FINANCIAL STATEMENTS, SUPPLEMENTAL INFORMATION AND INDEPENDENT AUDITORS' REPORT December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Ruffed Grouse Society

Report on Financial Statements

We have audited the accompanying financial statements of The Ruffed Grouse Society (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, the related statement of activities for the year ended December 31, 2013, the related statements of cash flows for the years ended December 31, 2013 and 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Ruffed Grouse Society as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

Tous Plung : Company, LLP

We have previously audited The Ruffed Grouse Society's 2012 financial statements, and our report dated May 9, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative statement of activities presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 20 and 21 and the schedules of unrestricted and temporarily restricted net assets on pages 22 and 23 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Pittsburgh, Pennsylvania

May 23, 2014

STATEMENTS OF FINANCIAL POSITION Years ended December 31, 2013 and 2012

ASSETS

		<u>2013</u>		<u>2012</u>
ASSETS				
Cash and cash equivalents				
Undesignated	\$	(664,749)	\$	(187,836)
Designated		749,177		1,123,329
Temporarily restricted		383,602		305,826
	_	468,030	_	1,241,319
Short-term investments		5,930,847		4,690,701
Accounts receivable - trade		41,962		50,087
Accounts receivable - chapters		30,597		20,453
Accounts receivable - employees		83		949
Pledges receivable - net		201,290		207,829
Contribution receivable - charitable remainder trust		-		81,030
Inventory		207,422		183,424
Prepaid expenses		14,260		29,893
Property and equipment, net	_	327,895	_	178,739
TOTAL ASSETS	\$ =	7,222,386	\$ _	6,684,424
LIABILITIES AND NET	<u>ASSETS</u>			
LIABILITIES				
Lines of credit	\$	661,920	\$	550,082
Accounts payable		86,746		56,392
Accrued retirement		35,137		31,251
Accrued severance		-		138,451
Accrued expenses		29,593		24,937
Deferred revenue		3,442		7,100
Notes payable	_	43,864	_	68,360
Total liabilities	_	860,702	_	876,573
NET ASSETS				
Unrestricted:				
Undesignated		(710,582)		(428, 354)
Designated	_	6,588,929	_	5,720,880
		5,878,347		5,292,526
Temporarily restricted	_	483,337	_	515,325
Total net assets	-	6,361,684	_	5,807,851
TOTAL LIABILITIES AND NET ASSETS	\$ _	7,222,386	\$ _	6,684,424

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

STATEMENT OF ACTIVITIES Year Ended December 31, 2013 With Comparative Totals for the Year Ended December 31, 2012

		Unrestricted		Temporarily <u>Restricted</u>		<u>2013</u>		2012
REVENUES, GAINS, AND OTHER SUPPORT:								
Contributions	\$	252,390	\$	433,520	\$	685,910	\$	1,115,679
Membership dues		352,305		· -		352,305		344,198
Corporate sponsors		37,400		-		37,400		96,000
Proceeds from banquets/events		1,361,341		1,500		1,362,841		747,161
Sales of merchandise		78,232		· -		78,232		42,159
Advertising income		62,203		-		62,203		78,310
Fundraising		22,159		-		22,159		22,123
Change in value of charitable remainder trust		-		-		-		1,036
Investment income (includes realized and		700 500				700 500		504.004
unrealized gains)		799,500		-		799,500		531,361
Gain on sale of land held for resale		-		-		-		200,636
Gain (loss) on disposal of property and equipmen	t	1,000		-		1,000		(4,097)
Timber sales		267,503		-		267,503		90,425
Forestry clearing and consulting		112,558		-		112,558		161,321
Miscellaneous income	_	30,502		<u> </u>		30,502	_	49,718
		3,377,093		435,020		3,812,113		3,476,030
Net assets released from restriction:								
Restriction satisfied	_	467,008		(467,008)		-	_	
Total revenues, gains and other support	_	3,844,101		(31,988)		3,812,113	_	3,476,030
FUNCTIONAL EXPENSES:								
Program services:		202 517				202 517		252 025
Membership services		383,517		-		383,517		352,935 2,103,926
General education and chapter operations		1,587,613		-		1,587,613		
Habitat projects Coverts		666,241		-		666,241 6,343		258,340 10,764
Research		6,343		-				
		20,324		-		20,324 63,575		7,176 76,326
Advocacy		63,575		-		63,575		76,326
Supporting services: Administration		250 107				359,197		427,968
Fund-raising		359,197 92,495		-		92,495		24,465
Total functional expenses	-	3,179,305			-	3,179,305	-	3,261,900
Change in net assets before other expenses	-			(24.000)	-		-	
Change in het assets before other expenses	-	664,796		(31,988)		632,808	_	214,130
OTHER INCOME (EXPENSES)								
Bad debts (net)		2,055		-		2,055		(790)
Uncollectible contribution receivable -								
charitable remainder trust		(81,030))	-		(81,030)		-
Total other expenses	_	(78,975)		-		(78,975)	_	(790)
Change in net assets		585,821		(31,988)		553,833		213,340
Net assets at beginning of year	_	5,292,526		515,325		5,807,851	_	5,594,511
NET ASSETS AT END OF YEAR	\$_	5,878,347	\$	483,337	\$	6,361,684	\$_	5,807,851

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

STATEMENTS OF CASH FLOWS Years ended December 31, 2013 and 2012

		<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$	553,833	\$ 213,340
Adjustments to reconcile change in net assets to	•	,	,
net cash provided by (used in) operating activities:			
Depreciation		128,287	108,320
Realized gain on sale of short-term investments		(65,607)	(28,638)
Unrealized gain on short-term investments		(507,757)	(343,118)
Gain on sale of land held for resale		-	(200,636)
(Gain) loss on disposal of property and equipment		(1,000)	4,097
Allowance for uncollectible pledges receivable		(11,055)	990
Uncollectible contribution receivable - charitable remainder trust		81,030	-
Change in value of charitable remainder trust		-	(1,036)
Changes in assets and liabilities:			
Decrease in accounts receivable - trade		8,125	8,239
Increase in accounts receivable - chapters		(10,144)	(15,700)
(Increase) decrease in accounts receivable - employees		866	(771)
Decrease in pledges receivable		17,594	49,620
(Increase) decrease in inventory		(23,998)	12,234
(Increase) decrease in prepaid expenses		15,633	(28,919)
Increase (decrease) in accounts payable		30,354	(47,054)
Increase in accrued retirement		3,886	1,621
Increase (decrease) in accrued severance		(138,451)	138,451
Increase in accrued expenses		4,656	8,926
Decrease in deferred revenue		(3,658)	(87,031)
Net cash provided by (used in) operating activities		82,594	(207,065)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net sales (purchases) of short-term investments		(666,782)	210,166
Purchase of property and equipment		(280,443)	(14,164)
Net proceeds from sale of land held for resale		-	394,288
Proceeds on disposal of property and equipment		4,000	11,033
Net cash provided by (used in) investing activities		(943,225)	601,323
CASH FLOWS FROM FINANCING ACTIVITIES			
Net borrowings on lines of credit		111,838	(61,949)
Borrowings on notes payable		18,748	-
Payments on notes payable		(43,244)	(55,936)
Net cash provided by (used in) financing activities		87,342	(117,885)
Net increase (decrease) in cash and cash equivalents		(773,289)	276,373
Cash and cash equivalents at beginning of year		1,241,319	964,946
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$	468,030	\$ 1,241,319
Supplemental disclosure of cash flow information: Cash paid during the year for interest	\$	21,215	\$ 21,379

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Nature of Activities</u> - The Ruffed Grouse Society (the "Society") is a not-for-profit entity dedicated to improving the environment for the ruffed grouse, the American woodcock, and many other species of forest wildlife. The accompanying financial statements include the accounts of the Society's headquarters operations only and do not include the accounts and operations of the Society's various chapters.

<u>Basis of Accounting</u> - The Society's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized in the period in which they become earned. Expenses are recognized in the period in which the related liability is incurred.

<u>Financial Statement Presentation</u> - The Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

<u>Cash and Cash Equivalents</u> - The Society considers all short-term instruments purchased with maturities of three months or less to be cash equivalents.

<u>Short-term Investments</u> - Short-term investments in marketable securities with readily determinable fair values are carried at their fair values in the statement of financial position. Investment returns including unrealized gains and losses are included in the statement of activities.

Allowance for Doubtful Accounts - The management of the Society considers whether accounts receivable balances are fully collectible. If any amounts become uncollectible, they will be charged to bad debts in the statement of activities when that determination is made. No allowance has been provided for accounts receivable as of December 31, 2013 and 2012. For pledges receivable, an allowance for doubtful accounts has been provided for as of December 31, 2013 and 2012 in the amounts of \$7,500 and \$18,240, respectively.

Revenues and Pledges - All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Pledges are recorded as receivables at the time the pledges are made and allowances are provided for pledges estimated to be uncollectible. Pledges due in the next year are recorded at their net realizable value. Pledges due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the pledges are received to discount the amounts.

All donor restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 on 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.

NOTES TO FINANCIAL STATEMENTS

The Society records donated land and equipment used in its operations as contribution income at estimated fair values as of the date of receipt. Donated goods and prizes for banquets, which are held at the chapter level, are not recorded and are not reflected in inventory or in cost of sales in the statement of activities.

<u>Inventory</u> - Inventory is valued based upon the lower of cost or market using the average cost method. Inventory consists of various items that the members of the Society can purchase to promote the Society, including guns, artwork, outdoor apparel, binoculars and other items.

<u>Property and Equipment</u> - Purchased property and equipment are stated at cost or, if donated, at fair market value as determined by the donor at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as indicated below. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the statement of activities. Repairs and maintenance charges which do not increase the useful lives of the assets are charged to expenses as incurred.

	<u>Years</u>
Leasehold Improvements	8
Office Furniture and Equipment	3 - 5
Forestry Equipment	5 - 10
Automobiles	5

Impairment of Long-lived Assets - Management of the Society considers the valuation and depreciation of property and equipment to be reasonable. Management considers both the current and future levels of undiscounted cash flow generated by the Society and the continuing value of property and equipment to determine when and if an impairment has occurred. Any write-downs due to impairment are charged to expense at the time the impairment is identified. No such write-downs due to impairment have been recorded in 2013 and 2012.

<u>Advertising Costs</u> - The Society expenses advertising costs as they are incurred. Advertising costs include indirect advertising and recruitment costs. Advertising costs incurred during the years ended December 31, 2013 and 2012 were \$32,089 and \$17,269, respectively.

<u>Estimates</u> - 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 and disclosure of contingent assets and liabilities at the date of the statement of financial position and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes - The Society is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Society's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Society qualifies for the charitable contribution deduction under Section 170(b)(1)(A) as it has been classified as an organization that is not a private foundation under Section 509(a)(2).

NOTES TO FINANCIAL STATEMENTS

Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Society has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Society believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Society's financial condition, results of operations or cash flows. Accordingly, the Society has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2013 and 2012. The Society's policy is to classify any income tax related interest and penalties to interest expense and other expenses, respectively.

The Society is subject to routine audits by taxing jurisdictions: however, there are currently no audits for any tax periods in progress. The Society believes it is no longer subject to income tax examinations for years up to and including the year ended December 31, 2010.

Concentration of Credit Risk - The Society maintains its cash and cash equivalents with three financial institutions as of December 31, 2013 and 2012. Its accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions. The separate coverage for noninterest-bearing transaction accounts became effective on December 31, 2010 and terminated on December 31, 2012. Beginning January 1, 2013, the FDIC no longer provides separate, unlimited deposit insurance coverage for noninterest-bearing transaction accounts at insured depository institutions and will only provide each depositor up to \$250,000 in coverage at each separately chartered insured depository institution. The Society has not experienced any losses on the deposits and management believes the Society is not exposed to any significant credit risk related to cash. At December 31, 2013 and 2012, the uninsured balances totaled approximately \$0 and \$669,061, respectively.

<u>Compensated Absences</u> - Employees of the Society are entitled to paid vacation and sick days depending on length of service and other factors in accordance with a written policy. Vacation may not be accrued and must be taken within six months of being earned. The Society's policy is to recognize the cost of compensated absences when actually paid, and accordingly, no amount of compensation for future absences has been reflected in the financial statements.

<u>Comparative Financial Information</u> - The financial statements include certain prior year summarized comparative information in total but not by net asset 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 Society's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

<u>Reclassifications</u> - Certain 2012 amounts have been reclassified to conform with the 2013 financial statement presentation.

NOTES TO FINANCIAL STATEMENTS

<u>Functional Expenses</u> - The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. For the year ended December 31, 2013, the Society changed the way it allocates certain costs to its various programs and its other expense categories to more accurately reflect the expenses of each program and activity. As part of this change for the year ended December 31, 2013, direct costs were allocated to the programs that were benefited by the costs in the statement of functional expenses. Indirect costs were allocated across all categories. The functional expenses for the year ended December 31, 2012 have not been restated due to the immaterial effect that change would have on the financial statements.

Recent Accounting Standards Updates - During 2013 and 2012, the Financial Accounting Standards Board ("FASB") issued new Accounting Standards Updates ("ASUs") addressing various accounting and reporting standards. Management has determined based on their review that the following ASUs issued during 2013 and 2012 may be applicable to the Society. As new ASUs are released, Management will assess if they are applicable and if they are applicable, their affect will be included in the notes to the financial statements.

In October 2012, the FASB issued ASU 2012-05, "Statement of Cash Flows" (Topic 230) which addresses the classification of cash receipts arising from the sale of certain donated financial assets, such as securities, in the statement of cash flows of not-for-profit entities. These cash receipts would be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case, those receipts should be classified as cash flows from financing activities. This ASU is effective for fiscal years beginning after June 15, 2013. Management has determined that this ASU will not have a material effect on the Society's financial statements.

In April 2013, the FASB issued ASU 2013-06, "Not-for-Profit Entities" (Topic 958) which addresses services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. This ASU is effective for fiscal years beginning after June 15, 2014 and early adoption is permitted. Management has determined that this ASU will not have a material effect on the Society's financial statements.

2. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2013 and 2012 are summarized as follows:

	<u>Decem</u>	December 31, 2013			<u>Decen</u>	nber 3	<u>1, 2012</u>
	<u>Cost</u>		<u>Market</u>		<u>Cost</u>		<u>Market</u>
Bonds	\$ 45,295	\$	46,154	\$	141,550	\$	148,956
Common Stock	-		-		157,074		191,574
Mutual Funds	4,782,163		5,884,693		3,797,627		4,350,171
	\$ 4,827,458	\$	5,930,847	\$	4,096,251	\$	4,690,701

NOTES TO FINANCIAL STATEMENTS

Investment income is comprised of the following for the years ended December 31, 2013 and 2012:

		<u>2013</u>		<u>2012</u>
Interest and Dividends	\$	226,136	\$	159,605
Realized Gains on Short-term Investments		65,607		28,638
Unrealized Gains on Short-term Investments	_	507,757	_	343,118
	\$ _	799,500	\$	531,361

3. PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2013 and 2012 are as follows:

		<u>2013</u>		<u>2012</u>
Centurion Members	\$	-	\$	750
Gullion Circle		50,000		50,000
Life Sponsors		24,150		22,950
RUFF Campaign	_	135,000		154,000
		209,150	_	227,700
Less: unamortized discount		(360)		(1,631)
Less: allowance for uncollectible accounts	_	(7,500)	_	(18,240)
Net pledges receivable	\$ <u>_</u>	201,290	\$ __	207,829
Amounts due in:				
Less than one year		200,150		
One to five years		9,000		
	\$	209,150		

Pledges receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 3.25% for the years ending December 31, 2013 and 2012.

4. CONTRIBUTION RECEIVABLE - CHARITABLE REMAINDER TRUST

During 1997, a donor and his spouse established a joint trust naming the Society as the sole beneficiary of a charitable remainder unitrust. Under terms of the trust, the Society was to receive a distribution of \$100,000 for its unrestricted use at the time of death of the last surviving donor. The donor passed away during 2009 leaving his spouse as the sole surviving donor. The receivable for the charitable remainder trust was carried at fair value, which the Society has estimated based on the present value of its expected future cash flows. Based on the donor's life expectancy and a 3.25% discount rate, the fair value of the Society's interest in the trust was estimated to be \$81,030 as of December 31, 2012. The

NOTES TO FINANCIAL STATEMENTS

change in the value of the charitable remainder trust had an increase of \$1,036 for the year ended December 31, 2012.

The trust remained active until the spouse's death, which occurred in 2013. The Society was informed that the estate did not have the funds available to satisfy the receivable. As a result, the contribution receivable, in the amount of \$81,030, was charged against uncollectible contribution receivable in the accompanying statements of activities for the year ended December 31, 2013.

5. SALE OF LAND HELD FOR RESALE

On September 27, 2012, all property located in Gun Lake, Michigan was sold to an unrelated third party for \$400,000. The Society incurred selling expenses of \$5,712, resulting in a net gain of \$200,636, for the year ended December 31, 2012.

6. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2013 and 2012 consists of the following:

	2013	<u>2012</u>
Leasehold improvements	\$ 11,809	\$ 11,809
Office furniture and equipment	186,672	149,131
Forestry equipment	292,465	169,875
Automobiles	417,649	 397,676
	908,595	728,491
Less: accumulated depreciation	 (580,700)	(549,752)
	\$ 327,895	\$ 178,739

Depreciation expense for the years ended December 31, 2013 and 2012 was \$128,287 and \$108,320, respectively.

7. LINES OF CREDIT

The Society has a line of credit with a PNC Bank which allows for maximum borrowings of \$750,000 at December 31, 2013 and 2012. The outstanding balance was \$634,451 and \$550,082 as of December 31, 2013 and 2012, respectively. The line of credit bears interest at the bank's prime rate minus .25% (3% at December 31, 2013 and 2012, respectively) and is collateralized by certain cash and investments held by Hefren-Tillotson, Inc. The line of credit agreement contains a covenant which requires the Society to maintain collateral with a minimum margin value of \$750,000 or the amount of the outstanding obligation, whichever is higher. The Society is in compliance with this covenant as of December 31, 2013 and 2012. This line of credit expires on December 30, 2014.

NOTES TO FINANCIAL STATEMENTS

The Society entered into a line of credit agreement with Hefren-Tillotson, Inc. in August 2013. The line of credit allows for maximum borrowings of \$1,900,000. The outstanding balance was \$27,469 as of December 31, 2013. The line of credit bears interest at the prime rate (3.25% at December 31, 2013) and is collateralized by certain cash and investments held by Hefren-Tillotson, Inc. There are no financial covenants and no expiration dates on this line of credit as of December 31, 2013.

The outstanding borrowings on the Society's lines of credit are as follows as of December 31, 2013 and 2012:

		<u>2013</u>		<u>2012</u>
PNC Bank Heffren-Tillotson, Inc.	\$	634,451 27,469	\$	550,082 -
	\$ <u></u>	661,920	\$ <u></u>	550,082

8. NOTES PAYABLE

Notes payable consists of the following at December 31, 2013 and 2012:

		<u>2013</u>	<u>2012</u>		
Ally Bank - various notes payable, due in 36 to 60 monthly installments ranging in amounts from \$532 to \$689. Interest rates range from 5.14% to 7.09%, secured by the related vehicles.	\$	15,686	\$	51,360	
Chrysler Credit Corporation – payable in 48 monthly installments of \$426 with an interest rate of 4.38%, secured by the related vehicle		17,307		-	
PNC Bank - payable in 59 monthly installments of \$573, with an interest rate of 5.24%, secured by the related vehicle.		10,871		17,000	
Less current portion		43,864 26,593		68,360 41,805	
	\$	17,271	\$	26,555	
Total maturities of notes payable are as follows:					
2014 2015 2016 2017	\$ _	26,593 9,059 4,855 3,357			
	\$ <u>_</u>	43,864			

NOTES TO FINANCIAL STATEMENTS

9. DESIGNATED NET ASSETS

The Society established an Endowment Fund, which was set up so that all proceeds generated from the fund would be used to fund certain field biologists' salaries and benefits. The Society transferred \$225,000 during each of the years ended December 31, 2013 and 2012 from the Endowment Fund to support these expenses.

Beginning in 2010, the Society created State Drummer Funds to be used for specific projects in the various states in which the Society's chapters are located. Contributions can be received directly for the Drummer Funds, which are recognized in the financial statements as temporarily restricted net assets. Additional monies to the State Drummer Funds are allocated by the Society based upon the individual chapters' banquet proceeds. For the year ended December 31, 2012, these banquet proceeds were recognized as designated net assets in the financial statements and range from 10% to 20% of net banquet revenues. Net banquet revenues of \$7,001 to \$19,999 yield a 10% allocation; net revenues of \$20,000 to \$49,000 yield a 15% allocation; and net revenues of \$50,000 or more yield a 20% allocation. If net banquet revenues are \$7,000 or less, the chapter receives no money for the State's Drummer Fund.

Effective January 1, 2013, the formula for allocating amounts to the State Drummer Funds was revised. Net banquet revenues of \$1 to \$14,999 yield a 10% allocation; net revenues of \$15,000 to \$49,999 yield a 15% allocation; and net revenues of \$50,000 or more yield a 20% allocation. In addition, for every life sponsor recruited by the chapter, \$2,500 is allocated to the State Drummer Funds.

The Society has also designated funds for forestry equipment in Michigan and Wisconsin and for various habitat projects.

Designated net assets consist of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Endowment fund	\$ 6,111,389	\$ 5,288,699
Funds designated for forestry equipment, timber clearing and habitat projects	92,636	150,709
State drummer funds	384,904	281,472
	\$ 6,588,929	\$ 5,720,880

NOTES TO FINANCIAL STATEMENTS

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose as of December 31, 2013 and 2012.

	<u>2013</u>		<u>2012</u>	
Charitable remainder trust	\$ -	\$	81,030	
Habitat and other projects	339,527		179,842	
Pledges receivable	8,640		35,319	
Scholarship	91,095		93,150	
State drummer funds	44,075		125,984	
	\$ 483,337	<u>\$</u>	515,325	

11. EMPLOYEE BENEFIT PLANS

The Society maintains a defined contribution pension plan in which all full-time employees are eligible to participate. Employer contributions to the plan are discretionary and are based upon a percentage of gross salary. This percentage varies from 1.5% to 4.5% and is determined by a participant's length of service. In addition, the Society allows qualified employees to make a voluntary contribution to the plan. The employer contributions to the plan for the years ended December 31, 2013 and 2012 were \$35,137 and \$31,251, respectively and are included in salaries and benefits in the schedule of functional expenses.

12. LEASE COMMITMENTS

The Society leases its office space in Coraopolis, Pennsylvania. The lease has a term of five years through April 2014 and requires monthly rental payments of \$8,500.

The Society also leases office equipment under operating leases that range between 48 to 63 months. These leases require monthly payments ranging from \$413 to \$851.

Future minimum lease payments for years ending December 31 are as follows:

	Office <u>Space</u>	<u> </u>	Office Equipment	<u>Total</u>
2014	\$ 34,000	\$	38,598	\$ 72,598
2015	-		28,552	28,552
2016	-		6,632	6,632
2017	-		5,204	5,204
2018	 <u> </u>		1,73 <u>5</u>	 1,735
	\$ 34,000	\$	80,721	\$ 114,721

Total expense under operating leases was \$140,598 and \$140,793 for the years ended December 31, 2013 and 2012, respectively. These amounts are included in rent, utilities, and cleaning expense and supplies and equipment rental in the schedule of functional expenses.

NOTES TO FINANCIAL STATEMENTS

13. RISKS AND UNCERTAINTIES

The Society invests in various short-term investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position.

14. COMMITMENTS AND CONTINGENCIES

The Society entered into an agreement with the Western Pennsylvania Conservancy (the "Conservancy") effective January 31, 2008. The Conservancy granted the Society timber rights on approximately 2,363 acres of real estate located in Somerset County. The conveyances of the rights are in effect from January 31, 2008 through January 31, 2023. During this 15 year period, the Society is to harvest the full 2,363 acres. In April 2010, the Society entered into an agreement to sell the timber to an independent third party on a 127 acre tract that is part of the 2,363 acres of real estate. Under the terms of the agreement, the independent third party agreed to pay the Society \$356,791 for this timber. In addition to the fixed cash payment, the Society is also entitled to be paid an additional \$3.00 per ton of pulpwood or firewood harvested and sold from the timber sale.

In February, 2013, the Society entered into an agreement with an independent third party to harvest and sell timber and related by-products on a 170 acre tract that is part of the 2,363 acres of real estate located in Somerset County. The independent third party agreed to pay \$244,500 for the timber plus \$2.00 per ton of pulpwood or firewood harvested and sold from the timber sale. This agreement expires on October 1, 2015.

During the years ended December 31, 2013 and 2012, the Society received payments of \$267,503 and \$90,425, respectively, related to the timber sale agreements referred to above. These amounts are classified as timber sales in the statement of activities.

The Society entered into a Timber Lease and Related Services Agreement ("the Agreement"), effective June 2010 and amended at various times through 2013, with CONSOL Energy ("CONSOL"), which is a corporate sponsor of the Society. The Agreement provides for a pilot project between the parties which involves the leasing of CONSOL property located in Greene, Indiana and Washington Counties in Pennsylvania and Grant and Monongalia Counties in West Virginia. The Society oversees all aspects of the harvesting of wood fiber, including the creation of ecologically sound clear cuts on CONSOL's timber holdings in these counties. The Society generates revenue from this process and enhances the habitat for wildlife dependent upon early successional or young forests for their survival. The agreement also permits the parties, from time to time, to add additional timber and land to the lease.

The Society retains fifty percent of the revenue it earns from the sale of wood products including the cost of obtaining a consulting forester to oversee all aspects of the harvests.

NOTES TO FINANCIAL STATEMENTS

The Society received net income of \$16,865 and \$109,954, respectively, from CONSOL during the years ended December 31, 2013 and 2012 and these amounts are included in forestry clearing and consulting revenue in the statements of activities. The Agreement expires in May 2015 and the Society has the option to renew the Agreement for an additional five-year period.

15. CONTRIBUTED SERVICES

The Society recognized contribution revenue of \$9,000 and \$19,720 for legal services for the years ended December 31, 2013 and 2012, respectively. The legal services were valued based on the fair value of the services provided to the Society by the attorney.

The Society receives minimal, if any, donated services from unpaid volunteers. No amounts have been recognized in the statement of activities because the criteria for recognition under accounting principles generally accepted in the United States of America has not been satisfied.

The contributed legal services revenue is included in contributions on the statement of activities. The offsetting expense is recorded in legal and accounting expense in the statement of functional expenses.

16. FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value. That framework provides 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 unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.
- Level 2 Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NOTES TO FINANCIAL STATEMENTS

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Society uses appropriate valuation techniques, based on the inputs available to measure the fair value of its investments. There have been no changes in the methodologies used at December 31, 2013 and 2012

The Society's investments at fair value, within the fair value hierarchy, are as follows as of December 31, 2013 and 2012.

	Level 1	Level 2	<u>Total</u>	
<u>December 31, 2013</u>				
Bonds	\$ -	\$ 46,154	\$ 46,154	
Mutual Funds				
Diversified Emerging Markets	216,090	-	216,090	
Foreign Large Blend	237,954	-	237,954	
Global Real Estate	4,740	-	4,740	
High Yield Bonds	156,354	-	156,354	
Large Blend	838,403	-	838,403	
Large Growth	761,020	-	761,020	
Large Value	888,593		888,593	
Mid-Cap Blend	18,533	-	18,533	
Moderate Allocation	1,208,975	-	1,208,975	
Multisector Bond	789,427	-	789,427	
Small Blend	12,061	-	12,061	
World Allocation	583,457	-	583,457	
World Bond	96,935	-	96,935	
World Stock	72,151		72,151	
	5,884,693		5,884,693	
Total Short-term Investments	\$ 5,884,693	\$ 46,154	\$5,930,847	

NOTES TO FINANCIAL STATEMENTS

December 31, 2012	Level 1	Level 2	Level 3	<u>Total</u>
December 31, 2012				
Bonds	<u> </u>	<u>\$ 148,956</u>	<u>\$ -</u>	<u>\$ 148,956</u>
Common Stocks				
Consumer Discretionary	22,626	-	-	22,626
Consumer Staples	17,438	-	-	17,438
Energy	23,426	-	-	23,426
Financials	34,263	-	-	34,263
Healthcare	27,439	-	-	27,439
Industrial	17,587	-	-	17,587
Information Technology	37,459	-	-	37,459
Materials	4,825	-	-	4,825
Telecommunications Services	2,360	-	-	2,360
Utilities	4,151	<u>-</u>	<u> </u>	4,151
	191,574	<u> </u>		191,574
Mutual Funds				
Commodities Broad Basket	166,922	-	-	166,922
Diversified Emerging Markets	51,153	_	-	51,153
Foreign Large Blend	16,020	_	_	16,020
High Yield Bonds	186,290	_	_	186,290
Intermediate Term Bond	140,098	_	_	140,098
Large Blend	555,256	_	_	555,256
Large Growth	554,907	_	_	554,907
Large Value	378,798	-	-	378,798
Mid-Cap Blend	37,329	-	-	37,329
Moderate Allocation	1,018,152	-	-	1,018,152
Multisector Bond	335,696	-	-	335,696
Small Blend	20,567	-	-	20,567
World Allocation	507,777	-	-	507,777
World Bond	308,380	-	-	308,380
World Stock	72,826		<u>-</u> _	72,826
	4,350,171		_	4,350,171
Total Short-term Investments	4,541,745	148,956		4,690,701
Contribution Receivable -				
Charitable Remainder Trust			81,030	81,030
Total	\$ 4,541,745	\$ 148,956	\$ 81,030	\$4,771,731

NOTES TO FINANCIAL STATEMENTS

Fair values for short-term investments are determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value of the charitable remainder trust was estimated as the present value of expected future cash inflows.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Contribution receivable—charitable remainder trust

Balance at December 31, 2011	\$ 79,994
Change in value of charitable remainder trust	 1,036
Balance at December 31, 2012	81,030
Uncollectible contribution receivable - charitable remainder trust	 (81,030)
Balance at December 31, 2013	\$

The changes in the value of the charitable remainder trust receivable are attributable to the revaluation based on applicable mortality tables and current market conditions and are included in the change in temporarily restricted net assets for the year ended December 31, 2012.

17. SUBSEQUENT EVENTS

The Society has evaluated subsequent events in accordance with FASB ASC Topic 855, Subsequent Events, through May 23, 2014, which is the date the financial statements were available to be issued. During their evaluation, the following subsequent event items were identified.

In April 2014, the Society entered into an agreement with an independent third party to harvest and sell timber products on a 603 acre tract of real estate owned by CONSOL located in Grant County, West Virginia. The independent third party agrees to pay the Society at rates ranging from \$200 to \$400 per thousand board feet, depending on the type of wood, for the timber, plus \$4 per ton of pulpwood harvested and sold from the timber sale.

The Society's lease for its office space in Coraopolis, Pennsylvania was renewed, effective May 1, 2014, for a five year term through April 2019. The lease requires monthly rental payments of \$8,900. The lease contains an option for an additional three-year term.



SCHEDULE OF FUNCTIONAL EXPENSES Year Ended December 31, 2013

	General Educa	ation							
	Membersl	nip and Chapte	er Habitat						
	Services	<u>Operations</u>	<u>Projects</u>	<u>Coverts</u>	<u>Research</u>	<u>Advocacy</u>	<u>Administration</u>	Fund-raising	<u>Totals</u>
Advertising	\$ 27,74	15 \$	- \$ -	\$	- \$ -	\$ -	\$ -	\$ 4,344	\$ 32,089
Bank charges	Ψ 21,1- 70	·	· ·	Ψ 2	•	Ψ 151	845	Ψ 1,511	6,443
Chapter activities expenses	19,61	,		_		-	-	34,204	221,389
Chapter expenses	7,50			12	0 80	854	4,787	274	405,576
Cost of sales - merchandise	3,35			10		726	4,071	233	31,026
Cost of sales - timber and forestry	•	•	,			-	-	6,906	44,698
Data processing	1,40	•		4	3 29	305	1,707	98	13,014
Depreciation	13,88			42		3,002	16,831	962	128,287
Dues and subscriptions	1,18	7,04	9 866	3	6 24	256	1,434	82	10,928
Educational programs		- 6,43	3 -			-	-	-	6,433
General support	1,72	24 10,28	7 1,263	5	3 35	373	2,092	120	15,947
Habitat workshops		-	- 3,073			-	-	-	3,073
Insurance	1,84	11,01	3 1,352	5	6 38	400	2,240	128	17,075
Interest	3,26	13,12	8 1,455	6	1 40	430	2,694	138	21,215
Investment fees		-			- 7,777	-	-	-	7,777
Legal and accounting		-				9,000	3,121	-	12,121
Meetings and conferences	1,37			4:	2 28	298	1,670	95	12,731
Miscellaneous	41,27	74 12	9 16		1 -	4	27	1	41,452
Miscellaneous contributions		-				-	-	4,051	4,051
Postage and delivery	3,69	•				-	-	-	7,383
Printing		- 3,94	0 -			-	-	-	3,940
Promotional merchandise	40,07	77				-	-	11,475	51,552
Rent, utilities and cleaning	13,62	21 81,19	6 9,970	41	5 277	2,946	16,517	944	125,886
Research projects		-			- 7,000	-	-	-	7,000
RGS publications		- 140,07	2 -			-	-	-	140,072
Salaries and benefits	153,53			4,84	4 4,548	43,935	266,406	28,105	1,472,554
Supplies and equipment rental	39,61					-	8,803	-	88,025
Telephone	4,14	10 24,67	6 3,030	12	6 84	895	5,021	287	38,259
Travel and auto		- 94,18	9 94,189		<u>- </u>		20,931		209,309
Total	\$ 383,51	\$ 1,587,61	3 \$ 666,241	\$ 6,34	3 \$ 20,324	\$ 63,575	\$ 359,197	\$ 92,495	\$ 3,179,305

For the year ended December 31, 2013, the Society changed the way it allocates certain costs to its various programs and its other expense categories to more accurately reflect the expenses of each program and activity. As part of this change for the year ended December 31, 2013, direct costs were allocated to the programs that were benefited by the costs in the statement of functional expenses. Indirect costs were allocated across all categories.

SCHEDULE OF FUNCTIONAL EXPENSES Year Ended December 31, 2012

	Membership	General Education and Chapter	n Habitat						
	<u>Services</u>	<u>Operations</u>	<u>Projects</u>	Coverts	Research	<u>Advocacy</u>	Administration	Fund-raising	<u>Totals</u>
Advertising	\$ 1,869	\$ 11,139	\$ 1,368	\$ 57	\$ 38	\$ 404	\$ 2,264	\$ 130	\$ 17,269
Bank charges	668	3,981	489	20	14	144	810	46	6,172
Chapter activities expenses	22,586	134,637	16,532	689	459	4,884	27,386	1,566	208,739
Chapter expenses	35,884	213,911	26,266	1,094	730	7,760	43,513	2,487	331,645
Cost of sales	1,898	11,315	1,389	58	39	411	2,301	132	17,543
Data processing	1,454	8,668	1,064	44	30	314	1,763	101	13,438
Depreciation	11,720	69,866	8,579	357	238	2,535	14,213	812	108,320
Dues and subscriptions	1,631	9,725	1,194	50	33	353	1,978	113	15,077
Educational programs	1,048	6,246	767	32	21	227	1,270	73	9,684
General support	1,544	9,206	1,130	47	31	334	1,874	107	14,273
Habitat workshops	149	890	109	5	3	32	182	10	1,380
Insurance	2,806	16,727	2,054	86	57	607	3,402	194	25,933
Interest	2,313	13,789	1,693	71	47	500	2,806	160	21,379
Investment fees	902	5,380	661	28	18	195	1,094	63	8,341
Legal and accounting	8,995	53,623	6,584	274	183	1,945	10,909	624	83,137
Meetings and conferences	1,242	7,403	909	38	25	269	1,506	86	11,478
Miscellaneous	4,323	25,772	3,165	132	88	935	5,243	300	39,958
Miscellaneous contributions	462	2,754	338	14	9	100	561	32	4,270
Postage and delivery	2,349	14,003	1,719	72	48	508	2,848	163	21,710
Printing	647	3,859	474	20	13	140	785	45	5,983
Promotional merchandise	3,096	18,455	2,266	94	63	670	3,754	215	28,613
Rent, utilities and cleaning	13,405	79,909	9,812	409	273	2,899	16,254	929	123,890
Research projects	703	4,193	515	21	14	152	853	49	6,500
RGS publications	16,306	97,205	11,936	497	332	3,526	19,773	1,130	150,705
Salaries and benefits	156,013	930,024	114,198	4,758	3,172	33,740	189,178	10,814	1,441,897
Severance	25,914	154,478	18,968	790	527	5,604	31,423	1,796	239,500
Supplies and equipment rental	6,918	41,239	5,064	211	141	1,496	8,388	480	63,937
Telephone	4,335	25,841	3,173	132	88	937	5,257	300	40,063
Travel and auto	21,755	129,688	15,924	664	442	4,705	26,380	1,508	201,066
Total	\$ 352,935	\$ 2,103,926	\$ 258,340	\$ 10,764	\$ 7,176	\$ 76,326	\$ 427,968	\$ 24,465	\$ 3,261,900

SCHEDULE OF UNRESTRICTED AND TEMPORARILY RESTRICTED NET ASSETS <u>December 31, 2013</u>

	<u>Un</u>	<u>Unres</u> designated	stricted <u>Designated</u>		Temporarily <u>Restricted</u>		<u>Total</u>
Cash and cash equivalents	\$	(664,749)	\$	749,177	\$	383,602	\$ 468,030
Short-term investments		-		5,839,752		91,095	5,930,847
Accounts receivable - trade		41,962		-		-	41,962
Accounts receivable - chapters		30,597		-		-	30,597
Accounts receivable - employees		83		-		-	83
Pledges receivable - net		192,650		-		8,640	201,290
Inventory		207,422		-		-	207,422
Prepaid expenses		14,260		-		-	14,260
Property and equipment, net		327,895					 327,895
Total assets		150,120		6,588,929		483,337	7,222,386
Total liabilities		(860,702)					 (860,702)
NET ASSETS	\$	(710,582)	\$	6,588,929	\$	483,337	\$ 6,361,684

SCHEDULE OF UNRESTRICTED AND TEMPORARILY RESTRICTED NET ASSETS <u>December 31, 2012</u>

		<u>Unres</u>	tricte	<u>d</u>		mporarily	
	<u>Un</u>	<u>designated</u>	<u>Designated</u>		Restricted		<u>Total</u>
Cash and cash equivalents	\$	(187,836)	\$	1,123,329	\$	305,826	\$ 1,241,319
Short-term investments		-		4,597,551		93,150	4,690,701
Accounts receivable - trade		50,087		-		-	50,087
Accounts receivable - chapters		20,453		-		-	20,453
Accounts receivable - employees		949		-		-	949
Pledges receivable - net		172,510		-		35,319	207,829
Contributions receivable - charitable remainder trust		-		-		81,030	81,030
Inventory		183,424		-		-	183,424
Prepaid expenses		29,893		-		-	29,893
Property and equipment, net		178,739					 178,739
Total assets		448,219		5,720,880		515,325	6,684,424
Total liabilities		(876,573)					 (876,573)
NET ASSETS	\$	(428,354)	\$	5,720,880	\$	515,325	\$ 5,807,851