92,930	12,953
Total adjustments	<u>(4,506,006)</u>	<u>(919,401)</u>
Net cash provided by operating activities	<u>3,064,235</u>	<u>654,542</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Restricted cash	(133,466)	-
Purchases of endowment investments	(2,624,930)	(277,518)
Work in progress	(66,490)	-
Purchase of property, equipment and improvements	<u>(197,978)</u>	<u>(109,045)</u>
Net cash used by investing activities	<u>(3,022,864)</u>	<u>(386,563)</u>
Net increase in cash and cash equivalents	41,371	267,979
Cash and cash equivalents, beginning of year	<u>576,254</u>	<u>308,275</u>
Cash and cash equivalents, end of year	<u>\$ 617,625</u>	<u>\$ 576,254</u>
Non-cash transactions:		
Donation of marketable securities	<u>\$ 8,782</u>	<u>\$ 12,329</u>
Donation of land and buildings	<u>\$ 2,341,000</u>	<u>\$ 1,430,000</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, 2013 and 2012**

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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 five primary properties: the Martin Griffin Preserve (formerly the Bolinas Lagoon Preserve), Bouverie Preserve, Cypress Grove Research Center, Mayacamas Mountain Sanctuary, Modini-Ingalls Ecological Preserve, and a number of other properties in Marin and Sonoma 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 diminishments 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 diminishments 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.

Not included in cash and cash equivalents is cash restricted for use by donor instruction, which was \$133,466 at June 30, 2013.

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

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2013 and 2012**

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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 November 18, 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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2013 and 2012**

**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, 2013 and 2012, totaled \$28,935 and \$24,099, 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, 2013 and 2012, 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, 2013, 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	\$ 16,346,041	\$ -	\$ -	\$ 16,346,041
Fixed income	9,401,027	-	-	9,401,027
	<u>\$ 25,747,068</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,747,068</u>

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>

**AUDUBON CANYON RANCH, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2013 and 2012**

**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, 2013 and 2012:

	2013	2012
Realized gain	\$ 674,429	\$ 406,986
Unrealized (loss) gain	1,750,081	(646,798)
Interest and dividend income	516,265	527,599
Investment management fees	(78,653)	(69,815)
	\$ 2,862,122	\$ 217,972

Investment income is presented as follows on the Statements of Activities for the years ended June 30, 2013 and 2012:

	2013	2012
Endowment income transfers	\$ 1,805,485	\$ 1,673,968
Endowment income (loss), net of transfers	1,056,637	(1,455,996)
	\$ 2,862,122	\$ 217,972

ACR's endowment consists of two investment accounts 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.

**AUDUBON CANYON RANCH, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2013 and 2012**

**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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Endowment Net Asset Composition by Type of Fund as of:</u>				
<u>June 30, 2013</u>				
Donor-restricted endowment funds	\$ -	\$ 3,759,892	\$ 14,115,015	\$ 17,874,907
Board-designated endowment funds	7,902,747	-	-	7,902,747
Total funds	\$ 7,902,747	\$ 3,759,892	\$ 14,115,015	\$ 25,777,654
Cash and cash equivalents	\$ -	\$ 531,796	\$ -	\$ 531,796
Endowment investments	7,902,747	3,228,096	14,115,015	25,245,858
	\$ 7,902,747	\$ 3,759,892	\$ 14,115,015	\$ 25,777,654
 <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

**AUDUBON CANYON RANCH, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2013 and 2012**

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

Changes in Endowment Net Assets for the Fiscal Years Ended June 30, 2013 and 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2011	\$ -	\$ 11,444,753	\$ 9,501,932	\$ 20,946,685
Release of Board-designated funds	<u>8,130,020</u>	<u>(8,130,020)</u>	<u>-</u>	<u>-</u>
Investment return:				
Interest and dividends	205,831	318,191	-	524,022
Realized gain	155,983	241,131	-	397,114
Unrealized loss	<u>(278,848)</u>	<u>(431,066)</u>	<u>-</u>	<u>(709,914)</u>
Total investment return	<u>82,966</u>	<u>128,256</u>	<u>-</u>	<u>211,222</u>
Contributions	77,399	-	1,158,721	1,236,120
Change in value of pooled income fund, per donor instructions	<u>-</u>	<u>-</u>	<u>(42,954)</u>	<u>(42,954)</u>
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>
Investment return:				
Interest and dividends	196,713	319,178	-	515,891
Realized gain	274,425	400,004	-	674,429
Unrealized gain	<u>521,388</u>	<u>1,073,653</u>	<u>-</u>	<u>1,595,041</u>
Total investment return	<u>992,526</u>	<u>1,792,835</u>	<u>-</u>	<u>2,785,361</u>

**AUDUBON CANYON RANCH, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2013 and 2012**

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

Changes in Endowment Net Assets for the Fiscal Years Ended June 30, 2013 and 2012 (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions	623,357	-	3,504,518	4,127,875
Change in value of pooled income fund, per donor instructions	-	-	(7,202)	(7,202)
Total contributions and changes in contributions	623,357	-	3,497,316	4,120,653
Appropriation of endowment assets for expenditure:				
Spending rule	(401,140)	(845,037)	-	(1,246,177)
Additional appropriations	(559,308)	-	-	(559,308)
Total appropriations	(960,448)	(845,037)	-	(1,805,485)
Endowment net assets, June 30, 2013	\$ 7,902,747	\$ 3,759,892	\$ 14,115,015	\$ 25,777,654

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

	2013	2012
	\$ 14,115,015	\$ 10,617,699

Total endowment funds classified as permanently restricted net assets

	\$ 14,115,015	\$ 10,617,699
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*Temporarily Restricted Net Assets*

Term endowment funds

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

Without purpose restrictions

	3,287,935	2,587,120
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With purpose restrictions

	471,957	224,974
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Total endowment funds classified as temporarily restricted net assets

	\$ 3,759,892	\$ 2,812,094
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2013 and 2012**

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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, 2013 or 2012.

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 to preserve the purchasing power, or inflation-adjusted value, of the endowment. 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 annual total return, over the long-term, equal to the change in the Consumer Price Index ("CPI") plus 4.5% (5% for 2012). 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, 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, 2013, the total spending rate was approximately 5.225% of the donor-restricted portion and 12.1% 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, 2013 and 2012**

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, 2013 and 2012, the Corporation held the following permanently restricted net assets:

	2013	2012
Endowment funds	\$ 14,115,015	\$ 10,617,699
Permanently restricted land and buildings	4,685,000	2,975,000
	\$ 18,800,015	\$ 13,592,699

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, 2013 and 2012, 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, 2013, 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>	
Remainder interest in trusts	\$ -	\$ 78,347	\$ -	\$ 78,347

**AUDUBON CANYON RANCH, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2013 and 2012**

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

<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
	<u>\$ -</u>	<u>\$ 79,614</u>	<u>\$ -</u>	<u>\$ 79,614</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 years ended June 30, 2013 and 2012:

Balance, June 30, 2011	\$ 126,527
Realized gains	1,753
Distributions, life income gifts	(43,967)
Unrealized loss	<u>(4,699)</u>
Balance, June 30, 2012	79,614
Distributions, life income gifts	(7,202)
Unrealized gain	<u>5,935</u>
Balance, June 30, 2013	<u>\$ 78,347</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, 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	5,593,270	3,683,906	643,028	9,920,204
Additions	<u>1,923,000</u>	<u>600,768</u>	<u>15,210</u>	<u>2,538,978</u>
Balance, June 30, 2013	<u>7,516,270</u>	<u>4,284,674</u>	<u>658,238</u>	<u>12,459,182</u>

**AUDUBON CANYON RANCH, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2013 and 2012**

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, 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		2,441,522	503,602	2,945,124
Depreciation expense		<u>122,267</u>	<u>26,740</u>	<u>149,007</u>
Balance, June 30, 2013		<u>2,563,789</u>	<u>530,342</u>	<u>3,094,131</u>
Property, equipment and improvements, net, June 30, 2013	<u>\$ 7,516,270</u>	<u>\$ 1,720,885</u>	<u>\$ 127,896</u>	<u>\$ 9,365,051</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>

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 years ended June 30, 2013 and 2012, the Corporation agreed to assignment of various land use restriction agreements.

During the year ended June 30, 2013, the Corporation began work on several capital projects. Total amounts expended on work in progress as of June 30, 2013, totaled \$66,490.

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Mayacamas land restoration	\$ 546,457	\$ 583,570
Land and buildings	1,574,011	943,011
Time-restricted	120,139	119,237
Other	117,457	86,113
Temporarily Restricted Endowment (see Note 3)	<u>3,759,892</u>	<u>2,812,094</u>
	<u>\$ 6,117,956</u>	<u>\$ 4,544,025</u>

**AUDUBON CANYON RANCH, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2013 and 2012**

NOTE 7 IN-KIND GOODS AND SERVICES

The Corporation receives the benefit of in-kind goods and 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, 2013 and 2012, using quoted prices in active markets for identified assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

<u>Fair Value Measurements at June 30, 2013, Using</u>				
<u>Description</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>	<u>Total</u>
Legal services	\$ -	\$ 19,228	\$ -	\$ 19,228
Land and buildings	-	2,341,000	-	2,341,000
	<u>\$ -</u>	<u>\$ 2,360,228</u>	<u>\$ -</u>	<u>\$ 2,360,228</u>

<u>Fair Value Measurements at June 30, 2012, Using</u>				
<u>Description</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>	<u>Total</u>
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>

The Corporation also benefits from a substantial number of volunteers who donate significant amounts of time to ACR programs. Such volunteer services do not meet the criteria, stated above, required to record the value of such services as revenue and expense in the Statements of Activities. The Corporation estimates approximately 16,626 hours were provided to ACR during the year ended June 30, 2013, valued at an average hourly rate of \$24.75 for a total estimated value of \$411,494. The Corporation estimates approximately 15,753 hours were provided to ACR during the year ended June 30, 2012, valued at an average hourly rate of \$24.18 for a total estimated value of \$380,908.

**AUDUBON CANYON RANCH, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2013 and 2012**

**NOTE 8 SPECIAL EVENT**

During the years ended June 30, 2013 and 2012, the Corporation held a special event resulting in net income as follows:

	2013	2012
Donations, shown as gifts and bequests on the Statements of Activities	\$ 48,749	\$ 53,046
Ticket sales and auction proceeds	62,292	68,294
Less: direct expenses	54,665	70,942
Net special event earned income	7,627	(2,648)
Total event net income	\$ 56,376	\$ 50,398

**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, 2013 and 2012:

	2013	2012
Mayacamas land restoration	\$ 37,113	\$ 16,430
Other	69,228	119,412
Time-restricted	20,000	90,377
	\$ 126,341	\$ 226,219

**NOTE 10 VEHICLE LOAN**

During 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, 2013 and 2012, the Corporation paid \$5,391 and \$5,389, respectively, toward this loan, including imputed interest. The total balance of the remaining loan as of June 30, 2013 and 2012 was \$12,132 and \$17,523, respectively, which is included in accounts payable and accrued expenses of the Statements of Financial Position.

**AUDUBON CANYON RANCH, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2013 and 2012**

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NOTE 10 VEHICLE LOAN (Continued)

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

Year ending <u>June 30,</u>	
2014	\$ 5,392
2015	5,392
2016	<u>1,347</u>
	<u>\$ 12,131</u>

NOTE 11 EQUIPMENT LEASES

The Corporation leases office equipment under several non-cancellable leases. One lease called for monthly payments of \$193 and matured 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 these and other equipment for the years ended June 30, 2013 and 2012, was \$13,078 and \$9,850, respectively.

The estimated future minimum payments for the long-term lease for the current and succeeding years are as follows:

Year ending <u>June 30,</u>	
2014	\$ 5,940
2015	5,940
2016	<u>5,940</u>
	<u>\$ 17,820</u>

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, 2013 and 2012, was \$45,341 and \$56,898, respectively.

**AUDUBON CANYON RANCH, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2013 and 2012**

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**NOTE 13    CONDITIONAL GIFTS**

During the year ended June 30, 2013, 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 \$3,600,000, 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.

ACR is also awaiting the final distribution of an estate liquidated during the year ended June 30, 2013. As of the report date, the trustee cannot estimate the remaining amount to be distributed from the "hold back" accounts, valued at \$232,000 at June 30, 2013, therefore no amount has been recorded in these financial statements.

**NOTE 14    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.

During the year ended June 30, 2013, the Corporation received a significant portion of its cash and non-cash support from one bequest. The estate was valued at approximately \$5.7 million, which was 63% of total income.

SUPPLEMENTARY INFORMATION



**AUDUBON CANYON RANCH, INC.**  
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**SCHEDULES OF FUNCTIONAL EXPENSES**  
**For the year ended June 30, 2013**

	Program Services	General and Administrative	Fundraising	Total
Personnel	\$ 1,178,307	\$ 360,235	\$ 232,020	\$ 1,770,562
Library and public education	65,220	-	-	65,220
Research and special projects	17,278	-	-	17,278
Insurance	41,811	29,843	-	71,654
Professional fees and contract services	52,344	24,879	3,899	81,122
Supplies and other general expenses	28,624	3,057	1,953	33,634
Repairs and maintenance	132,824	16,282	10,392	159,498
Utilities and telephone	57,295	20,346	13,062	90,703
Transportation	47,344	3,555	4,455	55,354
Printing	23,377	29	11,759	35,165
Postage and mailing	4,884	1,013	8,160	14,057
Community outreach and recognition	-	-	26,923	26,923
Property taxes	6,871	-	-	6,871
Retirement of equipment	829	-	-	829
In-kind legal	-	19,228	-	19,228
Total expenses before depreciation	<u>1,657,008</u>	<u>478,467</u>	<u>312,623</u>	<u>2,448,098</u>
Depreciation and amortization	<u>102,064</u>	<u>27,687</u>	<u>19,256</u>	<u>149,007</u>
Total expenses	<u>\$ 1,759,072</u>	<u>\$ 506,154</u>	<u>\$ 331,879</u>	<u>\$ 2,597,105</u>

**AUDUBON CANYON RANCH, INC.**  
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**SCHEDULES OF FUNCTIONAL EXPENSES (CONTINUED)**  
**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>