

POTOMAC VALLEY AUDUBON SOCIETY, INC.

FINANCIAL REPORT

JUNE 30, 2011 AND 2010

POTOMAC VALLEY AUDUBON SOCIETY, INC.

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JUNE 30, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Potomac Valley Audubon Society, Inc.
Shepherdstown, West Virginia

We have audited the accompanying statements of financial position of Potomac Valley Audubon Society, Inc. ("Organization") as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. The financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Potomac Valley Audubon Society, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the financial statements, contributions have been restated.

Ours Lawyer Lewis & Company, PLLC

Martinsburg, West Virginia
November 1, 2011

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POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 169,297	\$ 117,220
Accounts and Grants Receivable	3,137	14,620
Prepaid Expenses	4,850	5,678
TOTAL CURRENT ASSETS	177,284	137,518
PROPERTY AND EQUIPMENT		
Land, Buildings and Improvements	90,705	90,705
Furniture and Equipment	8,437	6,738
Less Accumulated Depreciation	(28,996)	(23,521)
PROPERTY AND EQUIPMENT, NET	70,146	73,922
OTHER ASSETS		
Beneficial Interest in Real Estate	143,675	127,157
Investment in Eastern WV Community Foundation	3,624	3,009
TOTAL OTHER ASSETS	147,299	130,166
TOTAL ASSETS	\$ 394,729	\$ 341,606
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 9,922	\$ 3,099
Accrued Payroll and Related Liabilities	-	4,443
TOTAL CURRENT LIABILITIES	9,922	7,542
NET ASSETS		
Unrestricted	199,477	181,185
Temporarily Restricted	24,715	8,782
Permanently Restricted	160,615	144,097
TOTAL NET ASSETS	384,807	334,064
TOTAL LIABILITIES AND NET ASSETS	\$ 394,729	\$ 341,606

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

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Federal, State and Local Grants	\$ 80,887	\$ -	\$ -	\$ 80,887
In-kind Goods and Services	22,835	-	-	22,835
Contributions	48,709	17,686	-	66,395
Membership Dues	4,952	-	-	4,952
TOTAL SUPPORT	157,383	17,686	-	175,069
Program Fees	63,693	-	-	63,693
Special Events, Net of Expenses of \$19,243	23,675	-	-	23,675
Investment Income, Net	1,763	79	-	1,842
TOTAL REVENUE	89,131	79	-	89,210
Net Assets Released from Restrictions:				
Satisfaction of Purpose Restrictions	1,832	(1,832)	-	-
Expiration of Time Restrictions	-	-	-	-
Change in Value of Beneficial Interest	-	-	16,518	16,518
TOTAL SUPPORT, REVENUE AND RECLASSIFICATIONS	248,346	15,933	16,518	280,797
EXPENSES				
Program Services	213,275	-	-	213,275
Support Services:				
Management and General	12,189	-	-	12,189
Fundraising	4,590	-	-	4,590
TOTAL EXPENSES	230,054	-	-	230,054
CHANGE IN NET ASSETS	18,292	15,933	16,518	50,743
NET ASSETS				
Beginning of Year, as previously reported	181,185	8,782	179,784	369,751
Restatement related to correction of error	-	-	(35,687)	(35,687)
End of Year	\$ 199,477	\$ 24,715	\$ 160,615	\$ 384,807

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

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Federal, State and Local Grants	\$ 57,325	\$ 1,000	\$ -	\$ 58,325
In-kind Goods and Services	31,707	-	-	31,707
Contributions	52,379	3,463	127,157	182,999
Membership Dues	4,707	-	-	4,707
TOTAL SUPPORT	146,118	4,463	127,157	277,738
Program Fees	55,423	-	-	55,423
Special Events, Net of Expenses of \$17,233	22,578	-	-	22,578
Investment Income, Net	1,777	-	-	1,777
TOTAL REVENUE	79,778	-	-	79,778
Net Assets Released from Restrictions:				
Satisfaction of Purpose Restrictions	137	(137)	-	-
Expiration of Time Restrictions	-	-	-	-
TOTAL SUPPORT, REVENUE AND RECLASSIFICATIONS	226,033	4,326	127,157	357,516
EXPENSES				
Program Services	187,470	-	-	187,470
Support Services:				
Management and General	15,022	-	-	15,022
Fundraising	4,607	-	-	4,607
TOTAL EXPENSES	207,099	-	-	207,099
CHANGE IN NET ASSETS	18,934	4,326	127,157	150,417
NET ASSETS				
Beginning of Year, as previously reported	179,191	4,456	-	183,647
Restatement related to correction of error	(16,940)	-	16,940	-
End of Year	\$ 181,185	\$ 8,782	\$ 144,097	\$ 334,064

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

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011			
	<u>Support Services</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
FUNCTIONAL EXPENSES				
COMPENSATION AND RELATED EXPENSES				
Salaries and Wages	\$ 95,268	\$ 4,329	\$ 2,164	\$ 101,761
Payroll Taxes	7,288	331	166	7,785
Employee Benefits	967	107	-	1,074
	<u>103,523</u>	<u>4,767</u>	<u>2,330</u>	<u>110,620</u>
TOTAL COMPENSATION AND RELATED EXPENSES				
Accounting Fees	3,092	773	-	3,865
Conferences and Training	-	55	-	55
Depreciation	4,451	1,024	-	5,475
Honoraria	2,750	-	-	2,750
In-kind Goods and Services	22,627	47	161	22,835
Insurance	4,528	1,132	-	5,660
Land and Facility Management	27,629	-	-	27,629
Licenses and Fees	909	225	-	1,134
Public Relations	181	440	-	621
Postage and Shipping	78	900	648	1,626
Printing and Publication	1,483	1,884	1,451	4,818
Scholarships	810	-	-	810
Supplies	34,225	612	-	34,837
Telephone	377	94	-	471
Transportation and Travel	3,760	236	-	3,996
Utilities	2,852	-	-	2,852
	<u>213,275</u>	<u>12,189</u>	<u>4,590</u>	<u>230,054</u>
TOTAL EXPENSES				

The accompanying notes are an integral part of these financial statements

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2010			
	<u>Support Services</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
FUNCTIONAL EXPENSES				
COMPENSATION AND RELATED EXPENSES				
Salaries and Wages	\$ 93,103	\$ 4,207	\$ 2,104	\$ 99,414
Payroll Taxes	7,355	321	161	7,837
Employee Benefits	-	312	-	312
TOTAL COMPENSATION AND RELATED EXPENSES	<u>100,458</u>	<u>4,840</u>	<u>2,265</u>	<u>107,563</u>
Accounting Fees	3,080	770	-	3,850
Conferences and Training	245	1,186	-	1,431
Depreciation	3,998	346	-	4,344
Honoraria	2,364	150	-	2,514
In-kind Goods and Services	31,496	35	176	31,707
Insurance	4,216	1,054	-	5,270
Land and Facility Management	2,474	-	-	2,474
Licenses and Fees	947	223	-	1,170
Public Relations	116	202	-	318
Postage and Shipping	52	1,575	626	2,253
Printing and Publication	521	3,143	1,540	5,204
Scholarships	890	-	-	890
Supplies	29,348	689	-	30,037
Telephone	409	102	-	511
Transportation and Travel	4,723	707	-	5,430
Utilities	2,133	-	-	2,133
TOTAL EXPENSES	<u>\$ 187,470</u>	<u>\$ 15,022</u>	<u>\$ 4,607</u>	<u>\$ 207,099</u>

The accompanying notes are an integral part of these financial statements

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 50,743	\$ 150,417
Adjustments to Reconcile Increase in Net Assets to Net		
Cash Provided by Operating Activities		
Depreciation and Amortization	5,475	4,344
Donated Computer Included with Contributions	(1,699)	-
Beneficial Interest in Real Estate Included with Contributions	-	(127,157)
Change in Value of Beneficial Interest	(16,518)	
Changes in Operating Assets and Liabilities		
Prepaid Expenses	828	(1,932)
Accounts Receivable	11,483	(13,129)
Accounts Payable	6,823	1,910
Accrued Payroll and Related Liabilities	(4,443)	(2,599)
Total Adjustments	1,949	(138,563)
Net Cash Provided by Operating Activities	52,692	11,854
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	-	(18,525)
Investment in Community Foundation	(615)	(398)
Net Cash Used by Investing Activities	(615)	(18,923)
NET CHANGE IN CASH	52,077	(7,069)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	117,220	124,289
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 169,297	\$ 117,220

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

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Potomac Valley Audubon Society, Inc. ("Organization") is a not-for-profit corporation incorporated under the laws of West Virginia on August 2, 1982. The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization is a chapter of the National Audubon Society.

Mission and Nature of Activities

The Potomac Valley Audubon Society serves a largely rural, though rapidly growing area that includes Jefferson, Berkeley and Morgan counties in West Virginia and Washington County, Maryland. The organization is dedicated to preserving, restoring and enjoying the natural world through education and action. It co-manages two nature preserves with The Nature Conservancy and offers educational programming for children and adults. Its programming for children includes school programs, after-school programs and a summer camp. Its programming for adults includes a nature photography group, West Virginia Master Naturalist Program training, workshops, and lectures and field trips that are open to everyone in the community. No other local organization is providing the same kinds of services on the same scale.

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting. Under this method, support is recognized in the period in which it is earned or committed to the Organization while expenses are recognized in the period the liability is incurred.

Basis of Presentation

The Organization elected to adopt Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made* and SFAS No. 117, *Financial Statements for Not-For-Profit Organizations* for the presentation of its financial statements.

Under these provisions, net assets and revenues, expenses, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations. These are resources over which the Board of Directors have discretionary control.

Temporarily Restricted – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or with the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Permanently Restricted - Resources subject to a donor restriction that they be maintained permanently by the Organization. The permanently restricted net assets as of June 30, 2011 consist of land donated by The Nature Conservancy and a Beneficial Interest in Property. See Note 3 and Note 8, respectively for further details.

Support and Revenue

Contributions are generally available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give are recognized when the donor makes a promise to give to the Organization.

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received, if subject to reasonable estimation.

Grants

Grants received by the Organization to provide for operations represent exchange transactions whereby the Organization must provide services as outlined in the related grant agreement. As such, these grants are not considered contributions and are not subject to SFAS No. 116 provisions.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Grants received by the Organization for property acquisitions are considered to be time restricted contributions and as such are subject to provisions of SFAS No. 116.

Use of Estimates

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

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase. For financial reporting purposes, management considers all certificates of deposits regardless of maturity, to be cash equivalents.

Inventories

The Organization considers inventories of materials and supplies utilized in operations as expended at the time of purchase or donation. Therefore, they do not appear in the Organization's financial statements.

Land, Buildings, and Equipment

Purchases of land, buildings and equipment having a unit cost of \$500 or more and an estimated useful life of more than one year are capitalized at cost. Donated assets are capitalized at the estimated fair market value at time of receipt. Certain donated services are capitalized as improvements when those services enhance the value of the assets. It is not the Organization's policy to imply time restrictions expiring over the useful life of donated assets. In the absence of donor-imposed restrictions on the use of the assets, gifts of long lived assets are reported as unrestricted support.

Depreciation is calculated on all buildings and equipment using accelerated and straight-line methods based upon the estimated useful lives of the assets as follows:

Buildings and Improvements	25 Years
Land Improvements	15 Years
Furniture and Office Equipment	5 Years
All Other Equipment	3 Years

Donated Services and Noncash Gifts

During the years ended June 30, 2011 and 2010, the value of contributed services meeting the requirements for recognition in the financial statements was \$1,596 and \$4,583, respectively. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services. The Organization receives more than 6,500 volunteer hours per year.

The Organization receives rent free space at various locations which it uses for meetings, programs and lectures. The in-kind value of the space is estimated to be \$21,239 and \$27,124 for the years ended June 30, 2011 and 2010, respectively.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Donated Services and Noncash Gifts (Continued)

Effective November 3, 2008 the Organization received, by way of gift, from The Nature Conservancy, two tracts of land totaling approximately 8.5 acres. The land which was valued at \$16,940 is located in Morgan County, WV and is part of the Eidolon Preserve which the Organization currently co-manages (See Note 2). As a condition of the gift, the land must forever be held for scientific, educational and aesthetic purposes and must be kept entirely in its natural state except for a set of specified improvements to facilitate educational programming.

The Organization received an automobile in June 2010 which it subsequently sold. The net proceeds from the sale of the automobile were \$1,512 and have been recorded as Contributions on the Statement of Activities.

Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services that benefit from those costs.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Note 2 - Management Agreements

Yankauer Preserve

On October 16, 2006, the Organization entered into a five year agreement with The Nature Conservancy ("TNC") to co-manage the property known as the Yankauer Preserve located in Berkeley County, West Virginia. The agreement requires the Organization to maintain public liability insurance in the amount of \$1,000,000 per occurrence for claims of injury to individuals and \$500,000 per occurrence for all claims for damages to or loss of property occurring on the Preserve. The Organization is responsible for the day-to-day maintenance of the Preserve to fulfill the combined mission of the Organization and TNC. The agreement can be renewed for five (5) additional five (5) year terms and was renewed on October 31, 2011 for the second five (5) year term.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note 2 - Management Agreements (Continued)

Eidolon Preserve

On October 16, 2006, the Organization entered into a five year agreement with The Nature Conservancy ("TNC") to co-manage the property known as the Eidolon Preserve located in Morgan County, West Virginia. The agreement requires the Organization to maintain public liability insurance in the amount of \$1,000,000 per occurrence for claims of injury to individuals and \$500,000 per occurrence for all claims for damages to or loss of property occurring on the Preserve. The Organization is responsible for the day-to-day maintenance of the Preserve to fulfill the combined mission of the Organization and TNC. The agreement can be renewed for five (5) additional five (5) year terms and was renewed on October 31, 2011 for the second five (5) year term.

The Organization entered into a contract with The Nature Conservancy ("TNC") whereby TNC would use Eidolon Nature Preserve endowment proceeds to reimburse the Organization for actual costs of materials, supplies and other out-of-pocket expenses incurred in connection with the management of the Eidolon Preserve. Reimbursements for these purposes would be governed by annual, full-year contracts that ran from July 1 through June 30 each year, with the amounts available for reimbursement each year depending upon endowment returns, and with any unused funds carrying over and remaining available to the Organization. Under the terms of the contract that was entered into for the years ended June 30, 2011 and 2010, the Organization was eligible for reimbursements of up to \$14,529 and \$16,830 and sought and received reimbursements of \$595 and \$16,451, respectively.

Note 3 - Restatement

During 2010, it was discovered that the contribution of land received from The Nature Conservancy in the amount of \$16,940 was recorded as an Unrestricted Contribution. As a condition of the gift, the land must be forever held for scientific, educational and aesthetic purposes and therefore should have been recorded as a Permanently Restricted Contribution. The effect of the error was that Unrestricted Contributions were overstated by \$16,940 and Permanently Restricted Contributions were understated by \$16,940 for the year ended June 30, 2009. The accompanying financial statements have been restated to reflect the increase in Permanently Restricted Contributions and the corresponding decrease in Unrestricted Contributions for the year ended June 30, 2009. The correction also increased Permanently Restricted Net Assets and decreased Unrestricted Net Assets as of June 30, 2009 by \$16,940, accordingly.

The calculation of the beneficial interest in real estate was reviewed during 2011 and determined to be incorrect. The value of the Organization's interest at the time of the contribution should have been \$127,157. The effect of the error was the Permanently Restricted contributions and Beneficial Interest in Real Estate were both overstated by \$35,687 as of and for the year ended June 30, 2010. The accompanying financial statements have been restated to reflect the decrease in Permanently Restricted contributions and the corresponding decrease in Beneficial Interest in Real Estate.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note 4 - Endowment Fund

The Organization is the beneficiary of the Potomac Valley Audubon Society endowment fund established in 2004 and held by the Eastern West Virginia Community Foundation. The fund is intended to be a perpetual endowment to support the environmental education efforts of the Organization. The Community Foundation maintains variance power over the fund (a) to modify any restriction or condition on the distribution of funds; (b) to replace any trustee, custodian or agent for breach of fiduciary duty; and (c) to replace any trustee, custodian or agent for failure to produce a reasonable rate of return of net income over a reasonable period of time, as determined by the Foundation's Board of Directors. Distributions from the fund are determined under the spending policy of the Foundation and can be made annually to the Organization. In the event the Organization has an emergency need, the Foundation upon written request of the Organization's Board of Directors may, in its discretion, make an excess distribution from the fund provided that only one such excess distribution may be made annually and at least \$5,000 must remain in the fund after such excess distribution. No distributions have been made from the fund and the Board of Directors has elected to reinvest all investment income from the fund until such time as the Board designates otherwise.

The Organization has contributed \$1,350 to this fund as of June 30, 2011 and 2010 which is reported as Endowment Held by Community Foundation in the Statements of Financial Position. The investment income, including gains and losses, are reported in the Statement of Activities net of investment expenses and administrative fees. The net investment income was \$615 and \$398 for the years ended June 30, 2011 and 2010, respectively.

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	2011	2010
Specific Grant Programs	\$ -	\$ 1,832
Eidolon Preserve	6,981	6,950
Liz Neely Education Fund	17,734	
Periods after June 30	-	-
Total Temporarily Restricted Net Assets	<u>\$ 24,715</u>	<u>\$ 8,782</u>

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note 5 - Temporarily Restricted Net Assets (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	2011	2010
Purpose restrictions accomplished	\$ 1,832	\$ 137
Time restrictions expired	-	-
Total Restrictions Released	<u>\$ 1,832</u>	<u>\$ 137</u>

Note 6 - Significant Grant Funding

WV FLOW Grant

On August 1, 2007, the Organization entered into a one year cooperative agreement with the West Virginia Commission for National and Community Service. The Project FLOW (Future Leaders of Watersheds) grant is to be used in support of the Watershed Education Initiative program in connection with the Learn and Serve America grant. The agreement is on a cost reimbursement basis with a maximum ceiling of \$0 and \$16,948 for the fiscal years ended July 31, 2011 and 2010, respectively. For the years ended June 30, 2011 and 2010, the Organization received \$0 and \$16,948 of reimbursements under the agreement, respectively.

WV Department of Environmental Protection

On June 3, 2009, the Organization entered into a one year cooperative agreement with the West Virginia Department of Environmental Protection (WVDEP). The grant is to be used in support of the Watershed Education, particularly erosion control gardens at schools. The agreement is on a cost reimbursement basis with a maximum ceiling of \$25,000 for the grant period June 1, 2009 through December 31, 2011.

In July 2010, the Organization entered into a cooperative agreement with the WVDEP for the support of the Watershed Education program. The agreement is on a cost reimbursement basis with a maximum ceiling of \$15,129 for the grant period July 1, 2010 through September 30, 2012.

For the years ended June 30, 2011 and 2010, the Organization received \$13,236 and \$21,080 of reimbursements under the agreements, respectively.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note 6 - Significant Grant Funding (Continued)

WV Department of Transportation

On May 13, 2009, the Organization entered into an agreement with the West Virginia Department of Transportation (WVDOT) for the improvement of a nature trail in the Yankauer Nature Preserve and for the installation of trailside amenities. The total eligible project costs are \$39,188 of which 80% is eligible for reimbursement from the WVDOT and the remaining 20% must be matched by the Organization. For the year ended June 30, 2011, the Organization received reimbursements of \$24,071 from the WVDOT under this project.

Together Green Grant

In September 2010, the Organization entered into a grant agreement with the National Audubon Society, Inc. to create a nature park at the headwaters of flowing springs in the city of Ranson, WV. The agreement calls for disbursement of \$25,384 of funds for the project in the following manner; 50% upon receipt of signed grant agreement, 30% upon receipt of the mid-term report and the final 20% upon receipt of the final report. For the year ended June 30, 2011, the Organization received \$20,307 in funds under this agreement.

Note 7 - Agreement with National Conservation Training Center (NCTC)

The Organization entered into a memorandum of agreement with the U.S. Fish and Wildlife Service's NCTC on August 24, 2008. The agreement formalizes the relationship between the two organizations and provides rent free space for the Organization to hold regular meetings and in exchange the Organization will work and partner with NCTC on a variety of conservation-related events and activities. The agreement is effective for five years and may be renewed for successive five year terms at the discretion of both organizations. The in-kind value of the meeting space is estimated to be \$18,703 and \$22,086 for the years ended June 30, 2011 and 2010, respectively.

Note 8 - Gift Subject to Life Estate Interest

The Organization, by way of bequest, received a remainder interest in approximately 32 acres of land located in Jefferson County, WV on April 27, 2008. The deceased's last will and testament stipulates, the property is to be used for the purposes of holding and maintaining as a wildlife preserve, a wetlands preserve and as a home, nesting, and landing area for ducks and geese. Under terms of the bequest, the donor's beneficiaries will continue to have access to the property for the remainder of their lives. Based on the life expectancy of the beneficiaries and a 3.2% discount rate, the present value of future benefits to be received by the Organization was estimated to be \$127,157 which was recorded at June 30, 2010 as a permanently restricted Contribution in the Statement of Activities and a Beneficial Interest in Real Estate in the Statement of Financial Position.

It was discovered during 2011 that the original value of the beneficial interest was incorrectly computed. The value as of June 30, 2010 has been corrected, see Note 3 for additional details regarding the restatement of the financial statements.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note 8 - Gift Subject to Life Estate Interest (Continued)

The Beneficial Interest in Real Estate is valued annually at the date of the financial statements with the changes being recognized in the Statements of Activities. The value is determined using the same methodology that was used to calculate the beneficial interest updated for the change in interest rates and the beneficiaries' ages. The value of the beneficial interest was \$143,675 as of June 30, 2011 and the increase of \$16,518 is recognized in the Statements of Activities for the year ended June 30, 2011.

Note 9 - Fair Value Measurements

The Organization reports the Beneficial Interest in Real Estate at fair value in the accompanying Statements of Financial Condition. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement authoritative literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of the unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs are unobservable and have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its assets. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 inputs were available to the Organization, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

Level 3 - Fair Value Measurements

The Beneficial Interest in Real Estate is not actively traded and significant other observable inputs are not available. Thus, the fair value of the Beneficial Interest in Real Estate is determined using remainder tables based upon the life expectancy of the beneficiaries who have a life estate in the property and the prevailing interest rate.

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at June 30, 2011 are as follows:

Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Beneficial Interest in Real Estate	\$ 143,675	\$ -	\$ 143,675

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note 9 - Fair Value Measurements (Continued)

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at June 30, 2010 are as follows:

Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Beneficial Interest in Real Estate	\$ 127,157	\$ -	\$ 127,157

The reconciliation of the changes in the Beneficial Interest in Real Estate measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

<u>Beneficial Interest in Real Estate</u>	
July 1, 2009	\$ -
Contribution of Beneficial Interest in Real Estate	127,157
June 30, 2010	127,157
Change in value of Beneficial Interest in Real Estate	16,518
June 30, 2011	\$ 143,675

The change in value of the Beneficial Interest in Real Estate of \$16,518 is attributable to the revaluation of the Beneficial Interest based on applicable remainder tables and interest rates and is included in the change in permanently restricted net assets for the year ended June 30, 2011.

Note 10 - Subsequent Events

Date of Management's Review

Subsequent events have been evaluated through November 1, 2011, which is the date the financial statements were available to be issued.

Donation of Property

In September 2011, the Organization, by way of donation, received land valued at approximately \$85,000. The land which has a USDA conservation easement will be used as a preserve to further the Organization's mission.