

AMERICAN BIRDING ASSOCIATION, INC.

Financial Statements

For the Year Ended December 31, 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
American Birding Association, Inc.
Colorado Springs, Colorado

We have audited the accompanying statement of financial position of American Birding Association, Inc. as of December 31, 2010, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides 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 American Birding Association, Inc. as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The 2009 financial statements were reviewed by us, and our report thereon, dated March 3, 2010, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

Waugh & Goodwin, LLP

February 25, 2011

AMERICAN BIRDING ASSOCIATION, INC.
Statement of Financial Position
December 31, 2010
(With Comparative Amounts for 2009)

	2010 <u>(Audited)</u>	2009 <u>(Reviewed)</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 113,382	\$ 56,908
Accounts receivable, net	31,636	21,764
Other receivables	79,996	90,150
Prepaid expenses	4,968	21,387
Inventory	115,657	102,669
Total current assets	345,639	292,878
LONG TERM INVESTMENTS	170,156	574,171
PROPERTY AND EQUIPMENT, net	49,339	45,055
TOTAL ASSETS	\$ 565,134	\$ 912,104
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 163,179	\$ 142,692
Current portion of deferred revenue	385,966	416,731
Current portion of capital lease	2,948	3,280
Total current liabilities	552,093	562,703
LONG TERM LIABILITIES:		
Long term portion of deferred revenue	84,192	85,953
Long term capital lease obligation	2,863	6,861
Total long term liabilities	87,055	92,814
TOTAL LIABILITIES	639,148	655,517
NET ASSETS:		
Unrestricted	(104,381)	223,982
Temporarily restricted	30,367	32,605
Total net assets	(74,014)	256,587
TOTAL LIABILITIES AND NET ASSETS	\$ 565,134	\$ 912,104

See Notes to Financial Statements

AMERICAN BIRDING ASSOCIATION, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2010
(With Comparative Totals for 2009)

	Unrestricted	Temporarily Restricted	2010 Totals (Audited)	2009 Totals (Reviewed)
REVENUE:				
Membership dues	\$ 482,067	\$	\$ 482,067	\$ 593,352
Contributions, grants and contracts	306,550		306,550	283,733
Advertising	242,079		242,079	266,495
Publications production	153,675		153,675	190,104
Conferences and meetings	99,323		99,323	485,811
Investment income	20,818		20,818	122,202
Other income	12,105		12,105	5,861
Endorsements and royalties	12,002		12,002	26,563
Satisfied program restrictions	<u>2,238</u>	<u>(2,238)</u>		
Total revenue	1,330,857	(2,238)	1,328,619	1,974,121
EXPENSES:				
Program services:				
Publications production	671,119		671,119	850,134
Conferences and meetings	238,983		238,983	434,345
Educational conservation	102,114		102,114	154,052
Member services	<u>61,678</u>		<u>61,678</u>	<u>109,486</u>
Total program services	1,073,894		1,073,894	1,548,017
Supporting services:				
General and administrative	313,419		313,419	323,399
Membership development and fundraising	<u>271,907</u>		<u>271,907</u>	<u>240,014</u>
Total supporting services	<u>585,326</u>		<u>585,326</u>	<u>563,413</u>
Total expenses	<u>1,659,220</u>		<u>1,659,220</u>	<u>2,111,430</u>
CHANGE IN NET ASSETS	(328,363)	(2,238)	(330,601)	(137,309)
NET ASSETS, beginning of year	<u>223,982</u>	<u>32,605</u>	<u>256,587</u>	<u>393,896</u>
NET ASSETS, end of year	<u>\$ (104,381)</u>	<u>\$ 30,367</u>	<u>\$ (74,014)</u>	<u>\$ 256,587</u>

See Notes to Financial Statements

AMERICAN BIRDING ASSOCIATION, INC.
Statement of Cash Flows
For the Year Ended December 31, 2010
(With Comparative Amounts for 2009)

	2010 <u>(Audited)</u>	2009 <u>(Reviewed)</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (330,601)	\$ (137,309)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	18,300	14,726
Net unrealized and realized gains on investments	(10,493)	(93,417)
Change in assets and liabilities:		
Decrease in receivables	282	(46,771)
Decrease in prepaid expenses	16,419	64,411
Increase in inventory	(12,988)	19,739
Increase in accounts payable and accrued liabilities	20,487	(67,094)
Decrease in other liabilities	<u>(36,856)</u>	<u>(258,400)</u>
Total adjustments	<u>(4,849)</u>	<u>(366,806)</u>
Net cash used by operating activities	(335,450)	(504,115)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,482,784	1,107,959
Purchase of investments	(1,063,880)	(706,630)
Purchase of property and equipment	<u>(24,203)</u>	<u> </u>
Net cash provided by investing activities	394,701	401,329
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease	<u>(2,777)</u>	<u>(3,089)</u>
Net cash used by financing activities	<u>(2,777)</u>	<u>(3,089)</u>
NET INCREASE (DECREASE) IN CASH	56,474	(105,875)
CASH AND CASH EQUIVALENTS, beginning of year	<u>56,908</u>	<u>162,783</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 113,382</u>	<u>\$ 56,908</u>

See Notes to Financial Statements

AMERICAN BIRDING ASSOCIATION, INC.
Notes to Financial Statements
For the Year Ended December 31, 2010

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

American Birding Association, Inc. (the Association) is a not-for-profit corporation, organized under the laws of the State of Texas to provide leadership to field birders by increasing their knowledge, skills and enjoyment of birding and by contributions to bird conservation. The Association supports the interests of birders of all ages and experience. They promote field birding skills through meetings, workshops, publications, equipment and guided involvement in birding; develop and disseminate information about birds, birders and birding; and promote national and international birder networks. The Association actively encourages the conservation of birds and their habitats. The majority of the Association's revenues are derived from membership dues and publication sales. The Association's members are located in every North American state, province and territory as well as numerous countries worldwide.

Contributions

Contributions are recorded when received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as satisfied program restrictions.

Cash and Cash Equivalents

The Association considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2010, cash equivalents consisted of demand deposits and money market accounts.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments

Generally accepted accounting principles require that nonprofit organizations report certain investments at fair value. In accordance with that guidance, the Association accounts for its marketable securities at fair value. Investment income and gains that are initially restricted by donor stipulation and for which the restriction will be satisfied in the same year are included in unrestricted net assets. Other investment income, gains and losses are reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Receivables

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. As of December 31, 2010 and 2009, receivables were recorded net of an allowance for doubtful accounts of \$1,020 and \$520, respectively.

Inventory

Inventory consists of various publications for sale to both members and non-members. Inventory is valued at the lower of first-in, first-out cost or market.

Property and Equipment

Property and equipment are recorded at cost or fair value at date of gift. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or the estimated useful lives. Depreciation is recorded using the straight-line method over estimated useful lives as follows:

Computer equipment and software	3 years
Leasehold improvements	5-10 years
Office equipment	3 years

Depreciation expense for the years ended December 31, 2010 and 2009 was \$18,300 and \$14,726, respectively.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

No provision for income taxes has been made in the accompanying financial statements because the Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986.

The Financial Accounting Standards Board (FASB) issued FASB ASC 740, "Income Taxes", which clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Association's income tax returns.

The Association's income tax filings are subject to audit by various taxing authorities. The Association's open audit periods are 2007-2010. The Association believes that its operations have been conducted in accordance with its tax-exempt status.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 25, 2011, the date that the financial statements were available to be issued.

Notes to Financial Statements

B. FAIR VALUE MEASUREMENTS

The Association applies Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following tables present assets that are measured at fair value on a recurring basis:

Assets at Fair Value as of December 31, 2010

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity				
securities	\$ 42,128	\$	\$	\$ 42,128
Mutual funds	95,914			95,914
Fixed income		26,779		26,779
Money market	<u>5,335</u>	<u></u>	<u></u>	<u>5,335</u>
	<u>\$ 143,377</u>	<u>\$ 26,779</u>	<u>\$</u>	<u>\$ 170,156</u>

Notes to Financial Statements

B. FAIR VALUE MEASUREMENTS - Continued

Assets at Fair Value as of December 31, 2009

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities	\$ 339,795	\$	\$	\$ 339,795
Fixed income		159,376		159,376
Auction-rate preferred securities			75,000	75,000
	<u>\$ 339,795</u>	<u>\$ 159,376</u>	<u>\$ 75,000</u>	<u>\$ 574,171</u>

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (Level 3) inputs:

Balance, December 31, 2009	\$ 75,000
Sales	<u>(75,000)</u>
Balance, December 31, 2010	<u>\$ 0</u>
Total gain for the period included in net income attributable to the change in unrealized gains related to the assets still held at the reporting date	<u>\$ 0</u>

Net investment income consists of the following:

	<u>2010</u>	<u>2009</u>
Net realized and unrealized gains	\$ 10,493	\$ 93,417
Interest and dividend income	<u>10,325</u>	<u>28,785</u>
	<u>\$ 20,818</u>	<u>\$ 122,202</u>

C. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Computer equipment and software	\$ 223,410	\$ 186,040
Leasehold improvements	1,840	1,840
Office equipment	<u>31,161</u>	<u>45,922</u>
	256,411	233,802
Less accumulated depreciation	<u>(207,072)</u>	<u>(188,747)</u>
Property and equipment - net	<u>\$ 49,339</u>	<u>\$ 45,055</u>

Notes to Financial Statements

D. DEFERRED REVENUE

Deferred revenue at December 31, 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Membership dues	\$ 383,436	\$ 413,510
Subscriptions	77,472	87,329
Exhibitor/artist	8,500	
Advertising revenue	<u>750</u>	<u>1,845</u>
	470,158	502,684
Less current portion of deferred revenue	<u>(385,966)</u>	<u>(416,731)</u>
Long term portion of deferred revenue	<u>\$ 84,192</u>	<u>\$ 85,953</u>

E. CAPITAL LEASE

The Association leases equipment under an agreement that is classified as a capital lease. The lease expires in 2012 and requires monthly payments of \$268.

Future minimum lease payments under the capital lease at December 31, 2010 are as follows:

2011	\$ 3,217
2012	<u>2,949</u>
	6,166
Less amount representing interest	<u>(355)</u>
Total obligations under capital lease	5,811
Less current portion of capital lease obligations	<u>2,948</u>
Long-term portion of capital lease obligations	<u>\$ 2,863</u>

F. OPERATING LEASES

The Association has non-cancelable operating lease commitments for its office space, copier, and postage meter, which expire in various years through January, 2013. Future minimum rental payments under operating leases are as follows:

2011	\$ 76,183
2012	8,959
2013	456

Rent expense for all operating leases for the year ended December 31, 2010 was \$87,356.

Notes to Financial Statements

G. TEMPORARILY RESTRICTED NET ASSETS

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

Birders Exchange Program	<u>\$ 30,367</u>
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Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the year ended December 31, 2010, temporarily restricted net assets in the amount of \$2,238 were released from restrictions for the Birders Exchange Program.

H. EMPLOYEE BENEFIT PLAN

The Association has a SIMPLE retirement plan covering substantially all employees. Employee contributions are matched by the Association up to 3% annually. Pension expense was \$13,185 and \$15,500 for the years ended December 31, 2010 and 2009, respectively.

I. LICENSING AGREEMENT

In June 2005, the Association sold or disposed of all the inventory of its wholly-owned subsidiary, American Birding Association Sales, Inc. As part of the sales agreement, the Association entered into a license agreement in which they will receive royalties into the future on sales of the Association's and American Birding Association Sales, Inc.'s products. For the years ending December 31, 2010 and 2009 the Association earned \$5,380 and \$12,140, respectively, under the licensing agreement.

J. DEFICIENCY IN NET ASSETS

As reflected in the accompanying statement of financial position, the Corporation has a deficiency of net assets at December 31, 2010 of \$74,014. In order to reduce this deficiency, the Association is taking the following actions:

- Closely monitoring the budget and financial forecasts approved by the Board of Directors in comparison to actual expenditures and taking steps to prevent cost overruns.
- Reducing program, administration, and overhead expenses.
- Increasing membership revenue and continued growth in membership numbers.

Notes to Financial Statements

K. CONTINGENCY

During the year ended December 31, 2010, a claim was filed against the Association by a former employee. The claim was settled through a mediation process in January 2011 and a liability of \$3,000 was accrued as of December 31, 2010.