

**SOCIETY FOR THE PROTECTION OF  
NEW HAMPSHIRE FORESTS**

**FINANCIAL STATEMENTS**

**APRIL 30, 2011**

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HESSION & PARE, PC

CERTIFIED PUBLIC ACCOUNTANTS

62 Stark Street, Manchester, New Hampshire 03101  
603-669-5477 FAX 603-669-0197

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Society for the Protection  
of New Hampshire Forests  
Concord, New Hampshire

We have audited the accompanying statements of financial position of the Society for the Protection of New Hampshire Forests (the Forest Society) as of April 30, 2011 and 2010, and the related statements of activities, cash flows, and functional expenses, for the years then ended. These financial statements are the responsibility of the Forest Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. 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 the Forest Society as of April 30, 2011 and 2010 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Manchester, New Hampshire  
July 14, 2011

SOCIETY FOR THE PROTECTION OF NEW HAMPSHIRE FORESTS

STATEMENTS OF FINANCIAL POSITION

As of April 30, 2011 and 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Current assets		
Cash and cash equivalents (Note 2)	\$ 1,437,058	\$ 1,748,386
Restricted cash (Note 13)	118,359	118,359
Receivables		
Pledges receivable, current portion (Note 3)	56,968	93,595
Other receivables	104,432	140,470
Grant receivable (Note 4)	487,293	804,900
Inventories (Note 1)	123,163	139,621
Prepaid expenses	28,796	27,671
	<hr/>	<hr/>
Total current assets	2,356,069	3,073,002
	<hr/>	<hr/>
Investments (Notes 1 and 5)	11,038,858	10,570,195
	<hr/>	<hr/>
Pledges receivable (less current maturities) (Note 3)	86,882	81,194
	<hr/>	<hr/>
Land (Note 1)	61,077,335	57,448,869
Less allowance for restrictions	(1,190,039)	(1,190,039)
	<hr/>	<hr/>
Land, net	59,887,296	56,258,830
	<hr/>	<hr/>
Property and equipment (Note 1)		
Buildings and land improvements	5,823,790	5,696,123
Equipment	917,817	864,010
	<hr/>	<hr/>
	6,741,607	6,560,133
Less accumulated depreciation	(3,188,868)	(3,008,637)
	<hr/>	<hr/>
Property and equipment, net	3,552,739	3,551,496
	<hr/>	<hr/>
Other assets		
Inventories (Note 1)	381,180	373,289
Other long-term assets	174,968	213,273
	<hr/>	<hr/>
Total other assets	556,148	586,562
	<hr/>	<hr/>
Total assets	\$ 77,477,992	\$ 74,121,279
	<hr/>	<hr/>

See notes to financial statements.

## LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
Current liabilities		
Line of credit (Note 6)	\$ 535,000	\$ -
Current portion of note payable (Note 7)	11,250	-
Current portion of annuities payable (Note 1)	54,282	43,545
Current portion of deferred compensation	21,000	21,000
Accounts payable	43,638	75,214
Accrued liabilities	<u>63,568</u>	<u>79,147</u>
Total current liabilities	728,738	218,906
Other liabilities		
Note payable - less current portion (Note 7)	202,500	-
Annuities payable - less current portion (Note 1)	307,010	243,957
Deferred compensation - less current portion	<u>158,130</u>	<u>173,313</u>
Total other liabilities	667,640	417,270
Total liabilities	<u>1,396,378</u>	<u>636,176</u>
Net assets		
Unrestricted	8,558,438	8,745,303
Temporarily restricted (Note 8)	3,023,653	3,854,127
Permanently restricted (Note 9)	<u>64,499,523</u>	<u>60,885,673</u>
Total net assets	<u>76,081,614</u>	<u>73,485,103</u>
Total liabilities and net assets	<u>\$ 77,477,992</u>	<u>\$ 74,121,279</u>

**SOCIETY FOR THE PROTECTION OF NEW HAMPSHIRE FORESTS**

**STATEMENT OF ACTIVITIES**

**Year Ended April 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues				
Annual fund	\$ 378,054	\$ -	\$ -	\$ 378,054
Contributions	121,349	1,314,146	-	1,435,495
Bequests	345,105	-	-	345,105
Endowment gifts	-	-	56,528	56,528
Grants	173,606	1,052,683	-	1,226,289
Contributions of land	-	-	662,900	662,900
Investment income	115,190	5,135	24,383	144,708
Realized gain on investments	451,019	13,442	63,830	528,291
Unrealized gain on investments	360,014	10,729	50,951	421,694
Loss on sale of land	(10,000)	-	-	(10,000)
Gain on disposal of assets	7,267	-	-	7,267
Dues	387,532	-	-	387,532
Rental	289,977	-	-	289,977
Forest operations	222,620	-	-	222,620
Reimbursement for services	183,733	-	-	183,733
Sale of materials	318,458	-	-	318,458
Satisfaction of restrictions: payments	471,351	(3,226,609)	2,755,258	-
Total public support and revenues	<u>3,815,275</u>	<u>(830,474)</u>	<u>3,613,850</u>	<u>6,598,651</u>
Functional expenses				
Property management	1,102,914	-	-	1,102,914
Land protection	958,263	-	-	958,263
Education	408,783	-	-	408,783
Land conservation planning	78,798	-	-	78,798
Membership	231,583	-	-	231,583
Policy	170,393	-	-	170,393
Total	<u>2,950,734</u>	<u>-</u>	<u>-</u>	<u>2,950,734</u>
Fundraising	401,796	-	-	401,796
Finance and administration	649,610	-	-	649,610
Total	<u>1,051,406</u>	<u>-</u>	<u>-</u>	<u>1,051,406</u>
Total functional expenses	<u>4,002,140</u>	<u>-</u>	<u>-</u>	<u>4,002,140</u>
Increase (decrease) in net assets	(186,865)	(830,474)	3,613,850	2,596,511
Net assets, beginning of year	<u>8,745,303</u>	<u>3,854,127</u>	<u>60,885,673</u>	<u>73,485,103</u>
Net assets, end of year	<u>\$ 8,558,438</u>	<u>\$ 3,023,653</u>	<u>\$ 64,499,523</u>	<u>\$ 76,081,614</u>

See notes to financial statements.

SOCIETY FOR THE PROTECTION OF NEW HAMPSHIRE FORESTS

STATEMENT OF ACTIVITIES

Year Ended April 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues				
Annual fund	\$ 388,445	\$ -	\$ -	\$ 388,445
Contributions	154,644	1,612,547	-	1,767,191
Bequests	446,866	-	-	446,866
Endowment gifts	-	22,550	59,727	82,277
Grants	183,987	1,477,827	-	1,661,814
Contributions of land	-	-	765,700	765,700
Investment income	68,489	25,593	67,592	161,674
Realized (loss) on investments	(128,551)	(67,452)	(177,692)	(373,695)
Unrealized gain on investments	673,490	353,386	930,942	1,957,818
(Loss) on disposal of fixed assets	(3,033)	-	-	(3,033)
Dues	375,822	-	-	375,822
Rental	262,065	-	-	262,065
Forest operations	301,069	-	-	301,069
Reimbursement for services	160,587	-	-	160,587
Sale of materials	317,629	-	-	317,629
Satisfaction of restrictions: payments	872,007	(3,508,931)	2,636,924	-
Total public support and revenues	4,073,516	(84,480)	4,283,193	8,272,229
Functional expenses				
Property management	1,153,629	-	-	1,153,629
Land protection	1,002,372	-	-	1,002,372
Education	401,254	-	-	401,254
Research	81,292	-	-	81,292
Membership	231,503	-	-	231,503
Policy	170,818	-	-	170,818
Total	3,040,868	-	-	3,040,868
Fundraising	396,059	-	-	396,059
Finance and administration	666,250	-	-	666,250
Total	1,062,309	-	-	1,062,309
Total functional expenses	4,103,177	-	-	4,103,177
Increase (decrease) in net assets	(29,661)	(84,480)	4,283,193	4,169,052
Net assets, beginning of year	8,774,964	3,938,607	56,602,480	69,316,051
Net assets, end of year	\$ 8,745,303	\$ 3,854,127	\$ 60,885,673	\$ 73,485,103

See notes to financial statements.

**SOCIETY FOR THE PROTECTION OF NEW HAMPSHIRE FORESTS**

**STATEMENTS OF CASH FLOWS**

**Years Ended April 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Increase in net assets	\$ 2,596,511	\$ 4,169,052
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	213,859	235,478
Net realized (gain) loss on investment transactions	(528,291)	373,695
Net unrealized (gain) on investments	(421,694)	(1,957,818)
Reinvested income	(136,934)	(156,015)
Increase in present value of annuities	82,031	67,099
Contributions of land received	(662,900)	(765,700)
Loss on sale of land	10,000	-
(Gain) loss on disposal of assets	(7,267)	3,033
(Increase) in restricted cash	-	(347)
(Increase) decrease in pledges receivable	30,939	(41,393)
(Increase) decrease in receivables	36,038	(91,465)
(Increase) decrease in grant receivable	317,607	(83,500)
(Increase) decrease in prepaid expenses	(1,125)	6,565
Decrease in inventories	8,818	105,539
Decrease in other long-term assets	38,305	20,926
(Decrease) in accounts payable	(31,576)	(34,358)
(Decrease) in deferred compensation	(15,183)	(14,721)
(Decrease) in accrued liabilities	(15,579)	(48,092)
Net cash provided by operating activities	<u>1,513,559</u>	<u>1,787,978</u>
Cash flows from investing activities		
Cash proceeds from investment activities	618,255	1,176,533
Cash paid for land	(2,762,066)	(2,868,609)
Cash paid for property and equipment	(207,835)	(156,031)
Net cash (used) in investing activities	<u>(2,351,646)</u>	<u>(1,848,107)</u>

See notes to financial statements.

**SOCIETY FOR THE PROTECTION OF NEW HAMPSHIRE FORESTS**

**STATEMENTS OF CASH FLOWS (continued)**

**Years Ended April 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from financing activities		
Net advance on line of credit	\$ 535,000	\$ -
Net cash paid on annuities	<u>(8,241)</u>	<u>(33,347)</u>
Net cash provided by (used) in financing activities	<u>526,759</u>	<u>(33,347)</u>
(Decrease) in cash and cash equivalents	<u>(311,328)</u>	<u>(93,476)</u>
Cash and cash equivalents, beginning of year	<u>1,748,386</u>	<u>1,841,862</u>
Cash and cash equivalents, end of year	<u>\$ 1,437,058</u>	<u>\$ 1,748,386</u>
Supplemental disclosure of cash flow information		
Interest paid in cash	<u>\$ 7,703</u>	<u>\$ -</u>
Noncash investing and financing transaction		
Acquisition of land		
Purchase of land	\$ 213,750	\$ -
Note payable on land	<u>(213,750)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>

SOCIETY FOR THE PROTECTION OF NEW HAMPSHIRE FORESTS

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended April 30, 2011

(With comparative totals for 2010)

	Property Management	Land Protection	Education and Outreach	Land Conservation Planning	Membership	Policy	Fundraising	Administration	2011	2010
Expenses										
Salaries	\$ 340,945	\$ 400,428	\$ 205,480	\$ 53,173	\$ 105,010	\$ 98,899	\$ 229,860	\$ 321,602	\$ 1,755,397	\$ 1,751,127
Employee benefits	74,512	109,899	56,537	14,556	28,962	25,809	62,410	80,997	453,682	544,911
Salaries and related expenses	415,457	510,327	262,017	67,729	133,972	124,708	292,270	402,599	2,209,079	2,296,038
Professional services	99,768	281,167	44,551	-	25,463	34,739	16,252	92,006	593,946	561,495
Buildings and grounds	212,463	33,191	17,166	3,441	14,035	5,853	11,348	1,278	298,775	289,568
Advertising and printing	15,828	1,685	46,678	-	26,756	68	19,543	-	110,558	93,366
Cost of sales	106,209	-	-	-	2,294	-	-	-	108,503	200,530
Program/event expenses	45,814	12,612	16,340	225	6,167	750	7,480	7,228	96,616	84,826
Supplies and postage	4,935	3,092	10,950	5,647	20,377	785	25,979	17,917	89,682	98,398
Change in present value of annuities	-	-	-	-	-	-	-	82,031	82,031	67,099
Investment and bank fees	2,332	20	-	-	1,025	-	6,614	3,197	13,188	15,175
Travel, conferences and dues	26,377	16,010	8,751	1,037	20	2,242	2,154	10,203	66,794	64,098
Miscellaneous	-	46,670	-	-	356	-	500	17,480	65,006	39,658
Contract and grant expense	-	37,323	-	-	-	-	-	-	37,323	49,879
Subscriptions and documents	1,067	3,602	1,046	10	602	485	370	1,895	9,077	7,569
Interest	-	7,703	-	-	-	-	-	-	7,703	-
Total expenses before depreciation	930,250	953,402	407,499	78,089	231,067	169,630	382,510	635,834	3,788,281	3,867,699
Depreciation	172,664	4,861	1,284	709	516	763	19,286	13,776	213,859	235,478
Total expenses	\$ 1,102,914	\$ 958,263	\$ 408,783	\$ 78,798	\$ 231,583	\$ 170,393	\$ 401,796	\$ 649,610	\$ 4,002,140	\$ 4,103,177

**SOCIETY FOR THE PROTECTION OF  
NEW HAMPSHIRE FORESTS**

**NOTES TO FINANCIAL STATEMENTS**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of activities**

The Society for the Protection of New Hampshire Forests (the Forest Society) is a non-profit membership organization founded in 1901 to protect the State's most important landscapes and promote wise use of its renewable natural resources. The Forest Society's major sources of revenue consist of contributions, grants and investment income.

**Basis of presentation**

The accompanying financial statements have been prepared on the accrual basis and in accordance with the Not-for-Profit Entities Topic of the FASB Accounting Standards Codification (ASC) 958-205 and subsections.

This Topic establishes standards for general-purpose external financial statements of not-for-profit organizations, including a statement of financial position, a statement of activities and a statement of cash flows. This Topic further requires classification of net assets and its revenues, expenses, gains and losses into three categories, based on the existence or absence of externally imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

Temporarily Restricted – Net assets whose use is limited by law or donor-imposed stipulations that will either expire with the passage of time or be fulfilled or removed by actions of the Forest Society.

Permanently Restricted – Reflects the historical cost of gifts (and in certain circumstances, the earnings from those gifts), subject to donor-imposed stipulations, which require the corpus to be invested in perpetuity to produce income for general or specific purposes.

**SOCIETY FOR THE PROTECTION OF  
NEW HAMPSHIRE FORESTS**

**NOTES TO FINANCIAL STATEMENTS**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income taxes**

The Forest Society applied for and has been granted recognition of exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986. Section 501(c)(3) of the Code provides for the exemption of organizations that are organized and operated exclusively for religious, charitable, scientific, literary or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholders or individuals. Therefore, no provision for income taxes has been made. The Forest Society pays a nominal amount of tax relating to unrelated business activities, primarily from gift shop and Christmas tree sales.

The Forest Society adopted provisions of FASB ASC 740-10-25 (formerly FAS Interpretation No. 48, Accounting for Uncertainty in Income Taxes on January 1, 2009 [FIN 48]). Under FIN 48, an organization must recognize the tax benefit associated with the tax position taken for tax return purposes when it is more likely than not the position will be sustained. The implementation of FIN 48 had no impact on the Forest Society's financial statements. The Forest Society does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Cash and cash equivalents**

Cash and cash equivalents include all money market accounts and investments purchased with remaining maturities of three months or less.

**Accounts receivable**

Accounts receivable are recorded primarily for rent and program service fees on any unpaid balances. It is the Forest Society's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

**SOCIETY FOR THE PROTECTION OF  
NEW HAMPSHIRE FORESTS**

**NOTES TO FINANCIAL STATEMENTS**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Inventories**

Inventories are valued at the lower of cost (determined using the average cost method) or market.

Inventory consists of the following:

	<u>2011</u>	<u>2010</u>
Current:		
Gift Shop	\$ 8,311	\$ 8,311
Christmas trees expected to be sold within one year	<u>114,852</u>	<u>131,310</u>
Total current	123,163	139,621
Long-term:		
Christmas trees not expected to be sold within the next year	<u>381,180</u>	<u>373,289</u>
Total inventory	<u>\$504,343</u>	<u>\$512,910</u>

**Investments**

The Forest Society accounts for investments in accordance with FASB ASC 958-320 and subsections. This standard requires that investments with readily determinable values and all investments in debt securities are stated at their fair value in the statement of financial position. Investments in marketable securities are carried at market value in accordance with generally accepted accounting principles. Unrealized gains and losses are included in the changes of net assets in the accompanying statement of activities. Investment income is recorded on the accrual basis.

**SOCIETY FOR THE PROTECTION OF  
NEW HAMPSHIRE FORESTS**

**NOTES TO FINANCIAL STATEMENTS**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property and equipment**

Property and equipment are recorded at cost or, in the case of donated assets, at fair market value. Repairs and maintenance are expensed as incurred and purchases in excess of \$1,000 are capitalized as additions to property. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and land improvements	10-40 years
Equipment	3-20 years

Buildings and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

**Land**

Purchased land and donated land are recorded at their fair market value at date of receipt.

The Forest Society holds title to various tracts of land for several different purposes, as follows:

- Permanent holdings are those tracts which the Forest Society does not intend to dispose of within the foreseeable future. These include the sites of Forest Society's programs or conservation projects and tracts having certain natural features which the Forest Society deems worthy of preservation.
- Land held in trust includes tracts held by the Forest Society until they can be transferred to a recipient (typically a town conservation commission) specified by the donor.
- Land purchased or acquired by donation that is intended to be sold on the open market, typically with use restrictions in the new deed.
- Land held for resale includes land that has been purchased or accepted as a gift, at its fair market value, with the intent that it be sold to the State of New Hampshire or to some other party or agency which will use the land in accordance with specific Forest Society's restrictions written into the deed at the time of transfer. The amount of land held for resale at April 30, 2011 and 2010 was \$1,220,159 and \$1,149,159, respectively.

**SOCIETY FOR THE PROTECTION OF  
NEW HAMPSHIRE FORESTS**

**NOTES TO FINANCIAL STATEMENTS**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Land (concluded)**

- Permanent land holdings include conservation easements purchased by the Forest Society. Conservation easements are intangible assets comprised of listed rights and/or restrictions over the owned property that are conveyed by the owner to the Forest Society in order to protect the property as a significant natural area. Conservation easements are recorded at the lower of cost or market value. The value of easements donated during the year ended April 30, 2011 not recorded in the financial statements was \$1,322,000.

Deed restrictions attached to most land sold severely restrict the use and development of the land in perpetuity. This practice can substantially reduce the market value of the land. In prior years, an allowance for land restrictions had been established at the time a parcel was acquired. However, in most cases, there is no impairment to the land's value since deed restrictions are generally attached at the time the land is sold.

Land consists of the following:

	<u>2011</u>	<u>2010</u>
Permanent land holdings	\$59,857,176	\$56,299,710
Land held for resale	<u>1,220,159</u>	<u>1,149,159</u>
	<u>61,077,335</u>	<u>57,448,869</u>
Less allowance for restrictions	<u>(1,190,039)</u>	<u>(1,190,039)</u>
Total	<u>\$59,887,296</u>	<u>\$56,258,830</u>

**Annuities**

Certain gifts require that the Forest Society pay the donor a predetermined amount during the donor's lifetime. Such gifts are recorded as revenue when received and the present value of the future amount payable is credited to a liability account. Periodically, an adjustment is made to annuities payable to record the actuarial income or expense due to the recomputation of the liability based upon the IRS life expectancy tables and a discount rate of 1%.

**SOCIETY FOR THE PROTECTION OF  
NEW HAMPSHIRE FORESTS**

**NOTES TO FINANCIAL STATEMENTS**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)**

**Contributions**

In accordance with the Not-for-Profit Entities Topic of the ASC 958-605 and subsections, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

**Functional allocation of expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. The allocation of expenditures is made on the basis of specific identification and estimates of time spent and benefits derived.

**Fair value of financial instruments**

Cash, trade and other accounts receivable, accounts payable, accrued expenses and other liabilities are carried in the financial statements at amounts which approximate fair value due to the inherently short-term nature of the transactions. The fair values determined for financial instruments are estimates, which for certain accounts may differ significantly from the amounts that could be realized upon immediate liquidation.

**Membership dues**

Membership dues collected are recorded as revenues when received.

**Fundraising and advertising**

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The organization generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, joint costs have been allocated between fundraising and management and general expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

**SOCIETY FOR THE PROTECTION OF  
NEW HAMPSHIRE FORESTS**

**NOTES TO FINANCIAL STATEMENTS**

**Note 2. CASH AND CASH EQUIVALENTS**

The Forest Society maintains its cash balances in a financial institution located in New Hampshire. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At April 30, 2010, the Society's uninsured cash balances totaled \$1,435,338.

These uninsured balances are protected via two different methods. Cash that will be held long term is held through an Insured Cash Sweep Service (ICS) agreement between the Forest Society and its bank. The ICS places Forest Society funds at other FDIC insured banks in amounts that do not exceed the FDIC insured maximum. Through the ICS program the Forest Society can exclude specific banks to insure the FDIC insured limit is never exceeded at the destination banks. Cash needed in the short term in excess of the FDIC insured limit is protected with a repurchase agreement between the Forest Society and its bank. Funds in excess of the insured limit are swept daily and held in purchased securities in the Forest Society's name.

**Note 3. PLEDGES RECEIVABLE**

Pledges receivable consist of the following:

	<u>2011</u>	<u>2010</u>
Promise to give expected to be collected in:		
Less than one year	\$ 56,968	\$ 93,595
One to five years	89,700	97,294
Beyond five years	<u>7,000</u>	<u>5,000</u>
	153,668	195,889
Less discount to net present value	<u>9,818</u>	<u>21,100</u>
Net pledges receivable	<u>\$143,850</u>	<u>\$174,789</u>

A discount rate of 3% in 2011 and 2010, respectively, was applied to determine net present value.

**Note 4. GRANT RECEIVABLE**

At December 31, 2011, the majority of grants receivable (\$449,700) was for the Black Mountain project in Sutton & Warner, NH.

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**NOTES TO FINANCIAL STATEMENTS**

**Note 5. INVESTMENTS**

Investments are stated at fair value and consist of the following:

	<u>2011</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Money market funds	\$ 751,203	\$ 751,203	\$ -
U.S. Government obligations	1,318,222	1,351,260	33,038
Corporate bonds	1,671,901	1,689,542	17,641
Equities	<u>5,333,653</u>	<u>7,246,853</u>	<u>1,913,200</u>
Total	<u>\$9,074,979</u>	<u>\$11,038,858</u>	<u>\$1,963,879</u>

	<u>2010</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Money market funds	\$ 559,569	\$ 559,569	\$ -
U.S. Government obligations	1,802,374	1,825,247	22,873
Corporate bonds	1,304,507	1,333,990	29,483
Equities	<u>5,361,560</u>	<u>6,851,389</u>	<u>1,489,829</u>
Total	<u>\$9,028,010</u>	<u>\$10,570,195</u>	<u>\$1,542,185</u>

The following tabulation summarizes the relationship between carrying values and market values of investment assets:

	<u>Cost</u>	<u>Market Value</u>	<u>Excess of Market over Cost</u>
Balance at end of year	<u>\$9,074,980</u>	<u>\$11,038,859</u>	\$1,963,879
Balance at beginning of year	<u>\$9,028,010</u>	<u>\$10,570,195</u>	<u>1,542,185</u>
Total increase in unrealized appreciation			<u>\$ 421,694</u>

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**NOTES TO FINANCIAL STATEMENTS**

**Note 5. INVESTMENTS (continued)**

Investment return is summarized as follows:

	<u>2011</u>	<u>2010</u>
Interest on temporary cash balances	\$ 7,774	\$ 5,660
Interest and dividend income	136,934	156,015
Net realized gains (losses)	528,291	(373,695)
Net unrealized gain	<u>421,694</u>	<u>1,957,818</u>
Total investment income	<u>\$1,094,693</u>	<u>\$1,745,798</u>

Management fees amounted to \$57,101 and \$51,935 in 2011 and 2010, respectively, have been netted against investment revenues in the accompanying statement of activities.

The Forest Society's policy is to avail itself of a Board approved percentage of investment income for operations with any remaining interest, dividends, or appreciation reinvested. The spending policy approved by the Board of Trustees for fiscal 2011 was 5% of the average fair market value of all investments over three years. The amounts were as follows:

Total return on investment	\$1,094,693
Used for operations	(548,942)
Used for annuity payments	(44,152)
Used for project expenses	<u>(25,160)</u>
Net amount	<u>\$ 476,439</u>

**Note 6. LINE OF CREDIT**

The Forest Society has available a \$1,500,000 revolving line of credit agreement with a bank. The line of credit expires on October 31, 2011, unless extended. Bank advances on this line of credit bear interest equal to the Wall Street Journal Prime rate which was 3.25% at April 30, 2011. The amount due under the line of credit was \$535,000 for the year ended April 30, 2011.

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**NOTES TO FINANCIAL STATEMENTS**

**Note 7. NOTE PAYABLE**

Note payable to a voluntary corporation, dated September 2010, in the original amount of \$213,750 payable in annual installments of \$11,250, no interest, due September 2030. The note is unsecured.	<u>2011</u>	<u>2010</u>
	\$213,750	\$ -
Less current portion	<u>11,250</u>	<u>-</u>
Long-term debt	<u>\$202,500</u>	<u>\$ -</u>

Principal payments on long-term obligations are as follows:

<u>Year Ended</u>	<u>Amount</u>
2012	\$ 11,250
2013	11,250
2014	11,250
2015	11,250
2016	11,250
Thereafter	<u>157,500</u>
Total	<u>\$213,750</u>

**Note 8. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following specific services:

	<u>2011</u>	<u>2010</u>
Land protection	\$1,973,123	\$2,953,831
Property management	895,683	715,303
Education	130,000	140,912
Policy	2,759	21,558
Communications	10,000	17,129
Research	<u>12,088</u>	<u>5,394</u>
Total	<u>\$3,023,653</u>	<u>\$3,854,127</u>

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**NOTES TO FINANCIAL STATEMENTS**

**Note 9. PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets of \$5,832,387 are restricted to invested endowment principal maintained in perpetuity of which income earned is expendable to support operations. The remaining balance of \$58,667,137 consists of land that is held for conservation and is permanently restricted.

**Note 10. EMPLOYEE BENEFIT PLANS**

Effective January 1, 1988, the Forest Society established a 403(b) tax sheltered annuity plan covering all qualified full-time employees. At the present time, the Society matches the first 4% of a participating employee's base salary. Additional voluntary contributions may be made by the employees. The percentage of the Forest Society's match is determined by the Board of Trustees and has remained unchanged since 1997. For the years ended April 30, 2011 and 2010, the Society's contribution to the plan totaled \$59,265 and \$60,489, respectively.

**Note 11. FAIR VALUE MEASUREMENTS**

The Forest Society adopted fair value measurements, as required by the Fair Value Measurements and Disclosures Topic of the ASC 820-10 and subsections, which provides a framework for measuring fair value under generally accepted accounting principles. This Topic applies to all financial instruments that are being measured and reported on a fair value basis.

As defined by this Topic, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Valuations for assets and liabilities traded in active exchange market. Level 1 also includes U.S. Treasury and federal agency securities, which are traded by dealers or brokers in active markets. Valuations are obtained by readily available pricing sources for market transactions involving identical assets and liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

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**NOTES TO FINANCIAL STATEMENTS**

**Note 11. FAIR VALUE MEASUREMENTS (continued)**

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Fair values measured at April 30, 2011 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Money market funds	\$ 751,203	\$ 751,203	\$ -	\$ -
U.S. government obligations	1,351,260	1,351,260	-	-
Corporate bonds	1,689,542	-	1,689,542	-
Equities	<u>7,246,853</u>	<u>7,246,853</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$11,038,858</u>	<u>\$9,349,316</u>	<u>\$1,689,542</u>	<u>\$ -</u>
Liability				
Annuities payable	<u>\$ 361,292</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 361,292</u>

Fair values of assets measured on a non-recurring basis at April 20, 2011 were as follows:

	<u>Fair Value</u>	<u>Level 3</u>
Pledges receivable	<u>\$143,850</u>	<u>\$143,850</u>

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**NOTES TO FINANCIAL STATEMENTS**

**Note 11. FAIR VALUE MEASUREMENTS (continued)**

Fair values measured at April 30, 2010 were as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets</b>				
Money market funds	\$ 559,569	\$ 559,569	\$ -	\$ -
U.S. government obligations	1,825,247	1,825,247	-	-
Corporate bonds	1,333,990	-	1,333,990	-
Equities	<u>6,851,389</u>	<u>6,851,389</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<u>\$10,570,195</u>	<u>\$9,236,205</u>	<u>\$1,333,990</u>	<u>\$ -</u>
<b>Liability</b>				
Annuities payable	<u>\$ 287,502</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 287,502</u>

Fair values of assets measured on a non-recurring basis at April 30, 2010 were as follows:

	<u>Fair Value</u>	<u>Level 3</u>
Pledges receivable	<u>\$174,889</u>	<u>\$174,889</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Annuities payable are primarily valued using valuation models that consider assumptions about future market conditions and actuarially-determined payout periods. The fair value of the pledges receivable is estimated as the present value of expected future cash inflows. The discount rate used was 3% in 2011 and 2010.

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**NOTES TO FINANCIAL STATEMENTS**

**Note 11. FAIR VALUE MEASUREMENTS (concluded)**

Changes in fair value of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are comprised of the following:

	<u>Annuity Payables</u>
Balance at April 30, 2009	\$253,750
Contribution	6,836
Change in present value	26,916
Balance at April 30, 2010	<u>\$287,502</u>
Contribution	61,106
Change in present value	12,684
Balance at April 30, 2011	<u>\$361,292</u>

**Note 12. ENDOWMENT FUND ASSETS**

The organization's endowment consists of funds established either by donors (referred to as *donor-designated endowment funds*) and or by resources set aside by the Board of Directors to function as endowments (referred to as *board-designated endowment funds*). Donor-restricted endowment funds are further divided into those that provide a perpetual source of support for the organization's activities (referred to as *permanently restricted*) and those that are restricted by donors to investment for a specified term (referred to as *temporarily restricted*). As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The state of New Hampshire enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA establishes law for the management and investment of donor-restricted endowment funds. The Board of Directors of the organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted permanent endowment funds unless there are explicit donor stipulations to the contrary.

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**NOTES TO FINANCIAL STATEMENTS**

**Note 12. ENDOWMENT FUND ASSETS (continued)**

As a result of this interpretation, the organization classifies as permanently restricted net assets (a) the original value of gifts donated to all donor-restricted permanent endowments, (b) the original value of any subsequent gifts to donor-restricted permanent endowments, and (c) the original value of accumulations to donor-restricted permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of a donor-restricted permanent endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization. All donor-restricted term endowments are classified as temporarily restricted net assets until the term expires and they are used in accordance with the donor's restrictions on use.

UPMIFA permits the organization to appropriate for expenditure or accumulate so much of a donor-restricted endowment fund as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. In making its determination to appropriate or accumulate, the organization must act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and it must consider, if relevant, the following factors:

- The duration and preservation of the endowment fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policy of the organization

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**NOTES TO FINANCIAL STATEMENTS**

**Note 12. ENDOWMENT FUND ASSETS (continued)**

The net asset composition of the endowment is as follows:

<b>April 30, 2011</b>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,616,703	\$2,401,374	\$4,552,118	\$10,570,195
Investment return				
Investment income	107,414	5,135	24,383	136,932
Realized gain	451,019	13,442	63,830	528,291
Unrealized gain	<u>360,014</u>	<u>10,729</u>	<u>50,951</u>	<u>421,694</u>
Total investment return	918,447	29,306	139,164	1,086,917
Appropriation of endowment assets for operations	<u>(593,094)</u>	<u>(25,160)</u>	<u>-</u>	<u>(618,254)</u>
Endowment net assets, end of year	<u>\$ 3,942,056</u>	<u>\$2,405,520</u>	<u>\$4,691,282</u>	<u>\$11,038,858</u>

Investment Net Asset Composition by Fund Type

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Undesignated	\$3,942,056	\$ -	\$ -	\$ 3,942,056
Donor designated	<u>-</u>	<u>2,405,520</u>	<u>4,691,282</u>	<u>7,096,802</u>
Total	<u>\$3,942,056</u>	<u>\$ 2,405,520</u>	<u>\$ 4,691,282</u>	<u>\$11,038,858</u>

**SOCIETY FOR THE PROTECTION OF  
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**NOTES TO FINANCIAL STATEMENTS**

**Note 12. ENDOWMENT FUND ASSETS (concluded)**

April 30, 2010	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,953,099	\$2,089,847	\$3,963,644	\$10,006,590
Investment return				
Investment income	62,830	25,593	67,592	156,015
Realized loss	(128,551)	(67,452)	(177,692)	(373,695)
Unrealized gain	<u>673,490</u>	<u>353,386</u>	<u>930,942</u>	<u>1,957,818</u>
Total investment return	607,769	311,527	820,842	1,740,138
Appropriation of endowment assets for operations	<u>(944,165)</u>	<u>-</u>	<u>(232,368)</u>	<u>(1,176,533)</u>
Endowment net assets, end of year	<u>\$ 3,616,703</u>	<u>\$2,401,374</u>	<u>\$4,552,118</u>	<u>\$10,570,195</u>

Investment Net Asset Composition by Fund Type

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Undesignated	\$3,616,703	\$ -	\$ -	\$ 3,616,703
Donor designated	<u>-</u>	<u>2,401,374</u>	<u>4,552,118</u>	<u>6,953,492</u>
Total	<u>\$3,616,703</u>	<u>\$ 2,401,374</u>	<u>\$ 4,552,118</u>	<u>\$ 10,570,195</u>

The Forest Society has adopted an investment policy that will maintain the purchasing power of the principal over the long term, while providing a reasonable stream of income that will contribute substantially to funding the spending policy used to support operations.

The current spending policy is 5% of twelve quarters moving average of the endowment portfolio's market value adjusted for capital additions and withdrawals.

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**NOTES TO FINANCIAL STATEMENTS**

**Note 13. RESTRICTED CASH**

The Forest Society has set aside funds by court order to acquire one or more parcels of land in fee or conservation easements which have conservation attributes that benefit the purpose of the Conservation Easement, are consistent with conservation purposes of Sweet Water Trust and the Forest Society and is located adjacent to or near the Pioneer Lake Property in the Town of Stoddard, New Hampshire.

**Note 14. SUBSEQUENT EVENTS**

The Forest Society has evaluated subsequent events through July 14, 2011, the date which the financial statements were available to be issued, and have not evaluated subsequent events after that date. No subsequent events were identified that would require disclosure in the financial statements for the year ended April 30, 2011.