

AMERICAN BIRDING ASSOCIATION, INC.

Financial Statements

For the Year Ended December 31, 2012

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of American Birding Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from American Birding Association, Inc.'s 2011 financial statements and, in our report dated February 17, 2012, we expressed an unqualified opinion on those 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.

Auditors' Responsibility

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 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 American Birding Association, Inc. as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Waugh & Goodwin, LLP

Colorado Springs, Colorado
February 22, 2013

AMERICAN BIRDING ASSOCIATION, INC.
Statement of Financial Position
December 31, 2012
(With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 51,818	\$ 98,998
Accounts receivable, net	47,133	36,673
Other receivables	1,551	536
Contributions receivable	100,000	
Prepaid expenses	4,169	4,300
Inventory	105,524	117,549
Total current assets	310,195	258,056
LONG TERM ASSETS:		
Long-term contributions receivable	20,000	
Investments	57,025	124,537
Total long term assets	77,025	124,537
PROPERTY AND EQUIPMENT, net	25,008	30,632
TOTAL ASSETS	\$ 412,228	\$ 413,225
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 83,549	\$ 75,544
Current portion of deferred revenue	315,171	408,913
Current portion of capital lease	—	2,862
Total current liabilities	398,720	487,319
LONG TERM LIABILITIES:		
Long term portion of deferred revenue	70,870	80,621
TOTAL LIABILITIES	469,590	567,940
NET ASSETS:		
Unrestricted	(201,231)	(182,266)
Temporarily restricted	143,869	27,551
Total net assets	(57,362)	(154,715)
TOTAL LIABILITIES AND NET ASSETS	\$ 412,228	\$ 413,225

See Notes to Financial Statements

AMERICAN BIRDING ASSOCIATION, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2012
(With Comparative Totals for 2011)

	Unrestricted	Temporarily Restricted	2012 Totals	2011 Totals
REVENUE:				
Contributions, grants and contracts, including VIK in the amount of \$2,030	\$ 383,968	\$ 120,000	\$ 503,968	\$ 147,943
Membership dues	337,445		337,445	445,629
Advertising	188,673		188,673	208,249
Publications production	130,365		130,365	142,902
Conferences and meetings	68,661		68,661	107,831
Endorsements and royalties	17,431		17,431	27,073
Investment income	12,777		12,777	5,273
Other income	8,886		8,886	10,529
Satisfied program restrictions	<u>3,682</u>	<u>(3,682)</u>		
Total revenue	1,151,888	116,318	1,268,206	1,095,429
EXPENSES:				
Program services:				
Publications production	508,192		508,192	527,911
Educational conservation	64,344		64,344	53,717
Conferences and meetings	58,938		58,938	84,600
Member services	<u>63,031</u>		<u>63,031</u>	<u>72,410</u>
Total program services	694,505		694,505	738,638
Supporting services:				
General and administrative	245,046		245,046	287,569
Membership development and fundraising	<u>231,302</u>		<u>231,302</u>	<u>149,923</u>
Total supporting services	<u>476,348</u>		<u>476,348</u>	<u>437,492</u>
Total expenses	<u>1,170,853</u>		<u>1,170,853</u>	<u>1,176,130</u>
CHANGE IN NET ASSETS	(18,965)	116,318	97,353	(80,701)
NET ASSETS, beginning of year	<u>(182,266)</u>	<u>27,551</u>	<u>(154,715)</u>	<u>(74,014)</u>
NET ASSETS, end of year	<u>\$ (201,231)</u>	<u>\$ 143,869</u>	<u>\$ (57,362)</u>	<u>\$ (154,715)</u>

See Notes to Financial Statements

AMERICAN BIRDING ASSOCIATION, INC.
Statement of Cash Flows
For the Year Ended December 31, 2012
(With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 97,353	\$ (80,701)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	14,700	18,736
Loss on sale of property and equipment		899
Net unrealized and realized gains on investments	(10,346)	(1,591)
Decrease (increase) in assets:		
Accounts receivable, net	(11,475)	74,423
Contributions receivable	(120,000)	
Prepaid expenses	131	668
Inventory	12,025	(1,892)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	8,005	(87,635)
Other liabilities	<u>(103,493)</u>	<u>16,427</u>
Total adjustments	<u>(210,453)</u>	<u>20,035</u>
Net cash used by operating activities	(113,100)	(60,666)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	80,000	50,505
Purchase of investments	(2,142)	
Acquisition of property and equipment	<u>(9,076)</u>	<u>(1,275)</u>
Net cash provided by investing activities	68,782	49,230
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease	<u>(2,862)</u>	<u>(2,948)</u>
Net cash used by financing activities	<u>(2,862)</u>	<u>(2,948)</u>
NET DECREASE IN CASH	(47,180)	(14,384)
CASH AND CASH EQUIVALENTS, beginning of year	<u>98,998</u>	<u>113,382</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 51,818</u>	<u>\$ 98,998</u>

See Notes to Financial Statements

AMERICAN BIRDING ASSOCIATION, INC.
Notes to Financial Statements
For the Year Ended December 31, 2012

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 state, province and territory in the United States and Canada, as well as throughout North American and 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.

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.

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, 2012, 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.

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, 2012 and 2011, receivables were recorded net of an allowance for doubtful accounts of \$3,000 and \$1,020, 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, 2012 and 2011 was \$14,700 and \$18,736, respectively. The Association capitalizes property and equipment with an initial cost in excess of \$1,000.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

The Association qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax. Accordingly, no income tax provision has been recorded.

The Association's Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2009 to 2012 are subject to examination by various taxing authorities, generally for three years after the date they were filed. Management of the Association believes that it does not have any uncertain tax positions that are material to the financial statements.

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.

Prior-Year Comparisons

The financial statements include certain prior-year summarized comparative information in total but not by net asset or functional expense class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2011 from which the summarized information was derived.

Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 22, 2013, 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, 2012

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity				
securities	\$ 15,026	\$	\$	\$ 15,026
Mutual funds	25,386			25,386
Fixed income		16,442		16,442
Money market	<u>171</u>			<u>171</u>
	<u>\$ 40,583</u>	<u>\$ 16,442</u>	<u>\$</u>	<u>\$ 57,025</u>

Notes to Financial Statements

B. FAIR VALUE MEASUREMENTS - Continued

Assets at Fair Value as of December 31, 2011

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities	\$ 47,941	\$	\$	\$ 47,941
Mutual funds	49,173			49,173
Fixed income		27,047		27,047
Money market	<u>376</u>	<u></u>	<u></u>	<u>376</u>
	<u>\$ 97,490</u>	<u>\$ 27,047</u>	<u>\$</u>	<u>\$ 124,537</u>

Net investment income consists of the following:

	<u>2012</u>	<u>2011</u>
Net realized and unrealized gains	\$ 10,346	\$ 1,591
Interest and dividend income	<u>2,431</u>	<u>3,682</u>
	<u>\$ 12,777</u>	<u>\$ 5,273</u>

C. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Computer equipment and software	\$ 227,829	\$ 221,453
Office equipment	25,171	32,443
Leasehold improvements	<u></u>	<u>1,840</u>
	253,000	255,736
Less accumulated depreciation	<u>(227,992)</u>	<u>(225,104)</u>
Property and equipment - net	<u>\$ 25,008</u>	<u>\$ 30,632</u>

Notes to Financial Statements

D. DEFERRED REVENUE

Deferred revenue at December 31, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Membership dues	\$ 256,605	\$ 382,100
Subscriptions	65,876	92,084
Registration revenue	57,160	5,850
Exhibitor/artist	6,400	8,750
Advertising revenue	<u> </u>	<u>750</u>
	386,041	489,534
Less current portion of deferred revenue	<u>(315,171)</u>	<u>(408,913)</u>
Long term portion of deferred revenue	<u>\$ 70,870</u>	<u>\$ 80,621</u>

E. CAPITAL LEASE

The Association leased equipment under an agreement that was classified as a capital lease. The lease expired in 2012 and required monthly payments of \$268. During the year ended December 31, 2012, the Association paid \$86 in interest expense.

F. OPERATING LEASES

The Association leases office space under an operating lease that began January 9, 2012 and continues through January 31, 2013. This lease requires base monthly payments of \$2,300. As of February 1, 2013, the Association is renting the office space on a month to month basis. The Association is also leasing a copier on a month to month basis which requires monthly payments of \$310.

During the year ended December 31, 2012, the Association entered into an operating lease for a postage machine through October 2014, requiring minimum monthly payments of \$136.

Future minimum payments under these operating leases are as follows:

2013	\$ 3,932
2014	1,360

Rent expense for all operating leases for the year ended December 31, 2012 was \$38,232.

Notes to Financial Statements

G. TEMPORARILY RESTRICTED NET ASSETS

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

Time restrictions	\$ 120,000
Birders Exchange Program	<u>23,869</u>
	<u>\$ 143,869</u>

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose or by satisfying the time restrictions. During the year ended December 31, 2012, temporarily restricted net assets in the amount of \$3,682 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 \$7,129 and \$9,699 for the years ended December 31, 2012 and 2011, respectively.

I. LICENSING AGREEMENTS

The Association has entered into agreements with various vendors for which it receives royalty payments on all products they sell through ABA Sales. For the years ending December 31, 2012 and 2011 the Association earned \$16,081 and \$15,344, respectively, under these licensing agreements.

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, 2012 of \$57,362. 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 by increasing the number of members.

Notes to Financial Statements

K. SUBSEQUENT EVENTS

The Association was notified in May, 2012, that they had been named as a beneficiary of a donor's will, and at year end it was estimated that the Association would receive approximately \$80,000. This amount was recorded in the accompanying financial statements as a temporarily restricted contribution. Subsequent to December 31, 2012, the Association received a payment in the amount of \$100,000 as partial distribution of this bequest and was notified that there would be a further distribution in excess of \$20,000.