



DUCKS UNLIMITED, INC. AND AFFILIATE

Combined Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

DUCKS UNLIMITED, INC. AND AFFILIATE

Table of Contents

	Page
Independent Auditors' Report	1
Combined Financial Statements:	
Combined Balance Sheets	2
Combined Statements of Activities	3
Combined Statements of Unrestricted Support and Revenues and Expenses	4
Combined Statements of Cash Flows	5
Notes to Combined Financial Statements	6



KPMG LLP
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Independent Auditors' Report

The Board of Directors
Ducks Unlimited, Inc. and Affiliate:

We have audited the accompanying combined balance sheets of Ducks Unlimited, Inc. and Affiliate (the Organization) as of June 30, 2012 and 2011, and the related combined statements of activities, unrestricted support and revenues and expenses, and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Ducks Unlimited, Inc. and Affiliate as of June 30, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 26, 2012

DUCKS UNLIMITED, INC. AND AFFILIATE

Combined Balance Sheets

June 30, 2012 and 2011

Assets	2012	2011
Cash and cash equivalents	\$ 24,167,295	18,241,996
Events receivable, net	546,239	555,506
Pledges receivable, net	25,452,253	21,552,434
Habitat conservation and other receivables	19,880,161	21,853,560
Event merchandise inventory	3,331,888	3,163,585
Investments	35,264,781	31,805,048
Land held for conservation purposes	15,588,294	17,133,151
Land, buildings, and equipment, net	9,006,602	8,950,925
Other assets	2,552,314	2,758,214
Total assets	\$ <u>135,789,827</u>	<u>126,014,419</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 11,335,416	11,652,241
Compensation and related accruals	6,408,068	5,521,369
Pension and deferred compensation accruals	21,371,982	9,130,585
Accrued postretirement benefits	2,618,336	3,301,330
Other liabilities	543,756	572,988
Total liabilities	<u>42,277,558</u>	<u>30,178,513</u>
Net assets:		
Unrestricted	15,516,162	16,665,615
Temporarily restricted	66,283,759	68,341,450
Permanently restricted	11,712,348	10,828,841
Total net assets	<u>93,512,269</u>	<u>95,835,906</u>
Total liabilities and net assets	\$ <u>135,789,827</u>	<u>126,014,419</u>

See accompanying notes to combined financial statements.

DUCKS UNLIMITED, INC. AND AFFILIATE

Combined Statements of Activities

Years ended June 30, 2012 and 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net assets</u>
Net assets at June 30, 2010	\$ 3,240,620	65,034,938	10,207,558	78,483,116
Support and revenues:				
Unrestricted support and revenues	120,932,740	—	—	120,932,740
Restricted support and revenues:				
Major conservation gifts	—	32,006,159	621,283	32,627,442
Investment return on permanent endowments, net	—	1,908,011	—	1,908,011
Habitat reimbursements	—	15,599,145	—	15,599,145
Other revenues	—	988,828	—	988,828
Net assets released from restrictions:				
Program restrictions satisfied	45,310,613	(45,310,613)	—	—
Expiration of time restrictions	1,084,894	(1,084,894)	—	—
Total support and revenues	<u>167,328,247</u>	<u>4,106,636</u>	<u>621,283</u>	<u>172,056,166</u>
Total expenses	<u>155,701,461</u>	<u>—</u>	<u>—</u>	<u>155,701,461</u>
Excess of support and revenues over expenses	11,626,786	4,106,636	621,283	16,354,705
Other changes in net assets:				
Loss on uncollectible pledges	—	(800,124)	—	(800,124)
Pension and postretirement benefit liability adjustments other than net periodic costs	1,798,209	—	—	1,798,209
Total change in net assets	<u>13,424,995</u>	<u>3,306,512</u>	<u>621,283</u>	<u>17,352,790</u>
Net assets at June 30, 2011	16,665,615	68,341,450	10,828,841	95,835,906
Support and revenues:				
Unrestricted support and revenues	137,686,063	—	—	137,686,063
Restricted support and revenues:				
Major conservation gifts	—	29,152,584	883,507	30,036,091
Investment return on permanent endowments, net	—	(260,991)	—	(260,991)
Habitat reimbursements	—	16,525,882	—	16,525,882
Other revenues	—	333,641	—	333,641
Net assets released from restrictions:				
Program restrictions satisfied	45,150,479	(45,150,479)	—	—
Expiration of time restrictions	985,600	(985,600)	—	—
Total support and revenues	<u>183,822,142</u>	<u>(384,963)</u>	<u>883,507</u>	<u>184,320,686</u>
Total expenses	<u>171,641,027</u>	<u>—</u>	<u>—</u>	<u>171,641,027</u>
Excess (deficit) of support and revenues over expenses	12,181,115	(384,963)	883,507	12,679,659
Other changes in net assets:				
Loss on uncollectible pledges	—	(1,672,728)	—	(1,672,728)
Pension and postretirement benefit liability adjustments other than net periodic costs	(13,330,568)	—	—	(13,330,568)
Total change in net assets	<u>(1,149,453)</u>	<u>(2,057,691)</u>	<u>883,507</u>	<u>(2,323,637)</u>
Net assets at June 30, 2012	\$ <u>15,516,162</u>	<u>66,283,759</u>	<u>11,712,348</u>	<u>93,512,269</u>

See accompanying notes to combined financial statements.

DUCKS UNLIMITED, INC. AND AFFILIATE

Combined Statements of Unrestricted Support and Revenues and Expenses

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operational revenue:		
Philanthropic sources:		
Net proceeds from committee events	\$ 34,421,772	31,782,498
Direct response membership	10,541,175	10,933,668
Major gifts	28,346,920	31,160,318
Planned gift maturities	836,218	774,312
Royalties	3,990,675	3,732,532
Total philanthropic revenue	<u>78,136,760</u>	<u>78,383,328</u>
Other operational support and revenue:		
Federal and state habitat reimbursements	52,932,239	52,334,550
Nongovernmental partnerships	15,857,366	15,209,880
State grants	3,025,606	2,774,269
Donated conservation easements	23,664,265	8,040,457
Advertising revenue	2,736,279	2,388,756
Other revenues	308,978	410,783
Total operational support and revenue	<u>176,661,493</u>	<u>159,542,023</u>
Operational expense:		
Program service expense:		
Waterfowl conservation:		
U.S. habitat delivery	85,745,098	88,310,376
Conservation easements	23,664,265	8,040,457
Government relations	803,176	801,259
Ducks Unlimited Canada	14,935,768	12,764,225
Ducks Unlimited de Mexico	684,742	608,198
Conservation education:		
Magazine	3,281,337	3,307,804
Communications and conferences	3,534,187	3,030,362
Education delivery	7,359,076	6,150,767
Membership services	3,159,785	3,164,680
Total program service expenses	<u>143,167,434</u>	<u>126,178,128</u>
Fund-raising:		
Field operations	8,994,426	9,226,150
Direct response membership development	8,095,961	9,558,982
Major gift development and advertising	6,629,006	6,363,346
Total fund-raising expense	<u>23,719,393</u>	<u>25,148,478</u>
Administration	4,754,200	4,374,855
Total operational expense	<u>171,641,027</u>	<u>155,701,461</u>
Operational surplus	<u>5,020,466</u>	<u>3,840,562</u>
Nonoperational:		
Revolving land contributions	197,313	2,502,402
Gains on land sales	5,990,117	635,084
Planned gift maturities	836,218	774,311
Other quasi-endowment contributions	403,784	352,871
Net endowment investment income (loss)	(266,783)	3,521,556
Nonoperating surplus	<u>7,160,649</u>	<u>7,786,224</u>
Excess of unrestricted support and revenues over expenses	\$ <u>12,181,115</u>	<u>11,626,786</u>

See accompanying notes to combined financial statements.

DUCKS UNLIMITED, INC. AND AFFILIATE

Combined Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (2,323,637)	17,352,790
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash contributions	(11,588)	(15,050)
Contributions restricted for investment in endowment	(883,507)	(621,283)
Depreciation	1,319,648	1,336,521
Gain on disposition of conservation lands	(5,990,117)	(623,581)
(Gain) loss on disposition of equipment	(146,230)	480
Net realized and unrealized (gain) loss on investments	1,243,757	(4,953,127)
Pension and postretirement benefit liability adjustments	13,330,568	(1,798,209)
Changes in operating assets and liabilities:		
Events receivable	9,267	247,066
Pledges receivable	(3,899,819)	(1,880,730)
Habitat conservation and other receivables	1,973,399	1,615,237
Event merchandise inventory	(168,303)	638,994
Other assets	217,488	52,399
Accounts payable and accrued expenses	(316,825)	(1,927,688)
Compensation and related accruals	886,699	379,199
Pension and deferred compensation accruals	1,747	(3,388,672)
Accrued postretirement benefits	(1,773,912)	(1,719,975)
Other liabilities	(29,232)	(25,698)
Net cash provided by operating activities	3,439,403	4,668,673
Cash flows from investing activities:		
Purchases of investments	(19,889,972)	(20,029,558)
Proceeds from sale of investments	15,186,482	18,279,558
Building and equipment purchases	(1,229,095)	(962,056)
Investments in conservation lands	(3,747,928)	(6,079,719)
Proceeds from sales of conservation lands	11,282,902	2,234,801
Net cash provided by (used in) investing activities	1,602,389	(6,556,974)
Cash flows from financing activities:		
Proceeds from contributions restricted for endowment	883,507	621,283
Repayments of borrowings on operating line of credit	(4,000,000)	(3,000,000)
Proceeds from borrowings on operating line of credit	4,000,000	3,000,000
Net cash provided by financing activities	883,507	621,283
Net increase (decrease) in cash and cash equivalents	5,925,299	(1,267,018)
Cash and cash equivalents at beginning of year	18,241,996	19,509,014
Cash and cash equivalents at end of year	\$ 24,167,295	18,241,996
Supplemental disclosure of cash flow information:		
Receivable for sale of land	\$ 70,000	—
Cash paid for interest	\$ 18,704	6,221

See accompanying notes to combined financial statements.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

(1) Nature of Activities

Ducks Unlimited, Inc. (DUI) is an internationally supported, nonprofit conservation organization incorporated under the laws of the District of Columbia in 1937. DUI conserves, restores, and manages wetlands and associated habitats for North America's waterfowl. These habitats also benefit other wildlife and people.

Wetlands America Trust, Inc. (WAT) is a nonprofit organization formed in 1985 to support the mission of DUI in providing leadership in the protection of the natural balance of wetland ecosystems, ensuring the future viability of waterfowl and other wetland wildlife in the United States. WAT operates exclusively for the benefit of DUI and complements DUI's domestic habitat programs in harmony with DUI's conservation priorities. WAT is also a fiduciary for DUI and manages endowments and revolving funds. DUI is the sole member of WAT.

DUI and WAT's primary sources of revenue are contributions from the public, including gifts of land, investment income, and government grants. These resources are used to conserve portfolios of functional conservation areas across North America.

DUI and WAT are recognized as organizations exempt from federal income tax under 501(a) as entities described in Section 501(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purposes. The organization does not have any material unrecognized tax positions that should be recognized in the financial statements for 2012 or 2011.

(2) Significant Accounting Policies

(a) Principles of Combination

The combined financial statements include the accounts of DUI and WAT, hereinafter referred to collectively as DU or the Organization. Significant accounts and transactions between DUI and WAT have been eliminated in combination.

(b) Cash Equivalents

Cash equivalents are highly liquid investments with a maturity of three months or less when purchased.

(c) Pledges Receivable

Pledges receivable represent promises from DU supporters to make contributions to DU in future periods under various major donor programs, which generally provide for payments over four to seven years. Pledges are reported at the net present value of the estimated future cash flows.

(d) Inventory

Event merchandise inventory is valued at the lower of cost or market, using the first-in, first-out method. Slow moving or potentially obsolete inventory items are written down to net realizable value.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

(e) ***Investments***

Investments with readily determinable market values are reported based on the last reported sales price at the end of the reporting period or, in the absence of a reported sale, on the average of the bid and ask price. Investments in private equity and hedge funds are reported at the proportionate share of the estimated fair values of the underlying investments. Those fair values, which are estimated by the general partners or investment managers, are evaluated for reasonableness by the Organization's management, and may differ from the values that would have been used had a ready market existed for those investments. Investment income from permanently restricted endowment funds is recognized as temporarily restricted net assets until appropriated for use. Investment income on all other investments is credited directly to unrestricted net assets unless otherwise restricted by the donor.

DU values its financial assets and liabilities based on 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. A fair value hierarchy that prioritizes the inputs to valuation techniques is used to measure fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into the following three levels, based on the reliability of inputs:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are observable at the measurement date;

Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and

Level 3: Significant unobservable inputs for the asset or liability that reflect the reporting entity's own estimates about the assumptions that market participants would use in pricing the asset or liability.

(f) ***Land Held for Conservation Purposes***

Land held for conservation purposes includes purchased or donated properties to be sold or transferred to governmental agencies or other conservation-minded individuals and organizations for conservation purposes. Purchased land and easements are stated at the lesser of cost or fair market value. Donated properties are recorded at their appraised values at the date of contribution.

(g) ***Land, Buildings, and Equipment***

Land, buildings, and equipment are stated at cost. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss on retirement or disposal of the individual assets is recorded as revenue or expense.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	10 – 40 years
Building improvements	5 – 15 years
Computer equipment	3 – 5 years
Furnishings and equipment	5 – 10 years

DU periodically reviews the recoverability of long-lived assets. If facts or circumstances indicate the possibility of impairment, DU will prepare a projection of the undiscounted future cash flows of the specific assets and determine if the recorded value is recoverable or if an adjustment to the carrying value of the assets is necessary. DU does not believe that there were any facts or circumstances that indicated an impairment of recorded land, buildings, or equipment as of June 30, 2012 or 2011.

(h) Charitable Gift Annuities

DU has received several gifts that, pursuant to the gift agreements, require DU to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. The amount recorded as a contribution at the time the gift is made is the difference between the amount of the gift and the present value of the donor stipulated payments to be made by DU as of the date of the gift. DU's liability under these arrangements, which is recorded as a component of other liabilities in the accompanying combined balance sheets, is recorded at the net present value of the remaining donor stipulated payments and is adjusted annually.

(i) Net Assets

DU reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit their use. When a donor restriction is satisfied, that is, when a stipulated time restriction expires or program restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions.

DU classifies donor-restricted contributions as unrestricted support if those restrictions are satisfied in the same reporting period. DU recognizes contributions of collectibles (for example, works of art or similar assets that are held for public exhibition or education) as unrestricted support, unless restricted by the donor.

Temporarily restricted net assets represent pledges receivable that are restricted by time and/or purpose restrictions, habitat conservation gifts that are restricted by donor stipulation, and unappropriated appreciation on donor-restricted endowment funds.

Permanently restricted net assets represent endowments restricted by donors, the income from which is expendable for conservation efforts specific to donor stipulations.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

(j) Conservation Easements

Conservation easements represent rights to restrict the use, access, and development of certain properties. Unrestricted support and expenses are recognized in equal amounts based upon the appraised value of the easement. DU is obligated to monitor easements to ensure that the restrictions are maintained. DU monitors these easements in the normal course of its operations and associated costs are expensed as incurred.

The estimated value of easements is not included in the combined balance sheets because the easements do not represent a future economic benefit to the Organization.

(k) Pension and Postretirement Benefit Plans

DU records the overfunded or underfunded status of benefit plans on its combined balance sheets. Changes in funded status other than net periodic cost are recognized as other changes in net assets in the year in which the change occurs. DU engages a third-party actuary to perform computations necessary to record its pension and postretirement plan-related balances.

(l) Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the combined statements of unrestricted support and revenues and expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(m) Grants and Cooperative Agreements

DU receives grants and contracts from federal and state agencies, as well as from private organizations, to be used for specific programs or land purchases. Any excess of reimbursable expenditures over cash receipts is included in habitat conservation receivables. For grants and contracts in which cash is received prior to the incurrence of related costs, such amounts are reflected in temporarily restricted net assets until the related costs are incurred.

DU's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowed costs, if any, would not be material to the accompanying combined balance sheets or combined statements of activities of DU.

(n) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates are used primarily in the recording of the allowance for uncollectible pledges receivable, the discounting of pledges receivable, determining the fair value of certain investments, estimates relating to the pension and other postretirement plans, and reserves for self-insurance.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

(o) Donor-Restricted Endowment Funds

Effective July 1, 2007, the State of Tennessee enacted its version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to funds existing on or established after that date. Under the provisions of UPMIFA, organizations are required to maintain and report endowment funds based upon donor intent, whether explicit or implied. Based on its interpretation of the provisions of UPMIFA and a review of underlying endowment agreements, management has determined that reporting the historic dollar value of donor-restricted endowments as permanently restricted net assets is appropriate and consistent with the intent of DU's donors.

(p) Subsequent Events

DU has evaluated events and transactions for potential recognition or disclosure through October 26, 2012, which is the date these combined financial statements were available to be issued. See note 16 for further discussion of subsequent events.

(q) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

(3) Fund-Raising Events

DU raises funds to support its conservation mission through fund-raising events in communities throughout the United States. During the years ended June 30, 2012 and 2011, DU volunteers hosted approximately 3,900 grassroots fund-raising events, such as member and sponsor banquets, shooting and fishing tournaments, and golf outings. Chapters are chartered by DU and operate as unincorporated associations to support DU in the local community. Local chapters remit proceeds of these events (net of direct expenses incurred by the chapter in sponsoring and conducting the event) to DU, and provide reports of receipts and direct expenses. Because the financial transactions of local committees are controlled by the volunteers, net amounts to be remitted to DU are recorded as event receivables in the combined balance sheets and net proceeds from committee events in the accompanying combined statements of unrestricted support and revenues and expenses.

The following unaudited gross proceeds and unaudited direct expenses incurred by DU chapters in conducting these events are based on reports provided by the host chapters for each event.

	For the year ended June 30,	
	2012	2011
Gross proceeds reported by DU chapters (unaudited)	\$ 78,028,947	72,760,520
Expenses incurred by DU chapters (unaudited)	(28,203,741)	(26,722,169)
Proceeds of events remitted to DU	49,825,206	46,038,351
Less cost of event merchandise	(14,746,028)	(13,549,795)
Less state operation allowances	(657,406)	(706,058)
Net proceeds from committee events	\$ 34,421,772	31,782,498

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

(4) Investments and Fair Value Measurements

The following tables set forth DU's investments by level within the fair value hierarchy, as of June 30, 2012 and 2011:

		2012			
		Fair value measurements using			
		Level 1	Level 2	Level 3	Total
Equities:					
Large-cap value	\$	4,935,860	—	—	4,935,860
Large-cap growth		5,739,232	—	—	5,739,232
Small and mid-cap value		2,249,928	—	—	2,249,928
Small and mid-cap growth		3,095,798	—	—	3,095,798
Small and mid-cap core		1,791,472	—	—	1,791,472
International		4,038,198	—	—	4,038,198
Real estate		738,083	—	—	738,083
Fixed income		10,920,345	267,115	—	11,187,460
Private equity		—	—	201,802	201,802
Hedge funds		—	—	1,286,948	1,286,948
Total investments at fair value		\$ 33,508,916	267,115	1,488,750	35,264,781

		2011			
		Fair value measurements using			
		Level 1	Level 2	Level 3	Total
Equities:					
Large-cap value	\$	5,665,663	—	—	5,665,663
Large-cap growth		6,650,084	—	—	6,650,084
Small and mid-cap value		3,142,323	—	—	3,142,323
Small and mid-cap growth		3,239,470	—	—	3,239,470
International		3,331,439	—	—	3,331,439
Real estate		656,926	—	—	656,926
Fixed income		6,950,775	266,333	—	7,217,108
Private equity		—	—	180,381	180,381
Hedge funds		—	—	1,721,654	1,721,654
Total investments at fair value		\$ 29,636,680	266,333	1,902,035	31,805,048

At June 30, 2012 and 2011, DU was committed to fund additional amounts to a private equity fund totaling approximately \$88,000 and \$136,000, respectively.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

The composition of investment return is as follows for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Net realized and unrealized investment gains (losses):		
Unrestricted	\$ (799,099)	3,239,717
Temporarily restricted	(444,658)	1,713,410
	<u>\$ (1,243,757)</u>	<u>4,953,127</u>
Interest and dividend income:		
Unrestricted	\$ 532,316	281,839
Temporarily restricted	183,667	194,601
	<u>\$ 715,983</u>	<u>476,440</u>
Total activity:		
Unrestricted	\$ (266,783)	3,521,556
Temporarily restricted	(260,991)	1,908,011
	<u>\$ (527,774)</u>	<u>5,429,567</u>

The following table sets forth a summary of changes in the fair value of DU's Level 3 assets for the year ended June 30, 2012:

	<u>Private equity</u>	<u>Hedge funds</u>
Beginning balance at June 30, 2010	\$ 144,517	246,930
Total net gains (realized and unrealized)	25,454	62,504
Net purchases	10,410	1,412,220
Ending balance at June 30, 2011	180,381	1,721,654
Total net gains (losses) (realized and unrealized)	2,249	(220,903)
Net purchases (distributions)	19,172	(213,803)
Ending balance at June 30, 2012	<u>\$ 201,802</u>	<u>1,286,948</u>

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

(5) Pledges Receivable

Pledges receivable are summarized as follows at June 30:

	<u>2012</u>	<u>2011</u>
Amounts due:		
Less than 1 year	\$ 12,668,648	14,982,389
1 to 5 years	18,004,108	12,220,180
Greater than 5 years	1,162,288	1,135,865
	<u>31,835,044</u>	<u>28,338,434</u>
Less allowance for uncollectible pledges	(5,197,741)	(5,974,896)
Less unamortized present value discount	<u>(1,185,050)</u>	<u>(811,104)</u>
	<u>\$ 25,452,253</u>	<u>21,552,434</u>

Pledges receivable are discounted using rates ranging from 0.2% to 5.0% as of June 30, 2012 and 0.5% to 6.0% as of June 30, 2011. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance is recorded for uncollectible pledges based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

(6) Land Held for Conservation Purposes

Land held for conservation purposes is as follows at June 30, 2012:

<u>Property</u>	<u>Acres protected</u>	<u>Location</u>	<u>Carrying value</u>
Cosumnes River Preserve	242	California	\$ 534,691
Davey Complex	160	Colorado	105,767
Goebel Ranch	2,168	South Dakota	333,283
Long Lake Complex	1,635	South Dakota	974,405
Minden SW Complex	161	Nebraska	—
Prairie Marsh Complex	200	Nebraska	344,304
Ritterbush Complex	114	Nebraska	219,656
Verona Complex	1,210	Nebraska	43,733
Kirkpatrick Basin South	95	Nebraska	244,436
Weil Tract	70	South Carolina	63,000
Bowdle Complex	985	South Dakota	800,254
Coteau Ranch (Peacock) Complex	3,120	North Dakota	1,649,076
Straightwater Complex	155	Nebraska	114,955
Julesberg Complex	850	Colorado	654,030
Martin Complex	634	North Dakota	333,318
Little Sandy Complex	160	Nebraska	176,366
Lower Sangamon Complex	232	Illinois	250,782
North Bend Complex	168	Nebraska	570,000
Butler Complex	166	Nebraska	242,120
Phelps Complex	232	Nebraska	305,793
Cochran Complex	20	Minnesota	13,000
North Platt River Complex	1,208	Nebraska	3,061,046
Eureka Complex	481	South Dakota	404,102
LSOHC	85	Minnesota	477,685
NE WPA Roundouts	279	Nebraska	1,459,335
Kandiyohi County	40	Minnesota	167,953
Michigan Complex	18	Michigan	38,000
Indiana Complex	32	Indiana	140,377
Illinois Complex	473	Illinois	1,636,053
GFT Montana Complex	2,195	Montana	230,774
	<u>17,588</u>		<u>\$ 15,588,294</u>

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

(7) Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following at June 30:

	2012	2011
Land	\$ 1,405,264	1,405,264
Buildings and improvements:		
Memphis Headquarters	9,333,462	9,047,762
Western Regional Office	964,140	964,140
Great Plains Regional Office	2,175,422	2,175,422
Furnishings and equipment	18,076,666	17,310,167
	31,954,954	30,902,755
Less allowances for depreciation	(22,948,352)	(21,951,830)
	\$ 9,006,602	8,950,925

(8) Line of Credit

DU has an operating line of credit agreement (the Credit Agreement), which expires on December 31, 2012 and provides for seasonal borrowing needs, subject to borrowing base availability, up to the following maximum amounts:

Amount	Time frame
\$ 12,000,000	July 1, 2011 to November 30, 2011
15,000,000	December 1, 2011 to March 31, 2012
12,000,000	April 1, 2012 to November 30, 2012
15,000,000	December 1, 2012 to December 31, 2012

The borrowing rate on the Credit Agreement is the lesser of the lender's maximum variable rate of interest or a rate equal to the base commercial rate of interest. As of June 30, 2012, the borrowing rate was 2.74%. The Credit Agreement contains certain restrictions limiting DU's ability to incur additional indebtedness, enter into merger, consolidation, sale, or acquisition activities other than in the normal course of business. The Credit Agreement also prohibits DU from granting any security interest in its inventory, pledges, other receivables, investments, and fixed assets. There were no amounts outstanding under the Credit Agreement as of June 30, 2012 or 2011.

(9) Concentration of Credit Risk

DU had deposits with financial institutions that exceeded federal depository insurance limits by approximately \$11,868,000 and \$6,384,000 at June 30, 2012 and 2011, respectively. DU has not experienced any losses on cash deposits and management considers the risk of loss to be minimal. Additionally, DU's investment consultant monitors the credit rating of each of its financial institutions.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

(10) Benefit Plans

DU has a defined benefit pension plan (the Pension Plan), which covers all full-time and certain eligible part-time employees. For employees hired prior to January 1, 1998, monthly retirement benefits are calculated as 2% of each employee's average monthly compensation for the highest consecutive 36 months of compensation out of the last 120 months of employment multiplied by their years of service, offset by a percentage of their primary social security benefits. For employees hired on January 1, 1998 through September 30, 2002, monthly retirement benefits are calculated as 1% of each employee's average monthly compensation for the highest consecutive 36 months of compensation out of the last 120 months of employment multiplied by their years of service up to a maximum of 25 years. Additionally, for employees hired on January 1, 1998 through September 30, 2002 the sum of their calculated retirement benefit and primary social security benefit cannot exceed 75% of their average monthly compensation. Employees hired on or subsequent to October 1, 2002, receive a cash balance benefit equal to 2% of their annual compensation plus interest based on the 10-year treasury yield. Employees are vested 100% in the plan after five years of service. DU contributes such amounts as are necessary to maintain the plan as a qualified pension plan under the Employee Retirement Income Security Act of 1974, as amended.

DU also sponsors unfunded defined benefit healthcare and life insurance plans (the Postretirement Medical and Life Plans) that provide postretirement benefits to full-time employees who have worked at least 10 years for DU. To qualify for benefits under the health and life insurance plans, employees must have attained ages of at least 62 and 55, respectively, while in service with DU. In April 2009, DU amended the Postretirement Medical and Life Plans to eliminate life insurance benefits provided to retirees; to eliminate retiree health coverage for all current, former, and future employees of DU, except for participants over the age of 58 as of May 1, 2009, or certain senior level management positions held as of May 1, 2009; and to require that retirees pay a portion of the monthly premium cost.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

Information with respect to the plans was as follows at June 30:

	Pension		Postretirement medical and life	
	2012	2011	2012	2011
Change in benefit obligation:				
Benefit obligation at beginning of the year	\$ 57,515,046	53,518,769	3,301,330	3,676,955
Service cost	2,329,956	2,330,190	52,962	59,320
Interest cost	2,805,420	2,642,577	86,157	110,540
Actuarial (gain) loss	8,955,506	2,538,689	(225,079)	(13,449)
Benefits paid	<u>(2,230,750)</u>	<u>(3,515,179)</u>	<u>(597,034)</u>	<u>(532,036)</u>
Benefit obligation at end of the year	<u>69,375,178</u>	<u>57,515,046</u>	<u>2,618,336</u>	<u>3,301,330</u>
Change in plan assets:				
Plan assets at fair value at beginning of the year	50,186,871	39,755,601	—	—
Actual return on plan assets	(1,069,343)	7,946,449	—	—
Employer contributions	3,000,000	6,000,000	597,034	532,036
Benefits paid	<u>(2,230,750)</u>	<u>(3,515,179)</u>	<u>(597,034)</u>	<u>(532,036)</u>
Plan assets at fair value at end of the year	<u>49,886,778</u>	<u>50,186,871</u>	<u>—</u>	<u>—</u>
Funded status:				
Benefit obligation in excess of plan assets	\$ <u><u>(19,488,400)</u></u>	<u><u>(7,328,175)</u></u>	<u><u>(2,618,336)</u></u>	<u><u>(3,301,330)</u></u>

Assumptions used in the actuarial determination of the projected benefit obligation were as follows at June 30:

	Pension		Postretirement medical and life	
	2012	2011	2012	2011
Discount rate	3.75%	5.25%	1.88%	2.88%
Expected long-term rate of return on plan assets	7.50	7.50	—	—
Rate of compensation increase	3.60	4.00	—	—
Healthcare cost trend rate	—	—	9.00	9.50

The expected long-term rate of return on plan assets reflects DU's expectations of long-term average rates of return on funds invested to provide benefits included in the projected benefit obligation. In developing the expected long-term rate of return assumption, DU evaluated input from its third-party actuarial and investment firms and considered other factors, including inflation, interest rates, peer data, and historical returns.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

The weighted average annual assumed rate of increase in the per capita cost of covered benefits (healthcare cost trend rate) is assumed to decrease gradually to 5.50% for 2019 and remain level thereafter.

The Pension Plan's actual and target asset allocations were as follows:

	Actual asset allocation		Target allocation
	June 30, 2012	June 30, 2011	
Equities:			
Large-cap value	18%	15%	10% – 30%
Large-cap growth	20	17	10% – 30%
Small and mid-cap value	12	12	5% – 15%
Small and mid-cap growth	7	7	5% – 15%
International	10	13	5% – 20%
Real estate	4	3	0% – 5%
Fixed income	17	20	15% – 40%
Commodities	—	—	0% – 10%
Private equity and hedge funds	7	5	0% – 10%
Cash and cash equivalents	5	8	0% – 10%
Total	<u>100%</u>	<u>100%</u>	

DU invests in a diversified portfolio of equity and fixed income securities designed to maximize returns while minimizing risk associated with return volatility. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and in consultation with both DU's investment consultant and Finance Committee. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies. In addition, the target asset allocation is periodically reviewed and adjusted by the Finance Committee as appropriate. DU makes annual contributions to the plan, which are allocated to the asset categories based on the target allocations over a period of time. Accordingly, the actual asset allocation may vary from the target allocation.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

The fair values of DU's pension plan assets at June 30, 2012 and 2011 and by asset category are as follows:

2012				
Fair value measurements using				
	Level 1	Level 2	Level 3	Total
Equities:				
Large-cap value	\$ 8,931,098	—	—	8,931,098
Large-cap growth	9,805,065	—	—	9,805,065
Small and mid-cap value	6,058,843	—	—	6,058,843
Small and mid-cap growth	3,549,776	—	—	3,549,776
International	5,071,204	—	—	5,071,204
Real estate	2,082,359	—	—	2,082,359
Fixed income	8,625,039	—	—	8,625,039
Private equity	—	—	148,391	148,391
Hedge funds	—	—	3,333,596	3,333,596
Cash and cash equivalents	2,281,407	—	—	2,281,407
	<u>\$ 46,404,791</u>	<u>—</u>	<u>3,481,987</u>	<u>49,886,778</u>
2011				
Fair value measurements using				
	Level 1	Level 2	Level 3	Total
Equities:				
Large-cap value	\$ 7,590,170	—	—	7,590,170
Large-cap growth	8,499,890	—	—	8,499,890
Small and mid-cap value	5,846,820	—	—	5,846,820
Small and mid-cap growth	3,375,976	—	—	3,375,976
International	6,301,560	—	—	6,301,560
Real estate	1,835,657	—	—	1,835,657
Fixed income	10,284,863	—	—	10,284,863
Private equity	—	—	144,318	144,318
Hedge funds	—	—	2,137,902	2,137,902
Cash and cash equivalents	4,169,715	—	—	4,169,715
	<u>\$ 47,904,651</u>	<u>—</u>	<u>2,282,220</u>	<u>50,186,871</u>

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

The following table sets forth a summary of changes in the fair value of DU's pension plan Level 3 assets for the year ended June 30, 2012:

	Private equity	Hedge funds
Beginning balance at June 30, 2010	\$ 106,656	569,523
Total net gains (realized and unrealized)	16,151	705,610
Net contributions	21,511	862,769
Ending balance at June 30, 2011	144,318	2,137,902
Total net gains (losses) (realized and unrealized)	1,344	(512,613)
Net contributions	2,729	1,708,307
Ending balance at June 30, 2012	\$ 148,391	3,333,596

Net periodic pension and postretirement benefit cost, based on actuarial evaluations, comprised the following components for the years ended June 30:

	Pension		Postretirement medical and life	
	2012	2011	2012	2011
Service cost	\$ 2,329,956	2,330,190	52,962	59,320
Interest cost	2,805,420	2,642,577	86,157	110,540
Expected return on plan assets	(3,849,367)	(3,647,227)	—	—
Amortization of prior service cost (credit)	125,515	125,515	(1,870,690)	(1,870,690)
Amortization of net actuarial loss	1,509,051	1,256,511	554,693	512,891
	\$ 2,920,575	2,707,566	(1,176,878)	(1,187,939)

At June 30, 2012, the items not yet recognized as a component of net periodic expense, but which have been recognized in the accompanying combined financial statements as a reduction to net assets, were as follows:

	Pension	Postretirement medical and life
Prior service cost (credit)	\$ 458,587	(587,601)
Net actuarial loss	35,346,461	959,280
	\$ 35,805,048	371,679

The June 30, 2012 balance of net prior service credit and net actuarial loss expected to be amortized in fiscal 2013 is approximately (\$390,000) and \$3,211,000, respectively.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

Estimated future benefit payments, which have been adjusted to reflect the effect of future service costs, were as follows as of June 30, 2012:

	<u>Pension</u>	<u>Postretirement medical and life</u>
Year ending June 30:		
2013	\$ 4,567,000	589,000
2014	4,003,000	570,000
2015	3,455,000	485,000
2016	3,549,000	218,000
2017	3,821,000	161,000
2018 – 2022	20,514,000	405,000

DU anticipates contributing \$3,000,000 to the Pension Plan and \$589,000 to the Postretirement Medical and Life Plans during the fiscal year ending June 30, 2012.

Other Plans

On January 1, 2000, DU offered a defined contribution retirement plan (the 401(k) Plan) that covers all employees. Employer matching contributions to the 401(k) Plan were approximately \$1,106,000 and \$1,079,000 for the years ended June 30, 2012 and 2011, respectively.

In addition to the retirement plans discussed above, DU has entered into other nonqualified retirement agreements that provide for increased benefits for certain individuals. DU accrues the expense for these agreements over the estimated service period based on the net present value of future benefits.

The components of the pension and deferred compensation accrual balance were as follows as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Nonqualified retirement obligations	\$ 1,883,582	1,802,410
Unfunded Pension Plan liabilities	19,488,400	7,328,175
	<u>\$ 21,371,982</u>	<u>9,130,585</u>

(11) Commitments and Contingencies

(a) Leases

DU leases office space under various operating leases. Rent expense for all operating leases was approximately \$755,000 and \$688,000 for the years ended June 30, 2012 and 2011, respectively.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

Future minimum payments, by year and in the aggregate, under noncancelable operating leases with terms of one year or more at June 30, 2012, approximate:

Year ending June 30:		
2013	\$	671,000
2014		610,000
2015		516,000
2016		363,000
Thereafter		456,000
		<u>456,000</u>
	\$	<u>2,616,000</u>

The land upon which DU's headquarters building in Memphis, Tennessee is constructed is leased under a long-term agreement. Lease payments are \$1 per year and the agreement has been extended another 10 years with a maturity date of August 14, 2021. DU has the right to extend this agreement for up to two additional 10-year terms.

(b) Litigation

DU is a party to certain litigation and claims in the normal course of conducting its business, some of which involve amounts that are significant. Management believes, based in part on consultation with legal counsel, that the ultimate resolution of these matters will not have a material effect on the accompanying combined financial statements.

(12) Allocation of Joint Costs

DU conducted events that included conservation education and appeals for contributions that incurred joint costs of approximately \$16,354,000 and \$15,377,000 for the years ended June 30, 2012 and 2011, respectively, which were allocated as follows:

	<u>2012</u>	<u>2011</u>
Fund-raising	\$ 8,995,000	9,226,000
Conservation education	7,359,000	6,151,000
Total	\$ <u>16,354,000</u>	<u>15,377,000</u>

(13) Conservation Easements

In addition to holding land for conservation purposes, DU (through its affiliate WAT) also secures conservation easements, deed restrictions, and management agreements on properties. Easement values represent the difference in the appraised value of the property immediately before and after the conservation easements are imposed on the property.

Easement values have been determined by independent third-party appraisals at the time the easement is secured. As discussed in note 2, DU recognizes equal amounts of unrestricted revenues and program expense at the time the easement is secured.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

Conservation easement activity during the years ended June 30, 2012 and 2011 was as follows:

	<u>2012</u>		<u>2011</u>	
	<u>Acres</u>	<u>Value at date of easement</u>	<u>Acres</u>	<u>Value at date of easement</u>
Conservation easements secured during the year ended June 30	16,478	\$ 23,664,265	6,839	\$ 8,040,457
Total conservation easements held as of June 30	362,560	577,334,277	346,082	553,670,012

(14) Restricted Nets Assets

The components of restricted net assets were as follows at June 30:

	<u>2012</u>		<u>2011</u>	
	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Pledges receivable, net	\$ 25,452,253	—	21,552,434	—
Net assets restricted for conservation purposes	39,017,597	—	44,427,315	—
Unappropriated net endowment earnings	1,813,909	—	2,361,701	—
Endowments	—	11,712,348	—	10,828,841
	<u>\$ 66,283,759</u>	<u>11,712,348</u>	<u>68,341,450</u>	<u>10,828,841</u>

Pledge receivables are subject to time and purpose restrictions. Net assets restricted for conservation purposes represent funds received for specific conservation projects for which the related conservation work has not yet been performed. Endowment corpus represents contributions subject to permanent purpose restrictions, the earnings from which are primarily to be used for a variety of conservation-related purposes.

(15) Endowment Funds

DU's endowment consists of numerous individual donor gifts, which are grouped into nine funds based on the donor restriction, and does not include any funds designated by the Board of Directors to function as endowments.

Based on the interpretation of UPMIFA by the Board of Directors of DU, and absent explicit donor stipulations to the contrary, DU classifies the original value of gifts donated to the permanent endowment, as well as accumulations to the permanent endowment made at the direction of the donor, as permanently restricted net assets.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

The remaining portion of donor-restricted endowment funds not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by DU's Board of Directors in a manner consistent with the standard of prudence prescribed by UPMIFA.

DU 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. DU's current policy is to appropriate for distribution each year 3% of its endowment funds' fair value as of the calendar year-end preceding the fiscal year in which the distribution is planned. Accordingly, endowment assets are invested in a manner that is intended to produce long-term growth sufficient to fund current targeted spending appropriation levels and to maintain the purchasing power of the endowment while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives for endowments, DU 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). DU targets a diversified asset allocation that places emphasis on investments in equities (approximately 75% weighting) and bond strategies (approximately 25% weighting) to achieve its long-term return objectives within prudent risk constraints.

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's original value. Deficiencies of this nature are reported in unrestricted net assets. These deficiencies resulted principally from unfavorable market fluctuations. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2012 and 2011

Endowment net assets and changes therein as of and for the years ended June 30, 2012 and 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2010	\$ (342,013)	674,527	10,207,558	10,540,072
Investment return:				
Interest and dividends	34,882	194,601	—	229,483
Net appreciation	307,131	1,713,410	—	2,020,541
Contributions	—	—	621,283	621,283
Appropriation for expenditure	—	(220,837)	—	(220,837)
Endowment net assets, June 30, 2011	—	2,361,701	10,828,841	13,190,542
Investment return:				
Interest and dividends	—	183,667	—	183,667
Net appreciation	—	(444,658)	—	(444,658)
Contributions	—	—	883,507	883,507
Appropriation for expenditure	—	(286,801)	—	(286,801)
Endowment net assets, June 30, 2012	\$ <u>—</u>	<u>1,813,909</u>	<u>11,712,348</u>	<u>13,526,257</u>

(16) Subsequent Event: Suspension of Future Pension Plan Benefit Accruals

On September 15, 2012, the Board of Directors of the Organization approved a plan for the suspension of future Pension Plan benefit accruals (“freeze”) after December 31, 2012. The Organization will provide as a replacement benefit certain enhanced future benefits under its existing defined contribution retirement plan. As a result of the plan to freeze these defined benefits, the Organization estimates that the Pension Plan’s projected benefit obligation would be reduced by approximately \$8.5 million, with a similar increase to unrestricted net assets through pension and postretirement benefit liability adjustments other than net periodic costs. Prior service costs of \$458,587 are expected to be recognized into expense as a one-time special curtailment charge in the year ended June 30, 2013. DU has not yet evaluated the effects of the freeze on future expected Pension Plan contributions. Employer contributions to the 401(k) plan under the enhanced benefit are estimated to increase by approximately \$900,000 for the year ended June 30, 2013, and approximately \$1,800,000 on an annualized basis. Prior to the freeze, net periodic pension cost for the year ended June 30, 2013 was projected to approximate \$4.3 million. The freeze is expected to result in an approximately \$1.6 million net reduction in net periodic pension cost for the year ended June 30, 2013, with a reduction of approximately \$4 million on an annualized basis.