

**BAT CONSERVATION
INTERNATIONAL, INC.**

**Consolidated Financial Statements
and Supplemental Information
for the Year Ended May 31, 2012 and
Independent Auditors' Report**

BAT CONSERVATION INTERNATIONAL, INC.

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS:	
Consolidated Statements of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statements of Cash Flows	5
Consolidated Statement of Functional Expenses	6
Notes to Consolidated Financial Statements	7
SUPPLEMENTAL INFORMATION:	
Supplemental Consolidating Statement of Financial Position	17
Supplemental Consolidating Statement of Activities	18



MAXWELL LOCKE & RITTER LLP

Accountants and Consultants

An Affiliate of CPAmerica International

tel (512) 370 3200 fax (512) 370 3250
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100
Austin, TX 78701

Round Rock: 303 East Main Street
Round Rock, TX 78664

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Bat Conservation International, Inc.:

We have audited the accompanying consolidated statements of financial position of Bat Conservation International, Inc. and its affiliate, Bat Conservation International Foundation (collectively, "BCON") as of May 31, 2012 and 2011, the related consolidated statements of activities and functional expenses for the year ended May 31, 2012 and the consolidated statements of cash flows for the years ended May 31, 2012 and 2011. These consolidated financial statements are the responsibility of BCON's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The prior year summarized comparative information in the consolidated statements of activities and functional expenses has been derived from BCON's May 31, 2011 consolidated financial statements and, in our report dated September 8, 2011, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BCON as of May 31, 2012 and 2011, the changes in its net assets for the year ended May 31, 2012, and its cash flows for the years ended May 31, 2012 and 2011 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, the fiscal year 2011 financial statements have been restated and an adjustment has been made to net assets to correct errors in classification of net assets. There was no impact on total net assets.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the supplemental consolidating statements of financial position and activities is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Maxwell Locke + Ritter LLP

September 20, 2012

BAT CONSERVATION INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION MAY 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,127,088	\$ 825,744
Accounts receivable	353,466	481,114
Grants receivable	243,749	248,182
Inventory	20,922	36,621
Prepaid expenses	16,646	2,032
Total current assets	<u>1,761,871</u>	<u>1,593,693</u>
PROPERTY AND EQUIPMENT, net	1,937,704	1,986,865
INVESTMENTS	798,097	919,791
GRANTS RECEIVABLE, long-term portion	200,000	100,000
TOTAL ASSETS	<u><u>\$ 4,697,672</u></u>	<u><u>\$ 4,600,349</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 130,156	\$ 98,697
Accrued expenses	123,040	149,189
Deferred revenues	72,169	23,947
Founder's retirement obligation, current portion	38,754	116,206
Tenant deposit and prepaid rent	32,523	15,538
Grants payable	25,850	13,787
Total current liabilities	<u>422,492</u>	<u>417,364</u>
FOUNDER'S RETIREMENT OBLIGATION, long-term portion	-	38,736
Total liabilities	<u>422,492</u>	<u>456,100</u>
NET ASSETS:		
Unrestricted	1,166,355	1,201,358
Temporarily restricted	1,006,467	840,533
Permanently restricted	2,102,358	2,102,358
Total net assets	<u>4,275,180</u>	<u>4,144,249</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,697,672</u></u>	<u><u>\$ 4,600,349</u></u>

See notes to consolidated financial statements.

BAT CONSERVATION INTERNATIONAL, INC.**CONSOLIDATED STATEMENT OF ACTIVITIES****YEAR ENDED MAY 31, 2012****(with summarized comparative totals for the year ended May 31, 2011)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2011 Total</u>
REVENUES:					
Grant revenue	\$ 303,918	1,068,647	-	1,372,565	1,022,019
Contributions	651,695	534,352	-	1,186,047	1,008,641
Contract services revenue	889,411	-	-	889,411	1,285,173
Membership revenue	761,765	-	-	761,765	729,076
Education and workshops revenue	55,329	6,252	-	61,581	116,438
Rental income	48,797	-	-	48,797	50,270
Royalty income	8,983	-	-	8,983	10,997
Catalog sales, net of costs	8,884	-	-	8,884	18,593
Investment (loss) income, net	76,010	(88,437)	-	(12,427)	167,144
Other revenue	25,710	1,700	-	27,410	25,259
Net assets released from restrictions	1,356,580	(1,356,580)	-	-	-
Total revenues and net assets released from restrictions	<u>4,187,082</u>	<u>165,934</u>	<u>-</u>	<u>4,353,016</u>	<u>4,433,610</u>
EXPENSES:					
Science and conservation program expenses	2,138,695	-	-	2,138,695	2,638,512
Education program expenses	1,095,485	-	-	1,095,485	687,189
Fundraising and development	512,118	-	-	512,118	560,958
General and administrative	475,787	-	-	475,787	443,953
Total expenses	<u>4,222,085</u>	<u>-</u>	<u>-</u>	<u>4,222,085</u>	<u>4,330,612</u>
CHANGE IN NET ASSETS	(35,003)	165,934	-	130,931	102,998
NET ASSETS, beginning of year, as restated	<u>1,201,358</u>	<u>840,533</u>	<u>2,102,358</u>	<u>4,144,249</u>	<u>4,041,251</u>
NET ASSETS, end of year	<u>\$ 1,166,355</u>	<u>1,006,467</u>	<u>2,102,358</u>	<u>4,275,180</u>	<u>4,144,249</u>

See notes to consolidated financial statements.

BAT CONSERVATION INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED MAY 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 130,931	\$ 102,998
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	86,009	97,582
Net unrealized loss (gains) on investments	22,322	(110,411)
Change in assets and liabilities that provided (used) cash:		
Accounts receivable	127,648	(383,369)
Grants receivable	(195,567)	12,501
Inventory	115,699	7,405
Prepaid expenses	(14,614)	(1,618)
Accounts payable	31,459	(5,918)
Grants payable	12,063	(5,296)
Accrued expenses	(26,149)	699
Founder's retirement obligation	(116,188)	(112,356)
Deferred revenues	48,222	(54,399)
Tenant deposit and prepaid rent	16,985	(34,988)
Net cash provided by (used in) operating activities	<u>238,820</u>	<u>(487,170)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net sales of investments	99,372	48,097
Purchases of property and equipment	<u>(36,848)</u>	<u>(10,102)</u>
Net cash provided by investing activities	<u>62,524</u>	<u>37,995</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	301,344	(449,175)
CASH AND CASH EQUIVALENTS, beginning of year	<u>825,744</u>	<u>1,274,919</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,127,088</u>	<u>\$ 825,744</u>

See notes to consolidated financial statements.

BAT CONSERVATION INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MAY 31, 2012

(with summarized comparative totals for the year ended May 31, 2011)

	Science and Conservation	Education	Fundraising and Development	General and Administrative	Total	2011 Total
Salaries, wages and benefits	\$ 897,877	527,089	303,218	328,695	2,056,879	1,963,997
Consulting and professional fees	475,341	114,530	50,359	52,853	693,083	1,136,819
Grants to others and scholarships	216,013	166,758	75	-	382,846	105,967
Other operating expenses	110,380	146,675	38,623	51,345	347,023	255,981
Travel and related expenses	202,646	32,053	15,821	15,549	266,069	334,038
Office and occupancy	105,212	32,635	17,768	16,839	172,454	181,035
Telecommunications and postage	24,847	22,608	28,384	2,260	78,099	86,698
Printing and publication	3,385	44,680	13,510	157	61,732	66,783
Hospitality and member benefits	10,286	1,528	39,170	4,577	55,561	45,942
Habitat projects	22,300	14	10	6	22,330	55,770
Total expenses before depreciation	2,068,287	1,088,570	506,938	472,281	4,136,076	4,233,030
Depreciation expense	70,408	6,915	5,180	3,506	86,009	97,582
Total	<u>\$ 2,138,695</u>	<u>1,095,485</u>	<u>512,118</u>	<u>475,787</u>	<u>4,222,085</u>	<u>4,330,612</u>

See notes to consolidated financial statements.

BAT CONSERVATION INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED MAY 31, 2012 AND 2011

1. ORGANIZATION

Bat Conservation International, Inc. (“BCI”) is a non-profit organization formed to promote bat conservation worldwide, educate the public, and foster public awareness of the ecological impact and importance of bat species. BCI was originally incorporated in 1982 in the state of Wisconsin and was reincorporated in the state of Texas during 1991. BCI’s conservation efforts focus predominately on protection of key bat habitats, especially those required for roosting and feeding. BCI also places major emphasis on education through its public lectures and the development of distribution of books, slide shows, videos, and exhibits. BCI’s focus on research, through financial scholarships for students and professionals, is equally important. Revenue to support those programs is derived primarily from contracts, grants and donations from individuals, foundations, corporations, and organizational memberships. Grants from state and federal governments supplement public support.

A separate trust, Bat Conservation International Foundation (the “Foundation”) was created by the Board of Trustees of BCI in 1990. The income from the Foundation is devoted solely to the programs and purposes of BCI. The Board of Trustees of BCI elects the Board of Trustees for the Foundation. The Foundation’s Board of Trustees maintains discretion over the investment of the funds. Accordingly, the consolidated financial statements include the accounts of BCI and the Foundation and are collectively referred to as BCON. All intercompany transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as defined by the Financial Accounting Standards Board Accounting Standards Codification. Net assets and revenues, expenses, gains, and losses are classified based on the existence of donor-imposed restrictions. Accordingly, net assets of BCON and changes therein are classified and reported as follows:

Unrestricted net assets - These types of net assets are not subject to donor-imposed stipulations. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Temporarily restricted net assets - These types of net assets are subject to donor imposed stipulations, which limit their use by BCON to a specific purpose and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - These types of net assets are subject to donor-imposed stipulations, which require them to be maintained permanently by BCON. Generally, the donors of these assets permit BCON to use all or part of the income earned on any related investments for general or specific use. In addition to the corpus of the endowment funds, permanently restricted net assets include the value of donor contributions totaling \$1,522,792 that were restricted for the purchase and permanent conservation of the bat habitat at Bracken Cave.

Accounting Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents - BCON considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments - Investments in equity and debt securities are reported at their fair values based on quoted market prices in the consolidated statement of financial position. The investment in the closely-held stock is recorded at fair value based on its audited financial statements. Realized gains or losses on the sale of securities are based on specific identification of the cost of securities sold. Unrealized and realized gains and losses are included in the consolidated statement of activities.

Fair Value Measurements - 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. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 - Inputs based on quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.
- Level 3 - Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value: 1) market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities, 2) cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost), and 3) income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Accounts Receivable - Accounts receivable are recorded at the amount BCON expects to collect on outstanding balances. BCON has not set up an allowance for uncollectible receivables at May 31, 2012 and 2011 because management estimates all balances to be collectible. Management closely monitors outstanding balances and write offs.

Grants Receivable - Grants receivable are recognized as grant revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Grants receivable are recorded at net realizable value if expected to be collected in one year and at the present value of their estimated future cash flows if expected to be collected in more than one year. Conditional promises to give are recognized when the condition on which they depend is substantially met.

Inventory - Inventory consists of merchandise sold through catalog sales and is stated at the lower of cost or market determined by the first-in, first-out method.

Property and Equipment - Purchases of property and equipment are capitalized at cost if purchased and at fair market value at the date of receipt if donated. BCON capitalizes all acquisitions in excess of \$1,000 with a useful life greater than one year. Depreciation is computed using the straight-line method and the following estimated useful lives:

Buildings	33 years
Property improvements	10-15 years
Vehicles	5 years
Furniture and equipment	3-5 years

Grant Revenue Recognition - Revenue from grants received from federal, state, and local governments are earned based on BCON incurring allowable costs or providing services. Therefore, revenue is recognized as those costs are incurred or the services are provided. Revenue from grants received from private donors is recognized as earned based on grant specifications or as unconditional contributions if no grant specifications exist.

Contract Services Revenue - Contract services revenues are earned and recognized when the contract services have been provided.

Education and Workshops Revenue and Deferred Revenue - Education and workshops revenue is earned and recognized when the event, seminar or workshop has been held. Deferred revenue consists of cash that has been received for future events or workshops and will be recognized once the event has taken place.

Contributions - All contributions are recorded at their fair value and are considered to be available for operations of BCON unless specifically restricted by the donor. Unconditional pledges to give cash and other assets are reported as either temporarily or permanently restricted net assets, if they are received with donor stipulations that limit the use of donated assets. When donor restrictions expire, that is, when a stipulated time restriction ends or restricted purpose is accomplished, the related temporarily restricted net assets are reclassified to unrestricted net assets. This is reported in the consolidated statement of activities and change in net assets as net assets released from restrictions. Conditional pledges to give are recognized only when the conditions on which they depend are substantially met and the pledges become unconditional.

Functional Allocation of Expenses - The costs of providing the various programs and supporting services have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising - Advertising costs are expensed when incurred. Advertising expense was \$92,133 and \$2,169 for the years ended May 31, 2012 and 2011, respectively.

Federal Income Taxes - BCI and the Foundation are exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), except to the extent of unrelated business income, if any. No provision for income taxes was made in the accompanying consolidated financial statements. BCI and the Foundation are considered to be tax-exempt organizations other than private foundations.

Summarized Comparative Totals - The consolidated statements of activities and functional expenses include prior year summarized comparative information in total, but not by net asset class or functional category; therefore such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunctions with BCON's consolidated financial statements for the year ended May 31, 2011, from which the summarized information was derived.

Reclassifications - Certain amounts in the prior year have been reclassified to conform to the presentation adopted in the current year.

3. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject BCON to credit risk consist of cash and cash equivalents, investments, and grants receivable. BCON places its cash and cash equivalents with a limited number of high quality financial institutions and may exceed the amount of insurance provided on such deposits. Management believes no significant risk exists with respect to cash and cash equivalents. Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the consolidated statement of financial position. BCON does not maintain collateral for its accounts receivable and does not believe significant risk exists. Concentrations of credit risk with respect to grants receivables are limited due to the number of donors comprising BCON's donor base and their dispersion across different geographic areas. At May 31, 2012, the balances due from four donors represented 73% of the total receivables balance. At May 31, 2011, the balance due from five donors represented 84% of the total receivables balance.

4. GRANTS RECEIVABLE

Included in grants receivable were the following unconditional promises to give:

	<u>2012</u>	<u>2011</u>
Amounts due in:		
Less than one year	\$ 200,000	\$ 200,000
One to five years	<u>200,000</u>	<u>100,000</u>
Total	<u>\$ 400,000</u>	<u>\$ 300,000</u>

The present value discount of estimated future cash flows was not significant. Therefore, a present value discount was not recorded. Management has determined that the grants receivable are fully collectible; therefore, no allowance for uncollectable grants receivable was recorded at May 31, 2012 and 2011.

Grants receivable are classified as level 3 in accordance with the fair value accounting hierarchy and have been valued using an income approach as follows:

	2012	2011
Balance, June 1	\$ 300,000	\$ 200,000
New grants	300,000	300,000
Payments on grants	(200,000)	(200,000)
Balance, May 31	<u>\$ 400,000</u>	<u>\$ 300,000</u>

5. INVESTMENTS

Investments consisted of the following at May 31, 2012:

	Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic equities	\$ 434,695	\$ 434,695	\$ -	\$ -
International equities	120,094	120,094	-	-
Government agencies	85,493	85,493	-	-
Mortgage-backed securities	4,815	4,815	-	-
Closely-held stock	153,000	-	-	153,000
Total Investments	<u>\$ 798,097</u>	<u>\$ 645,097</u>	<u>\$ -</u>	<u>\$ 153,000</u>

Investments consisted of the following at May 31, 2011:

	Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic equities	\$ 543,514	\$ 543,514	\$ -	\$ -
International equities	171,337	171,337	-	-
Government agencies	113,366	113,366	-	-
Mortgage-backed securities	5,974	5,974	-	-
Closely-held stock	85,600	-	-	85,600
Total Investments	<u>\$ 919,791</u>	<u>\$ 834,191</u>	<u>\$ -</u>	<u>\$ 85,600</u>

All investments were valued using the market approach. Investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) were as follows for the years ended May 31:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 85,600	\$ 85,600
Total gains or losses (realized/unrealized)	67,400	-
Purchases (sales)	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 153,000</u>	<u>\$ 85,600</u>

Investment (loss) income consisted of the following for the years ended May 31:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 25,919	\$ 18,912
Net realized (losses) gains	(16,024)	37,821
Net unrealized (losses) gains	<u>(22,322)</u>	<u>110,411</u>
Investment (loss) income	<u>\$ (12,427)</u>	<u>\$ 167,144</u>

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at May 31:

	<u>2012</u>	<u>2011</u>
Real property and improvements (bat habitat)	\$ 1,809,520	\$ 1,809,520
Buildings and improvements	634,567	634,567
Furniture and equipment	498,404	501,660
Vehicles	<u>38,400</u>	<u>26,748</u>
	2,980,891	2,972,495
Accumulated depreciation	<u>(1,043,187)</u>	<u>(985,630)</u>
Property and equipment, net	<u>\$ 1,937,704</u>	<u>\$ 1,986,865</u>

The bat habitat at Bracken Cave includes depreciable improvements for land clearing, fencing, roads and water wells with a value of \$280,000 at May 31, 2012 and 2011. Total accumulated depreciation related to these improvements was \$188,158 and \$162,297 at May 31, 2012 and 2011, respectively.

7. ENDOWMENTS

BCON's endowments consist solely of two donor restricted funds established for science and conservation and education. The Board of Trustees of BCI and the Foundation interpret the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Permanently restricted net assets are classified at the original value of gifts donated to the permanent endowment, plus the original value of subsequent gifts to the permanent endowment. Also included are accumulations to the permanent endowment if directed by the donor gift instrument. The remaining portion of the donor restricted endowment fund is classified as temporarily restricted net assets until those funds are appropriated for expenditure by BCON in a manner consistent with the standard of prudence prescribed by UPMIFA.

BCON has 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. Under the investment policy approved by the Board of Trustees the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results as stated in BCON's policy while assuming a moderate level of investment risk. BCON expects its endowment funds, over time, to provide an average rate of return of approximately 3 percent over the Consumer Price Index ("CPI") annually. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, BCON relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). BCON targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

BCON has a policy of appropriating for distribution each year no more than 5 percent of its endowment fund's fair value through the fiscal year in which the distribution is planned based on the distribution policy. In establishing this policy, BCON considered the long-term expected return on its endowment. Accordingly, over the long term, BCON expects the current spending policy to allow its endowment to grow at an average of 5 percent annually. This is consistent with BCON's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets were as follows for the years ended May 31, 2012 and 2011:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2010	\$ 120,927	\$ 579,566	\$ 700,493
Investment income	154,602	-	154,602
Prior period adjustment	21,016	-	21,016
Endowment net assets, May 31, 2011, as restated	296,545	579,566	876,111
Investment income	(88,437)	-	(88,437)
Appropriated for expense	(8,100)	-	(8,100)
Endowment net assets, May 31, 2012	<u>\$ 200,008</u>	<u>\$ 579,566</u>	<u>\$ 779,574</u>

A description of amounts classified as permanently and temporarily restricted net assets (endowments only) as of May 31 is as follows:

	<u>2012</u>	<u>2011</u>
Permanently Restricted Net Assets-		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA with the following purpose restrictions:		
Science and conservation	\$ 199,779	\$ 199,779
Education	<u>379,787</u>	<u>379,787</u>
	<u>\$ 579,566</u>	<u>\$ 579,566</u>
Temporarily Restricted Net Assets-		
The portion of perpetual endowment funds subject to a restriction under UPMIFA with the following purpose restrictions:		
Science and conservation	\$ 68,944	\$ 102,220
Education	<u>131,064</u>	<u>194,325</u>
	<u>\$ 200,008</u>	<u>\$ 296,545</u>

8. IN-KIND DONATIONS

Donated services are recognized as contributions if the services (1) create or enhance non-financial assets, or (2) require specialized skills, are performed by people with those skills, and would otherwise be purchased by BCON. Under those criteria, donated professional services and materials are reflected as contribution revenue at their estimated fair value at the date of receipt and are expensed or capitalized as appropriate. BCON received the following in-kind donations included in the statements of activities during the years ended May 31:

	<u>2012</u>	<u>2011</u>
Science and conservation:		
Donated services including professional fees, advertising, travel, and rental fees	\$ 193,496	\$ 94,110
Donated materials	<u>9,996</u>	<u>1,540</u>
Total in-kind donations	<u>\$ 203,492</u>	<u>\$ 95,650</u>

In addition, many individuals volunteer their time and perform a variety of tasks that assist BCON with their programs. Volunteers donated approximately 2,100 and 3,500 hours during the years ended May 31, 2012 and 2011, respectively, that did not meet the recognition criteria and thus their value was not recorded in the consolidated financial statements.

9. RETIREMENT PLAN

BCI maintains a contributory benefit plan, which covers all employees of BCI with six months of service. Employees may make contributions to the plan up to the maximum allowable by law. BCI will make a matching contribution to the plan equal to 50% of the employee's contribution up to 3% of their base salary. BCI made contributions to the plan of approximately \$38,000 and \$31,000 during the years ended May 31, 2012 and 2011, respectively.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at May 31 were restricted for the following purposes:

	<u>2012</u>	<u>2011</u>
International programs	\$ 118,137	\$ -
Education programs	76,340	69,587
Wind programs	68,753	73,441
Subterranean programs	34,397	91
Granting programs	31,706	25,869
White nose syndrome programs	30,806	-
Bat habitat at Bracken Cave	29,534	-
Water programs	16,786	75,000
Endowment earnings	200,008	296,545
Subsequent periods	400,000	300,000
	<u>\$ 1,006,467</u>	<u>\$ 840,533</u>

11. RELATED PARTY TRANSACTIONS

Board of Trustees members contributed approximately \$19,000 and \$17,000 during the years ended May 31, 2012 and 2011, respectively. Board trustees' family foundations and family members contributed a total of \$166,000 and \$405,000 during the years ended May 31, 2012 and 2011, respectively.

12. FOUNDER'S RETIREMENT OBLIGATION

Future payments under the terms of the agreement including estimated payroll taxes are \$38,754 for the year ended May 31, 2013.

13. PRIOR PERIOD ADJUSTMENT

The previously issued financial statements have been restated to correct errors in classification of net assets, predominantly related to two items. One item was the reclassification to permanently restricted of the value of donor contributions of \$1,522,792 that were permanently restricted for the purchase and permanent conservation of the bat habitat at Bracken Cave. The other item was the reclassification to temporarily restricted of \$300,000 of grant payments promised for subsequent periods. There was no impact on total net assets. Unrestricted, temporarily restricted and permanently restricted net assets were corrected as follows as of May 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Previously reported balance	\$ 1,887,533	\$ 1,677,150	\$ 579,566	\$ 4,144,249
Reclassification adjustment	<u>(686,175)</u>	<u>(836,617)</u>	<u>1,522,792</u>	<u>-</u>
Balances as restated	<u>\$ 1,201,358</u>	<u>\$ 840,533</u>	<u>\$ 2,102,358</u>	<u>\$ 4,144,249</u>

14. SUBSEQUENT EVENTS

BCON has evaluated subsequent events through September 20, 2012 (the date that the consolidated financial statements were available to be issued), and no events have occurred from the consolidated statement of financial position date through that date that would impact the consolidated financial statements.

SUPPLEMENTAL INFORMATION

BAT CONSERVATION INTERNATIONAL, INC.

SUPPLEMENTAL CONSOLIDATING STATEMENT OF FINANCIAL POSITION MAY 31, 2012

	BCI	Foundation	Total	2011 Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 992,611	134,477	1,127,088	825,744
Accounts receivable	353,466	-	353,466	481,114
Grants receivable, current portion	243,749	-	243,749	248,182
Inventory	20,922	-	20,922	36,621
Prepaid expenses	16,646	-	16,646	2,032
Total current assets	1,627,394	134,477	1,761,871	1,593,693
PROPERTY AND EQUIPMENT, net	1,937,704	-	1,937,704	1,986,865
INVESTMENTS	153,000	645,097	798,097	919,791
GRANTS RECEIVABLE, long-term portion	200,000	-	200,000	100,000
TOTAL ASSETS	\$ 3,918,098	779,574	4,697,672	4,600,349
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 130,156	-	130,156	98,697
Accrued expenses	123,040	-	123,040	149,189
Deferred revenues	72,169	-	72,169	23,947
Founder's retirement obligation, current portion	38,754	-	38,754	116,206
Tenant deposit and prepaid rent	32,523	-	32,523	15,538
Grants payable	25,850	-	25,850	13,787
Total current liabilities	422,492	-	422,492	417,364
FOUNDER'S RETIREMENT OBLIGATION, long-term portion	-	-	-	38,736
Total liabilities	422,492	-	422,492	456,100
NET ASSETS:				
Unrestricted	1,166,355	-	1,166,355	1,201,358
Temporarily restricted	806,459	200,008	1,006,467	840,533
Permanently restricted	1,522,792	579,566	2,102,358	2,102,358
Total net assets	3,495,606	779,574	4,275,180	4,144,249
TOTAL LIABILITIES AND NET ASSETS	\$ 3,918,098	779,574	4,697,672	4,600,349

BAT CONSERVATION INTERNATIONAL, INC.

SUPPLEMENTAL CONSOLIDATING STATEMENT OF ACTIVITIES YEAR ENDED MAY 31, 2012

	<u>BCI</u>	<u>Foundation</u>	<u>Total</u>	<u>2011 Total</u>
REVENUES:				
Grant revenue	\$ 1,372,565	-	1,372,565	1,022,019
Contributions	1,186,047	-	1,186,047	1,008,641
Contract services revenue	889,411	-	889,411	1,285,173
Membership revenue	761,765	-	761,765	729,076
Education and workshops revenue	61,581	-	61,581	116,438
Rental income	48,797	-	48,797	50,270
Royalty income	8,983	-	8,983	10,997
Catalog sales, net of costs	8,884	-	8,884	18,593
Investment (loss) income, net	76,010	(88,437)	(12,427)	167,144
Other revenue	27,410	-	27,410	25,259
Total revenues	<u>4,441,453</u>	<u>(88,437)</u>	<u>4,353,016</u>	<u>4,433,610</u>
EXPENSES:				
Science and conservation program expenses	2,138,695	-	2,138,695	2,638,512
Education program expenses	1,095,485	-	1,095,485	687,189
Fundraising and development	512,118	-	512,118	560,958
General and administrative	467,687	8,100	475,787	443,953
Total expenses	<u>4,213,985</u>	<u>8,100</u>	<u>4,222,085</u>	<u>4,330,612</u>
CHANGE IN NET ASSETS	227,468	(96,537)	130,931	102,998
NET ASSETS, beginning of year, as restated	<u>3,268,138</u>	<u>876,111</u>	<u>4,144,249</u>	<u>4,041,251</u>
NET ASSETS, end of year	<u>\$ 3,495,606</u>	<u>779,574</u>	<u>4,275,180</u>	<u>4,144,249</u>