

DELAWARE NATURE SOCIETY, INC.

**FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
WITH COMPARATIVE TOTALS FOR 2009**

**WITH
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**



Certified Public Accountants & Advisors
Advancing Tradition

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Delaware Nature Society, Inc.
Hockessin, Delaware

We have audited the accompanying statement of financial position of the Delaware Nature Society, Inc. (the "Society") as of December 31, 2010, and the related statement of activities and changes in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Society's December 31, 2009 financial statements and in our report dated March 12, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delaware Nature Society, Inc. as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants

May 12, 2011

DELAWARE NATURE SOCIETY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010, WITH COMPARATIVE TOTALS FOR 2009

	December 31,	
	2010	2009
ASSETS		
Cash and cash equivalents	\$ 781,962	\$ 559,529
Accounts receivable	24,218	77,975
Contributions and grants receivable	288,092	246,642
Prepaid expenses	5,463	30,046
Investments - endowment	14,495,109	12,879,084
Investments - other	1,063,113	847,815
Property and equipment - net of accumulated depreciation	21,461,849	23,754,121
Total assets	\$ 38,119,806	\$ 38,395,212
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 19,200	\$ 33,021
Payroll withholdings	3,242	3,003
Deferred revenue	65,751	8,500
Total liabilities	88,193	44,524
Unrestricted net assets	9,791,793	9,704,436
Temporarily restricted net assets	1,105,667	1,512,099
Permanently restricted net assets	27,134,153	27,134,153
Total net assets	38,031,613	38,350,688
Total liabilities and net assets	\$ 38,119,806	\$ 38,395,212

See accompanying notes

DELAWARE NATURE SOCIETY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2010, WITH COMPARATIVE TOTALS FOR 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
SUPPORT AND REVENUE					
Memberships	\$ 170,821	-	-	\$ 170,821	\$ 162,555
Contributions	404,734	385,618	-	790,352	560,641
Grants	99,488	566,596	-	666,084	611,418
Fees, admissions, tuition	689,118	-	-	689,118	644,329
Sales and special events	84,456	-	-	84,456	95,215
Other income	27,601	-	-	27,601	28,665
Investment income, net of fees	76,367	255,666	-	332,033	360,307
Net realized/unrealized gain (loss) on investments	258,307	820,516	-	1,078,823	1,278,328
Total support and revenue	<u>1,810,892</u>	<u>2,028,396</u>	<u>-</u>	<u>3,839,288</u>	<u>3,741,458</u>
RELEASE OF RESTRICTIONS					
Restricted endowment draw	399,537	(399,537)	-	-	-
Endowment reallocation for "underwater" assets	1,264,974	(1,264,974)	-	-	-
Other donor restrictions	770,317	(770,317)	-	-	-
Total releases	<u>2,434,828</u>	<u>(2,434,828)</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENSES					
Program services:					
Education	1,462,364	-	-	1,462,364	1,393,873
Preservation and conservation	302,190	-	-	302,190	353,497
Land and biodiversity management	426,555	-	-	426,555	331,943
Support services:	2,191,109	-	-	2,191,109	2,079,313
Administration and facilities	444,130	-	-	444,130	435,593
Fundraising and development	170,491	-	-	170,491	176,956
Total expenses	<u>614,621</u>	<u>-</u>	<u>-</u>	<u>614,621</u>	<u>612,549</u>
	<u>2,805,730</u>	<u>-</u>	<u>-</u>	<u>2,805,730</u>	<u>2,691,862</u>
CHANGE IN NET ASSETS BEFORE NON-OPERATING ITEMS	1,439,990	(406,432)	-	1,033,558	1,049,596
Loss on sale of property	(1,352,633)	-	-	(1,352,633)	-
CHANGE IN NET ASSETS	87,357	(406,432)	-	(319,075)	1,049,596
NET ASSETS AT BEGINNING OF YEAR	9,704,436	1,512,099	27,134,153	38,350,688	37,301,092
NET ASSETS AT END OF YEAR	<u>\$ 9,791,793</u>	<u>\$ 1,105,667</u>	<u>\$ 27,134,153</u>	<u>\$ 38,031,613</u>	<u>\$ 38,350,688</u>

See accompanying notes

DELAWARE NATURE SOCIETY, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010 WITH COMPARATIVE TOTALS FOR 2009

	2010	2009
Cash flows from operating activities:		
Cash received from operations	\$ 2,497,990	\$ 1,997,447
Cash received from interest and dividends	332,033	360,307
Cash paid to suppliers and employees	(2,517,278)	(2,397,592)
Net cash provided (used) by operating activities	312,745	(39,838)
Cash flows from investing activities:		
Purchase of investments	(5,048,499)	(6,386,093)
Proceeds from sales of investments	4,295,999	6,932,850
Proceeds from sale of property	800,000	-
Purchase of fixed assets	(137,812)	(609,465)
Net cash used by investing activities	(90,312)	(62,708)
Cash flows from financing activities:		
Contributions restricted for investment in endowment	-	-
Net cash provided by financing activities	-	-
Net Increase (decrease) in cash and cash equivalents	222,433	(102,546)
Cash and cash equivalents, beginning of year	559,529	662,075
Cash and cash equivalents, end of year	\$ 781,962	\$ 559,529
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Change in net assets	\$ (319,075)	\$ 1,049,596
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	261,459	320,205
Net realized/unrealized gain on investments	(1,078,823)	(1,278,328)
Loss on sale of assets	1,352,633	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	53,757	(18,453)
Contributions and grants receivable	(41,450)	(43,001)
Prepaid expenses	24,583	3,546
Increase (decrease) in:		
Accounts payable	2,171	(30,045)
Payroll withholdings	239	564
Deferred revenue	57,251	(43,922)
	631,820	(1,089,434)
Net cash provided (used) by operating activities	\$ 312,745	\$ (39,838)

See accompanying notes

DELAWARE NATURE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Delaware Nature Society, Inc. (the "Society") fosters understanding, appreciation and enjoyment of the natural world through education, preserves ecologically significant areas, and advocates stewardship and conservation of natural resources.

The Society provides educational programs throughout the State of Delaware operating from Ashland Nature Center, Coverdale Farm, Abbott's Mill Nature Center, the DuPont Environmental Education Center and Cooch-Dayett Mills.

Preservation and conservation of natural resources are promoted through the Society's Land Trust, Watershed Stewardship Program and Advocacy efforts. The Society is the state affiliate of the National Wildlife Federation.

The Society owns or manages over 1,900 acres of land for wildlife habitat and education preserves.

Method of Accounting

The Society's policy is to prepare its financial statements on the accrual basis of accounting.

Cash Equivalents

The Society considers all highly liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents except for cash held in investment accounts.

Donated Services and Property

Donated property is reflected as contributions in the accompanying statement at their estimated market values at the date of receipt. No amounts have been reflected in the statements for donated services because no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated a significant amount of their time in the Society's program services.

Accounting for Contributions

The Society reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

DELAWARE NATURE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for Contributions (Continued)

The Society reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. In the absence of explicit donor stipulations about how long those long-lived assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Delaware Nature Society, Inc.'s assets, liabilities and net assets are reported in three net asset groups as follows:

- The Unrestricted Net Assets represent the unrestricted portion of expendable funds that are available for the support of operations, investments in land, buildings and equipment, either donated to or purchased by the Society and unrestricted funds on which income is used for the long-term continuance of the Society.
- The Temporarily Restricted Net Assets represent donations with various donor restrictions. Funds may only be expended for donor-specified purpose.
- The Permanently Restricted Net Assets represent restricted donations. Principal and land must be held in perpetuity.

Contributions and Grants Receivable

Contributions and grants receivable are recorded at net realizable value and are considered by management to be fully collectible; therefore, no allowance for uncollectible contributions and grants receivable has been established.

Investments

Investments are carried at quoted market value. Gains and losses and investment income derived from investments, receivables, and the like are accounted for as unrestricted or temporarily restricted based on restrictions, if any, imposed by donors. Realized and unrealized gains and losses on the Society's unrestricted and temporarily restricted long-term investments are reflected as increases or decreases in unrestricted and temporarily restricted net assets, respectively.

DELAWARE NATURE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Hierarchy

In September, 2006, Financial Accounting Standards Board (“FASB”) released SFAS No. 157 (FASB ASC 820-10), which provides enhanced guidance for using fair value to measure assets and liabilities. The Society adopted SFAS No. 157 (FASB ASC 820-10) as of December 31, 2008. SFAS No. 157 (FASB ASC 820-10) establishes a fair value hierarchy and specifies that a valuation technique used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs. The objective of a fair value measurement is to determine 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 (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under SFAS No. 157 (FASB ASC 820-10) are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Concentration of Market Risk

The Society holds a significant portion of its assets in the financial markets. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near-term would materially affect the amounts reported in the financial statements. The Society's carrying values for investments are not intended to reflect the amounts to be eventually realized upon sale at some future period.

Property and Equipment

Property and equipment are recorded on the books at cost or, if donated, at the fair market value on the date of donation. Assets other than land are depreciated over their estimated useful lives using the straight-line method. On sale or retirement, the asset cost and related accumulated depreciation are removed from the accounts, and any related gain or loss is included in income.

DELAWARE NATURE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

The Society has been granted various easements on certain properties for the purpose of enforcing and defending the easement rights as outlined by the donor. The Society does not record the easements as a capital asset.

Capital expenditures greater than \$1,000 are capitalized and recorded as increases to fixed assets and depreciated over their useful lives. Purchases for computer hardware less than \$1,000 are also capitalized. Capital expenditures funded by the Property, Plant & Equipment Fund less than \$1,000 are also capitalized. Any item capitalized for under \$1,000 shall be depreciated over not longer than three years. All other capital purchases less than \$1,000 will be expensed through operations. The value of works of art does not deteriorate over time and such items are not depreciated.

Tax-Exempt Status

The Society is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and is classified by the Internal Revenue Service as a publicly supported charitable organization. The Society is responsible for taxes on unrelated business income in excess of \$1,000. During the years ended December 31, 2010 and 2009, the Society did not realize any unrelated business income which would be subject to tax.

The Society has adopted the provisions of FASB Interpretation No. 48 (FASB ASC 740-10-50), *Accounting for Uncertainty in Income Taxes*. Management continually evaluates uncertain tax positions and expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings, as applicable. Management's evaluation is that there is no income tax liability. This evaluation is based on settled and established positions within the Internal Revenue Code and management believes there is no significant uncertainty related to its evaluation.

The Society's policy is to expense all interest and penalties as incurred, if any. No amounts of interest or penalties were recognized by the Society during the years ended December 31, 2010 and 2009. No tax years prior to 2007 remain subject to examination by federal jurisdictions.

Advertising

The Society expenses advertising costs as incurred. Advertising expense was \$6,433 and \$5,326 for the years ended December 31, 2010 and 2009, respectively.

DELAWARE NATURE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Information

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

OPERATING LEASES

In 1989, the Society signed a 20-year lease with Red Clay Reservation, Inc. for the Society's use of Ashland Nature Center and the surrounding 83 acres. The Society leases the Ashland property from the Red Clay Reservation for \$1 per year. The lease expired in December 2009 and was re-negotiated in 2010 for renewal under the same general terms. In addition, in 2009 the Society renewed its 5-year lease with Delaware Division of Historical & Cultural Affairs for the Abbott's Mill Nature Center for \$1 per year. The Society is responsible for maintaining the grounds, trail systems and buildings located on the properties. No amount has been set for the fair market value of the rent since there is no comparable property on which to base the appraisal. Consequently, rent expense has not been recorded at fair market value, and the contribution income has not been recorded in the financial statements. Management does not believe that there is a material effect on the financial statements taken as a whole. The leases may be terminated at any time by notice of either party.

RETIREMENT PLAN

The Society has a defined contribution money purchase pension plan covering substantially all eligible employees. All employees who are eligible must participate in the plan. Currently, minimum contributions of 3.3% of salary are required. During 2009, the Society modified the terms of its plan from a requirement to contribute 6.7% of each participant's salary to 3.7%. However, it is the Board's intent to restore the Society's contribution to 6.7% as soon as it is economically feasible. The Society's contributions to the Teachers' Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF) plans amounted to \$42,142 and \$54,475 in 2010 and 2009, respectively. Contributions are forwarded semi-monthly to the TIAA-CREF and are applied to accounts maintained for each participant by TIAA-CREF.

DELAWARE NATURE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable represent the present value of unconditional promises to give. The amount of net contributions and grants at December 31, 2010 and 2009, respectively, is to be received as follows:

	<u>2010</u>	<u>2009</u>
Less than one year	\$ 284,592	\$ 246,642
One to five years	3,500	-
	<u>\$ 288,092</u>	<u>\$ 246,642</u>

PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Land	\$ 15,605,579	\$ 17,745,579
Construction in progress	2,000	-
Office furniture	93,712	93,712
Office machines	363,005	354,706
Other equipment	250,302	240,517
Buildings and site improvements	8,644,750	8,593,310
Vehicles	149,133	141,633
Other	9,530	9,530
	<u>25,118,011</u>	<u>27,178,987</u>
Less: accumulated depreciation	<u>3,656,162</u>	<u>3,424,866</u>
	<u>\$ 21,461,849</u>	<u>\$ 23,754,121</u>

For the year ended December 31, 2010 and 2009, the Society recorded \$261,459 and \$320,205, respectively, for depreciation expense.

DELAWARE NATURE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

INVESTMENTS

The table below sets forth information about the level within the fair value hierarchy at which the Society's investments are measured at December 31, 2010:

	Endowment	Other	Total
Money market funds, Level 1	\$ 912,647	\$ 209,574	\$ 1,122,221
Certificates of deposit, Level 1	295,000	522,000	817,000
Treasury bills, Level 1	332,458	-	332,458
Corporate bonds, Level 1	1,423,311	-	1,423,311
Equities, Level 1	6,352,408	2,512	6,354,920
Exchange traded funds, Level 1	3,349,174	329,027	3,678,201
	<u>12,664,998</u>	<u>1,063,113</u>	<u>13,728,111</u>
Municipal bonds, Level 2	179,110	-	179,110
Asset-backed securities, Level 2	1,651,001	-	1,651,001
	<u>1,830,111</u>	<u>-</u>	<u>1,830,111</u>
	<u>\$ 14,495,109</u>	<u>\$ 1,063,113</u>	<u>\$ 15,558,222</u>

The levels within the fair value hierarchy at which the Society's investments were measured at December 31, 2009 were as follows:

	Endowment	Other	Total
Money market funds, Level 1	\$ 208,998	\$ 155,536	\$ 364,534
Certificates of deposit, Level 1	345,000	423,485	768,485
Treasury bills, Level 1	340,273	-	340,273
Corporate bonds, Level 1	1,382,023	26,856	1,408,879
Equities, Level 1	6,820,493	175,541	6,996,034
Exchange traded funds, Level 1	1,844,317	-	1,844,317
	<u>10,941,104</u>	<u>781,418</u>	<u>11,722,522</u>
Municipal bonds, Level 2	155,523	-	155,523
Asset-backed securities, Level 2	1,782,457	66,397	1,848,854
	<u>1,937,980</u>	<u>66,397</u>	<u>2,004,377</u>
	<u>\$ 12,879,084</u>	<u>\$ 847,815</u>	<u>\$ 13,726,899</u>

As required by SFAS No. 157 (FASB ASC 820-10), investments are classified within the level of the lowest significant input considered in determining fair value.

In evaluating the level at which the Society's investments have been classified, management has assessed factors including, but not limited to price transparency, subscription activity, redemption activity and the existence or absence of certain restrictions. All of the Society's investments valued using Level 1 inputs are based on unadjusted quoted market prices within active markets.

DELAWARE NATURE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

INVESTMENTS (CONTINUED)

The Society's investments valued using Level 2 inputs are generally valued based on bid-side quotations or evaluated bids based on the internal models used by an independent pricing service. Total original cost of investments purchased or donated was \$13,720,851 and \$12,947,012 at December 31, 2010 and 2009, respectively. Unrealized gains on investments were \$1,837,371 and \$779,887 at December 31, 2010 and 2009, respectively.

The following table sets forth a summary of changes in the fair value of the Society's Level 2 investments for the year ended December 31, 2010 as required by SFAS No. 157 (FASB ASC 820-10):

	Significant Indirectly Observable Inputs (Level 2)	
	2010	2009
Beginning balance, January 1	\$ 2,004,377	\$ -
Realized/unrealized gains (losses)	-	-
Purchases	34,157	-
Sales	(208,423)	(1,749,424)
Transfers in / out of Level 2	-	3,753,801
Ending balance, December 31	<u>\$ 1,830,111</u>	<u>\$ 2,004,377</u>

The Society manages its investments on a total return basis. To preserve the long-term purchasing power of the investments, the Society has adopted an endowment draw policy with respect to its endowment and endowment-like funds to be used for current operations. The amount of draw is based on 5.0% of the six quarters average market value of endowment and endowment-like assets as of September 30 each year except when further restricted by the donor. The assets held within "Other" category of investments are not included under this draw policy. Accordingly, transfers from these accounts are excluded from the endowment draw noted below.

Return on investments as reported in the financial statements is as follows:

	December 31,	
	2010	2009
Endowment draw	\$ 541,546	\$ 612,001
Return on investment, net of endowment draw	951,421	1,102,559
Total return on investment	<u>\$ 1,492,967</u>	<u>\$ 1,714,560</u>
Investment income	\$ 414,144	\$ 436,232
Realized gain (loss)	21,339	(463,410)
Unrealized gain	1,057,484	1,741,738
Total return on investment	<u>\$ 1,492,967</u>	<u>\$ 1,714,560</u>

DELAWARE NATURE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

INVESTMENTS (CONTINUED)

Investment revenues are reported net of related investment expenses in the statement of activities. The amount of expenses netted with revenues was \$82,111 and \$75,925 for the years ended December 31, 2010 and 2009, respectively.

ENDOWMENT ASSETS

The Society's endowment consists of approximately 11 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Delaware Nature Society has interpreted Delaware's enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) and the guidance issued by the Financial Accounting Standards Board as requiring the preservation of the fair value of the original gift as of the date of gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Society classifies the following as permanently restricted net assets:

1. the original value of gifts donated to the permanent endowment;
2. the original value of subsequent gifts to the permanent endowment;
3. accumulations to the permanent endowment 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 the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. the duration and preservation of the fund;
2. the Society's mission and purpose supported by the donor-restricted endowment fund;
3. general economic conditions;
4. the possible effect of inflation and deflation;
5. the expected total return from income and the appreciation of investments;
6. the Society's other resources; and,
7. the investment policies of the Society

DELAWARE NATURE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

ENDOWMENT ASSETS (CONTINUED)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the historical value of the gift. In accordance with FASB Staff Position 117-1 (FASB ASC 958-205), the fair value of invested assets assigned to individual donor restricted endowment net asset balances required to be maintained in perpetuity had deficiencies of \$1,392,506 and \$1,952,531 at December 31, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors (specifically allowed for under UPMIFA).

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds.

Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to maintain the level of financial support currently provided while assuming a moderate level of investment risk. The Society expects its endowment funds, over time, to provide an average rate of return of at least 8 percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a strategic asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Society has a policy of appropriating for distribution each year up to 5 percent of the endowment fund's average fair market value over the prior 6 quarters through the third quarter preceding the calendar year in which the distribution is planned, except where donor has directed otherwise. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average of 3 percent annually. This is consistent with the Society's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund at December 31, 2010 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted Endowment Funds	\$ (1,392,506)	\$ 147,381	\$ 11,640,153	\$ 10,395,028
Board-designated Endowment Funds	4,100,081	-	-	4,100,081
	<u>\$ 2,707,575</u>	<u>\$ 147,381</u>	<u>\$ 11,640,153</u>	<u>\$ 14,495,109</u>

DELAWARE NATURE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

ENDOWMENT ASSETS (CONTINUED)

Endowment net asset composition by type of fund at December 31, 2009 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment Funds	\$ (1,952,531)	\$ 71,611	\$ 11,640,153	\$ 9,759,233
Board-designated Endowment Funds	3,119,851	-	-	3,119,851
	<u>\$ 1,167,320</u>	<u>\$ 71,611</u>	<u>\$ 11,640,153</u>	<u>\$ 12,879,084</u>

Changes in endowment net assets for the years ended December 31, 2010 and 2009 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2009	\$ 392,788	\$ -	\$ 11,615,153	\$ 12,007,941
Investment return:				
Investment income, net of fees	80,351	263,837	-	344,188
Net realized / unrealized gains (losses)	1,013,261	242,672	-	1,255,933
Total investment return	1,093,612	506,509	-	1,600,121
Contributions transferred into endowment	32,004	-	25,000	57,004
Appropriation of assets for expenditure - 2009	(175,103)	(434,898)	-	(610,001)
Appropriation of assets for expenditure -2008	(175,981)	-	-	(175,981)
Other changes:				
Transfers to board-designated endowment	-	-	-	-
Endowment net assets, December 31, 2009	<u>\$ 1,167,320</u>	<u>\$ 71,611</u>	<u>\$ 11,640,153</u>	<u>\$ 12,879,084</u>
Investment return:				
Investment income, net of fees	75,007	249,222	-	324,229
Net realized / unrealized gains (losses)	820,195	223,085	-	1,043,280
Total investment return	895,202	472,307	-	1,367,509
Contributions transferred into endowment	791,597	-	-	791,597
Appropriation of assets for expenditure - 2010	(146,544)	(396,537)	-	(543,081)
Other changes:				
Transfers to board-designated endowment	-	-	-	-
Endowment net assets, December 31, 2010	<u>\$ 2,707,575</u>	<u>\$ 147,381</u>	<u>\$ 11,640,153</u>	<u>\$ 14,495,109</u>

DELAWARE NATURE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
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ENDOWMENT ASSETS (CONTINUED)

Amounts classified as permanently restricted (endowment assets only) as of December 31 were as follows:

Permanently Restricted Net Assets - Endowment Only	2010	2009
Perpetual endowment funds required to be retained permanently by donor stipulation / UPMIFA	\$ 11,640,153	\$ 11,640,153
Capital improvements	\$ -	\$ -
Education	3,076,569	3,076,569
Preservation and conservation	2,162,996	2,162,996
Land and Biodiversity Management	6,400,588	6,400,588
	<u>\$ 11,640,153</u>	<u>\$ 11,640,153</u>

Amounts classified as temporarily restricted (endowment assets only) as of December 31 were as follows:

Temporarily Restricted Net Assets - Endowment Only	2010	2009
Portion of endowment funds subject to purpose restrictions under UPMIFA:		
Without purpose restrictions	\$ -	\$ -
With purpose restrictions	147,381	71,611
	<u>\$ 147,381</u>	<u>\$ 71,611</u>
Portion of endowment funds subject to purpose restrictions under UPMIFA:		
Education	\$ -	\$ -
Preservation and conservation	147,381	71,611
Land and Biodiversity Management	-	-
	<u>\$ 147,381</u>	<u>\$ 71,611</u>

The portion of the endowment activity that is attributable to "underwater assets" at December 31 is reflected in the Statement of Activities as a release of net assets. The Society records endowment activity in the appropriate net asset class for which the underlying assets are held. The release reflects the adjustment for the recovery of market values which had fallen below the original cost value. In the event market values of all permanently restricted endowment assets rise above the original gift value, this release will no longer be necessary.

DELAWARE NATURE SOCIETY, INC.
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CONCENTRATIONS

The Society maintains money market funds at institutions that are not completely insured by the Federal Deposit Insurance Corporation. However, the Society believes the risk of loss associated with these funds is remote.

CONTINGENCIES

The Society is self-insured for unemployment claims. The Society has experienced claims of \$11,940 and \$7,149 during the years ended December 31, 2010 and 2009, respectively. Management has not accrued a liability for possible future claims due to its uncertain nature and the nominal amount of exposure.

The Society was informed during the year that it was the designated beneficiary of an estate. The estate had not settled and no amounts had been received by the end of the year. The Society estimates its beneficial interest to be approximately \$300,000. No amounts have been accrued in the financial statements due to the inability to estimate the amount of the bequest and the timing of its receipt.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107 (FASB ASC 825-10), "Disclosure about Fair Value of Financial Instruments," requires disclosure of an estimate of fair value of certain financial instruments. The Society's significant financial instruments are cash, receivables, marketable equity securities, and other short term assets and liabilities. For these financial instruments, carrying values approximate fair value.

SPECIAL EVENTS

The Society holds special events during the year that help support its programs. Special events earned revenue in the amounts of \$127,897 and \$132,759 during the years ended December 31, 2010 and 2009, respectively. Cost of goods sold in the amounts of \$43,441 and \$37,544 for the years ended December 31, 2010 and 2009, respectively, are netted against sales and special events on the statement of activities.

FUND-RAISING EXPENSE

Total fund-raising expense for the years ended December 31, 2010 and 2009 was \$170,491 and \$176,956, respectively.

DELAWARE NATURE SOCIETY, INC.
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DECEMBER 31, 2010

NET ASSET SUMMARY

Restricted Net Asset Summary

Restricted net assets consisted of the following at December 31:

	2010		2009	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Capital improvements	\$ 324,662	\$ -	\$ 105,321	\$ -
Education	399,092	3,076,569	586,844	3,076,569
Preservation and conservation	281,433	2,162,996	308,497	2,162,996
Land and Biodiversity Management	100,480	21,894,588	511,437	21,894,588
	<u>\$ 1,105,667</u>	<u>\$ 27,134,153</u>	<u>\$ 1,512,099</u>	<u>\$ 27,134,153</u>

Permanently restricted net assets consist of contributions for endowment funds that are required by the gift instruments to be invested in perpetuity. The income from such investments is temporarily restricted for purposes as designated by the donor. Changes in fair market value of the permanently restricted investments are reported as temporarily restricted. In the event market declines reduce the temporarily restricted components of these endowment accounts below zero, the difference is reflected as a reduction of unrestricted net assets. The Society also holds land that has been permanently restricted by the donor. The carrying value of these properties was \$15,494,000 at December 31, 2010 and 2009, respectively.

Restricted Net Assets Released

Net assets were released from temporary restrictions for the following purposes during the year ended December 31:

	2010	2009
Capital improvements	\$ 96,760	\$ 544,640
Education	385,216	245,271
Preservation and conservation	146,026	105,441
Land and Biodiversity Management	142,315	57,867
	<u>\$ 770,317</u>	<u>\$ 953,219</u>

DELAWARE NATURE SOCIETY, INC.
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ASSETS HELD BY THE DELAWARE COMMUNITY FOUNDATION

The Society is the beneficiary of an endowment fund held by the Delaware Community Foundation (the "Foundation"). The fund was established in 2001 with assets that were gifted to the Foundation in the name of the Society, through an agreement that states that the endowment is owned and held by the Foundation. These assets are not recorded on the Society's statements of financial position. The agreement states that future gifts will be invested and held by the Foundation, and that a portion of the invested gifts and related income will be distributed periodically to the Society at the Foundation's discretion.

The fund consists of invested gifts, appreciation and related income net of administration and investment charges. The Society will recognize the distributions from the Foundation as distributions from Delaware Community Foundation revenue on the statements of activities. The total amount in the fund was \$14,064 and \$12,438 at December 31, 2010 and 2009, respectively.

RECLASSIFICATIONS

Certain amounts from the financial statements for the year ended December 31, 2009 have been reclassified to conform to the December 31, 2010 presentation. There was no change to net assets as previously reported as a result of the changes to these classifications.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 12, 2011, the date the financial statements were available to be issued.