

POTOMAC VALLEY AUDUBON SOCIETY, INC.

FINANCIAL REPORT

JUNE 30, 2008 AND 2007

POTOMAC VALLEY AUDUBON SOCIETY, INC.

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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, 2008 and 2007, 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, 2008 and 2007, 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.

Ours Lawyer Lewis & Company, PLLC

Martinsburg, West Virginia
November 11, 2008

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POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 97,839	\$ 92,632
Accounts and Grants Receivable	8,123	-
Prepaid Expenses	3,696	2,989
TOTAL CURRENT ASSETS	109,658	95,621
PROPERTY AND EQUIPMENT		
Land, Buildings and Improvements	53,409	47,750
Furniture and Equipment	4,069	2,800
Less Accumulated Depreciation	(15,663)	(12,719)
PROPERTY AND EQUIPMENT, NET	41,815	37,831
TOTAL ASSETS	\$ 151,473	\$ 133,452
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 3,617	\$ 2,490
Accrued Payroll and Related Liabilities	2,069	10,884
Deferred Revenue	-	9,250
TOTAL CURRENT LIABILITIES	5,686	22,624
NET ASSETS		
Unrestricted	137,509	109,707
Temporarily Restricted	8,278	1,121
TOTAL NET ASSETS	145,787	110,828
TOTAL LIABILITIES AND NET ASSETS	\$ 151,473	\$ 133,452

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

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDING JUNE 30, 2008 AND 2007

	2008		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Federal, State and Local Grants	\$ 55,819	\$ 6,273	\$ 62,092
In-kind Goods and Services	22,000	-	22,000
United Way Funding	13,000	-	13,000
Contributions	34,049	884	34,933
Membership Dues	4,372	-	4,372
TOTAL SUPPORT	129,240	7,157	136,397
Program Fees	52,592	-	52,592
Special Events, Net of Expenses of \$21,899	25,945	-	25,945
Interest	2,135	-	2,135
TOTAL REVENUE	80,672	-	80,672
Net Assets Released from Restrictions:			
Satisfaction of Purpose Restrictions	-	-	-
Expiration of Time Restrictions	-	-	-
TOTAL SUPPORT, REVENUE AND RECLASSIFICATIONS	209,912	7,157	217,069
EXPENSES			
Program Services	162,109	-	162,109
Support Services:			
Management and General	15,989	-	15,989
Fundraising	4,012	-	4,012
TOTAL EXPENSES	182,110	-	182,110
CHANGE IN NET ASSETS	27,802	7,157	34,959
NET ASSETS			
Beginning of Year	109,707	1,121	110,828
End of Year	\$ 137,509	\$ 8,278	\$ 145,787

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

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDING JUNE 30, 2008 AND 2007

	2007		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Federal, State and Local Grants	\$ 18,985	\$ 1,121	\$ 20,106
In-kind Goods and Services	-	-	-
United Way Funding	10,995	-	10,995
Contributions	29,644	-	29,644
Membership Dues	4,182	-	4,182
TOTAL SUPPORT	63,806	1,121	64,927
Program Fees	38,562	-	38,562
Special Events, Net of Expenses of \$21,192	14,686	-	14,686
Interest	888	-	888
TOTAL REVENUE	54,136	-	54,136
Net Assets Released from Restrictions:			
Satisfaction of Purpose Restrictions	15,541	(15,541)	-
Expiration of Time Restrictions	-	-	-
TOTAL SUPPORT, REVENUE AND RECLASSIFICATIONS	133,483	(14,420)	119,063
EXPENSES			
Program Services	92,987	-	92,987
Support Services:			
Management and General	10,294	-	10,294
Fundraising	3,189	-	3,189
TOTAL EXPENSES	106,470	-	106,470
CHANGE IN NET ASSETS	27,013	(14,420)	12,593
NET ASSETS			
Beginning of Year	82,694	15,541	98,235
End of Year	\$ 109,707	\$ 1,121	\$ 110,828

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

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDING JUNE 30, 2008 AND 2007

	2008			
	<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	\$ 84,336	\$ 4,098	\$ 2,050	\$ 90,484
Payroll Taxes	7,313	311	156	7,780
Employee Benefits	492	123	-	615
TOTAL COMPENSATION AND RELATED EXPENSES	92,141	4,532	2,206	98,879
Accounting Fees	2,960	740	-	3,700
Conferences and Training	1,389	961	-	2,350
Contracted Services	2,750	-	-	2,750
Depreciation	2,735	208	-	2,943
Donations	500	-	-	500
Honoraria	1,400	-	-	1,400
In-kind Goods and Services	17,143	4,857	-	22,000
Insurance	2,816	704	-	3,520
Land and Facility Management	5,689	-	-	5,689
Licenses & Fees	-	110	-	110
Public Relations	824	-	-	824
Postage and Shipping	1,349	872	453	2,674
Printing & Publication	4,080	1,020	1,165	6,265
Professional Fees	-	-	-	-
Scholarships	2,045	-	-	2,045
Supplies	19,817	1,543	137	21,497
Telephone	439	110	-	549
Travel	2,283	332	51	2,666
Utilities	1,749	-	-	1,749
TOTAL EXPENSES	\$ 162,109	\$ 15,989	\$ 4,012	\$ 182,110

The accompanying notes are an integral part of these financial statements

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDING JUNE 30, 2008 AND 2007

	2007			
	<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	\$ 54,913	\$ 4,553	\$ 2,277	\$ 61,743
Payroll Taxes	3,154	371	185	3,710
Employee Benefits	232	58	-	290
TOTAL COMPENSATION AND RELATED EXPENSES	<u>58,299</u>	<u>4,982</u>	<u>2,462</u>	<u>65,743</u>
Accounting Fees	1,000	250	-	1,250
Conferences and Training	100	-	-	100
Contracted Services	1,150	-	-	1,150
Depreciation	2,749	366	-	3,115
Donations	500	-	237	737
Honoraria	400	-	-	400
In-kind Goods and Services	-	-	-	-
Insurance	3,243	811	-	4,054
Land and Facility Management	-	-	-	-
Licenses & Fees	-	172	-	172
Public Relations	131	-	-	131
Postage and Shipping	1,417	406	420	2,243
Printing & Publication	4,268	1,847	-	6,115
Professional Fees	1,024	-	-	1,024
Scholarships	1,735	-	-	1,735
Supplies	12,210	574	-	12,784
Telephone	452	113	-	565
Travel	3,162	773	70	4,005
Utilities	1,147	-	-	1,147
TOTAL EXPENSES	<u>\$ 92,987</u>	<u>\$ 10,294</u>	<u>\$ 3,189</u>	<u>\$ 106,470</u>

The accompanying notes are an integral part of these financial statements

POTOMAC VALLEY AUDUBON SOCIETY, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDING JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 34,959	\$ 12,593
Adjustments to Reconcile Increase in Net Assets to Net		
Cash Provided by Operating Activities		
Depreciation and Amortization	2,943	3,115
Changes in Operating Assets and Liabilities		
Prepaid Expenses	(707)	(298)
Accounts Receivable	(8,123)	-
Accounts Payable	1,128	2,490
Accrued Payroll and Related Liabilities	(8,815)	8,825
Deferred Revenue	(9,250)	9,250
Total Adjustments	(22,824)	23,382
Net Cash Provided by Operating Activities	12,135	35,975
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	(6,928)	(9,613)
Net Cash Used by Investing Activities	(6,928)	(9,613)
NET INCREASE IN CASH	5,207	26,362
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	92,632	66,270
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 97,839	\$ 92,632

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

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDING JUNE 30, 2008 AND 2007

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 ENDING JUNE 30, 2008 AND 2007

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

Basis of Presentation (Continued)

Permanently Restricted - Resources subject to a donor restriction that they be maintained permanently by the Organization. There are no permanently restricted net assets as of June 30, 2008 and 2007.

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 ENDING JUNE 30, 2008 AND 2007

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

During the years ended June 30, 2008 and 2007, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. 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.

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 as supporting services benefited.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDING JUNE 30, 2008 AND 2007

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.

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.

On December 3, 2007, the Organization entered into a contract with The Nature Conservancy ("TNC") whereby TNC will reimburse the Organization for the actual costs of materials, supplies and other out-of-pocket expenses incurred in connection with the management of the Eidolon Preserve up to \$8,000 per annum. During the year ended June 30, 2008, the Organization received \$5,434 of reimbursements under this agreement.

Note 3 - Deferred Revenue

The Deferred Revenue recorded as of June 30, 2007 represents the fees and sponsorship revenue received in advance of the Potomac Arts Festival which is held annually in November. The Organization chose not to continue the Festival after November 2007 and therefore no Deferred Revenue exists as of June 30, 2008.

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 Board of Directors has elected to reinvest all investment income from the fund until such time as the Board designates otherwise. The total market value of the endowment fund as of December 31, 2007 and 2006 was \$12,323 and \$10,711, respectively.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDING JUNE 30, 2008 AND 2007

Note 5 - Temporarily Restricted Net Assets

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

	2008	2007
Specific Grant Programs	\$ 1,969	\$ 1,121
Eidolon Preserve	6,309	-
Periods after June 30	-	-
Total Temporarily Restricted Net Assets	<u>\$ 8,278</u>	<u>\$ 1,121</u>

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

	2008	2007
Purpose restrictions accomplished	\$ -	\$ 15,541
Time restrictions expired	-	-
Total Restrictions Released	<u>\$ -</u>	<u>\$ 15,541</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 \$42,500 for the fiscal year ended July 31, 2008. For the year ended June 30, 2008, the Organization received \$26,171 of reimbursements under the agreement.

Spring Creek Foundation

The Organization was awarded a \$15,000 grant from the Spring Creek Foundation for the general support of the Organization's operations. The grant has been recorded as Unrestricted Support for the year ended June 30, 2008.

POTOMAC VALLEY AUDUBON SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDING JUNE 30, 2008 AND 2007

Note 6 - Significant Grant Funding (Continued)

Carl M. Freeman Foundation

The Organization was awarded a \$5,000 grant from the Carl M. Freeman Foundation for the preparation of the Eidolon Preserve for the Community. The funds have not been utilized for the designated purpose as of June 30, 2008 and therefore are recorded as Temporarily Restricted Support in the Statement of Activities.

Note 7 - Subsequent Events

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 is located in Morgan County, WV 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.

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. The Organization anticipates the estate will be settled during summer 2009 at which time the gift will be recorded on the books of the Organization.

Note 8 - 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 \$16,727 for the year ended June 30, 2008.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

In planning and performing our audit of the financial statements of Potomac Valley Audubon Society, Inc. as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of the Board, its management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Ours Lawyer Lewis & Company, PLLC

Martinsburg, West Virginia
November 11, 2007

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