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***Audubon Nature Institute,
Inc.***

***Financial Statements and Supplementary
Information for the Year Ended December 31,
2003 and Independent Auditors' Report***

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 9-8-04

AUDUBON NATURE INSTITUTE, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Audubon Nature Institute, Inc.:

We have audited the accompanying statement of financial position of Audubon Nature Institute, Inc. (the Institute), as of December 31, 2003, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Institute'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 Audubon Nature Institute's December 31, 2002 financial statements and, in our report dated April 25, 2003, 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 Institute as of December 31, 2003 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2004 on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

April 29, 2004

AUDUBON NATURE INSTITUTE, INC.

STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2003 AND 2002

ASSETS	2003	2002
Cash and cash equivalents	\$ 45,319	\$ 439,890
Accounts and grants receivable	681,641	1,767,286
Investments	22,839,101	20,603,677
Accrued interest receivable	5,259	1,971
Pledges receivable	3,002,036	4,425,468
Due from Audubon Commission	8,271,159	5,695,608
Prepays and other assets	69,954	63,236
Project design costs		2,803,295
Equipment less accumulated depreciation of \$139,165 in 2003 and \$120,228 in 2002	37,919	239,820
Restricted assets—LPFA bonds	<u>120,115</u>	<u>1,046,281</u>
TOTAL ASSETS	<u>\$35,072,503</u>	<u>\$37,086,532</u>
 LIABILITIES		
Accounts payable and accrued expenses	\$ 200,639	\$ 121,362
Accrued compensation	21,388	47,072
Lines of credit	500,000	2,100,000
Term loan	3,000,000	
LPFA bonds	<u>2,655,000</u>	<u>2,860,000</u>
 Total liabilities	<u>6,377,027</u>	<u>5,128,434</u>
 NET ASSETS:		
Unrestricted, including Board designated	7,239,491	7,912,313
Temporarily restricted	5,782,750	8,660,149
Permanently restricted	<u>15,673,235</u>	<u>15,385,636</u>
 Total net assets	<u>28,695,476</u>	<u>31,958,098</u>
 TOTAL LIABILITIES AND NET ASSETS	<u>\$35,072,503</u>	<u>\$37,086,532</u>

See notes to financial statements.

AUDUBON NATURE INSTITUTE, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2003, WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2002

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
				2003
				2002
REVENUE AND OTHER SUPPORT:				
Government grants	\$ 2,324,613	\$ 170,195	\$	\$ 2,494,808
Gifts, exhibit/program sponsorships	228,542	2,168,118	194,734	2,591,394
Realized and unrealized gains (losses) on securities—net	2,737,654		91,519	2,829,173
Investment income	7,679		624,255	631,934
Imputed interest on pledges		90,033		90,033
Fundraising activities	856,808			856,808
Net assets released from restrictions:				
Specific grants to the Audubon Commission for operations, support, education programs and capital projects	5,163,517	(5,163,517)		
Endowment income transferred to Audubon Commission funds	(383,307)		(622,423)	(1,005,730)
Total revenue and other support	10,935,506	(2,735,171)	288,085	8,488,420
				(482,688)
EXPENSES:				
Grant expense to the Audubon Commission	9,817,205			9,817,205
Development and fundraising activities	1,371,455			1,371,455
Termite education grant		121,590		121,590
Interest	94,904			94,904
Investment expenses	131,939		486	132,425
Other expenses	192,825	20,638		213,463
Project expenses				
Total expenses	11,608,328	142,228	486	11,751,042
CHANGE IN NET ASSETS	(672,822)	(2,877,399)	287,599	(3,262,622)
NET ASSETS—Beginning of year	7,912,313	8,660,149	15,385,636	31,958,098
NET ASSETS—End of year	\$ 7,239,491	\$ 5,782,750	\$ 15,673,235	\$ 28,695,476
				\$ 31,958,098

See notes to financial statements.

AUDUBON NATURE INSTITUTE, INC.

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2003, WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets for the year	\$ (3,262,622)	\$ (3,113,484)
Adjustments to reconcile change in net assets to cash (used in) provided by operations:		
Realized losses on investments	1,275,539	1,645,542
Unrealized (gains) loss on investments	(4,104,712)	1,392,901
Receipt of stock gifts	(8,030)	(23,549)
Imputed interest on pledges	(90,033)	85,221
New pledges recorded	(1,023,863)	(1,597,319)
Bad debt expense for pledges	95,856	
Depreciation	23,910	32,042
Pledge payments	2,441,472	4,490,813
Transfer of accumulated project design costs to Commission Accounts and grants receivable, due from Audubon Commission, and other assets	2,803,295	(2,468,201)
Accounts payable and other liabilities	(1,499,912)	(33,608)
	<u>53,593</u>	<u>(33,608)</u>
Net cash (used in) provided by operating activities	<u>(3,295,507)</u>	<u>410,358</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in museum project		(1,419,490)
Proceeds from sales or maturities of investments	9,569,341	6,065,973
Purchases of investments	(8,967,562)	(7,386,391)
Property additions		(194,979)
Transfers of fixed assets to Commission	177,991	
Restricted assets—net	<u>926,166</u>	<u>1,547,267</u>
Net cash provided by (used in) investing activities	<u>1,705,936</u>	<u>(1,387,620)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under lines of credit	3,900,000	5,875,000
Repayments under lines of credit	(5,500,000)	(4,775,000)
Borrowings under term loan	3,000,000	
Repayment of bonds	<u>(205,000)</u>	<u>(175,006)</u>
Net cash provided by financing activities	<u>1,195,000</u>	<u>924,994</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(394,571)	(52,268)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>439,890</u>	<u>492,158</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 45,319</u>	<u>\$ 439,890</u>

See notes to financial statements.

AUDUBON NATURE INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2003

1. DESCRIPTION OF THE ORGANIZATION

Audubon Nature Institute, Inc. (the Institute) is a nonprofit organization incorporated October 31, 1975. The Institute is exempt from income tax under Section 501(c)(3) of the United States Internal Revenue Code. The Institute manages and operates the Audubon Commission (the Commission) facilities located at the Audubon Zoo and Park, the Aquarium and Riverfront Park, the Species Survival Center, the Louisiana Nature Center and the Audubon Insectarium currently under construction (the Facilities) under contractual management agreements. Facility revenues and expenses (including salary expense) are recorded by each facility in accordance with these management agreements. The Facilities had combined operating revenues of \$28,918,000 for the year ended December 31, 2003 and combined total assets of \$159,460,000 at December 31, 2003.

The Institute obtains donations, gifts and grants, and conducts fundraising activities in furtherance of its exempt purpose. The revenues and net assets reflected in these financial statements are the result of these activities. Specific grants to the Audubon Commission consist of donations received and grants obtained by the Institute for operating support and capital improvements of the Facilities discussed above.

Audubon Nature Institute Foundation (the Foundation), a nonprofit organization exempt from income tax under Section 501(c)(3) of the United States Internal Revenue Code, was incorporated February 8, 1991 to raise funds to support the education programs and other activities managed by the Institute. Since the Institute and the Foundation are related through common mission, board representation and common management, the accompanying financial statements include the accounts of the Foundation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The fiscal 2003 financial statements presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*. Under SFAS No. 117, the Institute reports information regarding its financial position and activities according to three classes of net assets:

- **Unrestricted**—Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.
- **Temporarily Restricted**—Net assets whose use by the Institute is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the Institute pursuant to those stipulations such as completion of construction projects. In most cases, such actions require the expenditure of personnel effort or other costs before such assets can be released.
- **Permanently Restricted**—Net assets whose use by the Institute is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Institute.

The Institute reports gifts of cash and other assets as restricted support if they are received with donor imposed restrictions or requirements that limit the use of the donation. A donor restriction ends when a time restriction is met or a purpose restriction is accomplished. As restrictions are met, assets are reclassified to unrestricted net assets or permanently restricted net assets. The permanently restricted classification is also referred to as an endowment fund. Earnings from these assets are periodically transferred to the Commission's operating fund.

The financial information shown for fiscal 2002 in the accompanying financial statements is included to provide a basis for comparison with fiscal 2003 and presents summarized totals only.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments—Investments, as detailed below, are carried at fair value which was determined by reference to market information and published sources.

	2003	2002
Marketable equity securities	\$ 13,406,503	\$ 9,278,737
Fixed income securities	8,800,243	10,242,439
Money market accounts and investment cash	<u>632,355</u>	<u>1,082,501</u>
Total investments	<u>\$ 22,839,101</u>	<u>\$ 20,603,677</u>

Board designated assets are unrestricted funds that are invested on a pooled basis with permanently restricted assets in accordance with Board approved plans. These funds are collectively invested as the Foundation's endowment fund. Board designated net assets totaled approximately \$7,884,000 and \$4,959,000 as of December 31, 2003 and 2002, respectively.

Pledges Receivable and Contributions Received—The Institute recognizes contributions received as revenue in the period received and as assets, decreases in liabilities or expenses depending on the form of benefits received. Pledges receivable are recorded net of an allowance for uncollectible pledges and at net present value. A discount factor of 2.3% is applied to scheduled future pledge payments.

Equipment—Equipment is capitalized at cost and depreciated using the straight-line method over a period of five to ten years.

Statement of Cash Flows—For purposes of reporting cash flows, the Institute considers all investments and other short-term instruments with an original maturity of ninety days or less to be cash equivalents.

New Accounting Pronouncements— In November 2002, the FASB issued Interpretation (FIN) No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN No. 45 were effective for periods ending after December 15, 2002. The initial recognition and measurement requirements of FIN No. 45 were effective prospectively for guarantees issued or modified after December 31, 2002. The adoption of the accounting provisions of FIN No. 45 did not have a material effect on the Institute's financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 149 was effective for contracts entered into or modified after September 30, 2003. The adoption of SFAS No. 149 did not have a material effect on the Institute's financial position or results of operations.

3. PLEDGES RECEIVABLE

Unconditional promises of donors to make contributions to the Institute are included in the financial statements as pledges receivable and revenue of the temporarily restricted net asset class. Pledges are recorded after discounting future cash flows to the present value. Pledges receivable are expected to be realized in the following periods:

	2003	2002
In one year or less	\$ 1,544,135	\$ 1,697,553
Between one and five years	1,691,167	2,829,250
More than five years	<u>20,000</u>	<u>145,000</u>
	3,255,302	4,671,803
Less discount and allowance for uncollectible pledges	<u>(253,266)</u>	<u>(246,335)</u>
Pledges receivable	<u>\$ 3,002,036</u>	<u>\$ 4,425,468</u>

Pledges receivable have the following restrictions:

	2003	2002
Specific capital projects	\$ 1,380,082	\$ 2,291,250
Education programs	33,694	87,000
Other—general capital and operating support	<u>1,588,260</u>	<u>2,047,218</u>
	<u>\$ 3,002,036</u>	<u>\$ 4,425,468</u>

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2003 and 2002 are available for the following purposes or periods:

	2003	2002
Pledges receivable for periods after year end	\$ 3,008,798	\$ 4,375,468
Capital projects at Audubon Zoo, Park, Insectarium & Aquarium of the Americas.	1,514,550	3,163,374
Education programs at the Zoo, Aquarium and Nature Center	334,249	91,895
Operating support for the Nature Center	67,800	75,190
Operating support for the Zoo	130,682	110,417
Operating support for Survival Center and Audubon Center for Research of Endangered Species	716,407	821,524
Other	<u>10,264</u>	<u>22,281</u>
Total temporarily restricted net assets	<u>\$ 5,782,750</u>	<u>\$ 8,660,149</u>

5. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of December 31, 2003 and 2002 must be invested in perpetuity, but the income from these investments is available to support the following:

	Permanently Restricted Net Assets		Income Transferred to	
	2003	2002	2003	2002
Aquarium of the Americas and Riverfront Park	\$ 5,305,599	\$ 5,305,599	\$ 207,103	\$ -
Survival Center/Research Center	8,411,082	8,411,082	300,000	300,000
Audubon Zoo and Park	892,909	698,342	64,638	62,742
Louisiana Nature Center	<u>1,063,645</u>	<u>970,613</u>	<u>52,514</u>	<u>52,500</u>
Total	<u>\$ 15,673,235</u>	<u>\$ 15,385,636</u>	<u>\$ 624,255</u>	<u>\$ 415,242</u>

6. RELATED PARTY TRANSACTIONS

The Institute and the Commission are related through interaction of their Boards of Directors and contractual management agreements under which the Institute manages and operates Commission facilities. As a result, these entities often engage in operations through one organization that benefits the other organization to achieve economies of scale. One example of this is the use of common or central bank accounts. At December 31, 2003 and 2002, the Institute's receivables from and payables to the Commission are summarized as follows:

	2003	2002
Due from Audubon Commission	<u>\$ 8,271,159</u>	<u>\$ 5,695,608</u>

Specific gifts and grants provided by the Institute to Commission facilities to pay operating expenses and fund certain capital projects for the years ended December 31, 2003 and 2002 are summarized below:

	2003	2002
Audubon Zoo and Park	\$ 2,434,976	\$ 1,579,843
Aquarium of the Americas and Riverfront Park	69,555	530,650
Survival Center/Research Center	2,021,541	1,788,587
Louisiana Nature Center	201,786	220,247
Insectarium	<u>5,089,347</u>	
Total	<u>\$ 9,817,205</u>	<u>\$ 4,119,327</u>

7. EMPLOYEE BENEFIT PLAN

The Institute has established a tax-deferred annuity plan for the benefit of all full-time employees. The plan provides for the purchase of annuities which qualify for tax deferral. Employees may participate on an optional basis by contributing between 2 percent and 15 percent of their salary, not to exceed \$10,500. The Institute matches employee contributions at a rate of 33 percent, up to 8 percent of base salary. Contributions are not subject to Federal income taxes and accumulate on a tax-deferred basis until withdrawn. The Institute's contributions amounted to approximately \$9,700 for 2003 and \$7,600 for 2002.

8. BANK LINES OF CREDIT

The Institute has unsecured revolving lines of credit with three commercial banks for \$1,000,000 each and standby letters of credit totaling \$3,166,639. Borrowings bear interest at the 30 day LIBOR plus 150 basis points (2.67% at December 31, 2003). The revolving credit notes expire in 2004 at which time renewal of the lines will be sought. The Institute does not believe there are any conditions that would change its ability to renew the notes. The letters of credit expire in 2006. The Institute had \$500,000 and \$2,100,000 outstanding under these revolving lines at December 31, 2003 and 2002, respectively.

9. TERM LOAN AND LPFA BONDS

The Institute borrowed \$3,060,000 under an Equipment and Capital Facilities Pooled Loan Program in connection with Revenue Bonds Series 2001B issued by the Louisiana Public Facilities Authority (LPFA). Under this arrangement, proceeds from the note were deposited into a separate project capital fund maintained on behalf of the Institute by a trustee (reflected as restricted assets in the accompanying statement of financial position). The restricted funds are released to cover the cost of certain defined capital projects as such project costs are incurred. As of December 31, 2003, approximately \$3,060,000 of such funds had been disbursed to cover the cost of certain capital projects in process and no amounts remained available for expenditure. Monthly principal payments of \$17,000 plus interest (at a floating weekly rate, 1.48% at December 31, 2003) are paid into a debt service fund under the arrangement based on a 15 year amortization; however, bond and interest payments are made to bondholders semi-annually. Amounts held in the escrow fund for payment by the trustee are included in restricted assets at December 31, 2003.

In December 2003, the Institute entered into a term loan with a commercial bank for \$3,000,000. The loan bears interest at 4.8% and is payable in monthly installments of \$56,339 of principal and interest beginning in January 2004. The loan is due on December 26, 2008 and is unsecured.

Future debt payments due under the above borrowings are as follows:

2004	\$ 747,934
2005	774,625
2006	802,625
2007	832,000
2008	862,816
Thereafter	<u>1,635,000</u>
Total	<u>\$ 5,655,000</u>

10. OTHER TRUSTS

The Institute and the University of New Orleans (the University) have established four funded trusts to support four endowed chairs at the University. Under an affiliation agreement with the University, the chairholders will conduct research at Audubon Center for Research of Endangered Species and discharge academic responsibilities at the University. These trusts were funded by private donations totaling \$2,400,000 and combined with \$1,600,000 in matching funds from the Louisiana Trust Fund for Eminent Scholars. This funding set up four \$1,000,000 chairs. The trust assets are not included as Audubon Nature Institute assets. Audubon and the University jointly benefit from trust distributions that fund the chairholders' research and academic responsibilities. At December 31, 2003 senior scientists working at Audubon Center for Research of Endangered Species occupied four chairs.

The Patrick F. Taylor Foundation created the Taylor/Audubon Students and Scholars program in which 7th-12th grade students across the state receive memberships to the Aquarium and/or Zoo if a qualifying grade point average is achieved. These one-year memberships allow each student and one parent to visit the facility at no charge. The trust fund is held at Greater New Orleans Foundation and the assets are not included as Institute assets; however the Institute receives all ordinary income from the trust. Amounts totaled approximately \$780,000 at December 31, 2003.

11. CONTINGENCIES

Certain claims and suits have been filed against the Institute. The majority of these claims are covered by insurance and, based on all available information and consultation with the Institute's legal counsel, management does not believe the ultimate resolution of these matters will have a significant effect on the Institute's financial position, results of operations, or cash flows.

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OMB CIRCULAR A-133 SUPPLEMENTAL REPORTS AND SCHEDULES

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Audubon Nature Institute, Inc.:

We have audited the financial statements of Audubon Nature Institute, Inc. (the Institute), as of and for the year ended December 31, 2003, and have issued our report thereon dated April 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institute's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

April 29, 2004

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors
Audubon Nature Institute, Inc.:

Compliance

We have audited the compliance of Audubon Nature Institute, Inc. (the Institute) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Institute's compliance with those requirements.

In our opinion, the Institute complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

Internal Control Over Compliance

The management of the Institute is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Institute's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Institute as of and for the year ended December 31, 2003, and have issued our report thereon dated April 29, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Institute. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

April 29, 2004

AUDUBON NATURE INSTITUTE, INC.

**SCHEDULE OF FEDERAL EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

Federal Grantor or Pass-through Grantor and Program Title	Contract Number	Total Award	Receivables as of 12/31/02	Cash Received During the Year Ended 12/31/03	Revenues Recorded During the Year Ended 12/31/03	Expenditures Incurred During the Year Ended 12/31/03	Receivable as of 12/31/03
U.S. Fish and Wildlife Service: Support Facilities for the Audubon Center for Research of Endangered Species/Insectarium	14-48-0010-95-013	\$ 7,749,695	\$ 207,692	\$ 1,442,889	\$ 1,467,757	\$ 1,467,757	\$ 232,560
Institute of Museum and Library Services: Nature Center Learning Opportunities	IG-00-02-0186-02 ML-02-03-0287-03	112,500 70,541		56,250	56,250 2,229	56,250 2,229	2,229
USDA Agricultural Research Services: Termite Education/Construction Grant	58-6435-8-113/ 58-6345-3-0076	1,141,000	103,826	338,302	500,976	500,976	266,500
U.S. Department of Education: Wild Science Wild Science Learning Kits	R215K020153 U215K030125	100,000 99,350	5,474	37,382	34,882 27,203	34,882 27,203	2,974 27,203
U.S. Department of Housing & Urban Development: Insectarium - 2002	B-02-SP-LA-0264	500,000		255,436	255,436	255,436	
Insectarium - 2003	B-02-SP-LA-0292	402,368			148,020	148,020	148,020
NOAA: Marine Mammal Reserve Grant	MA03NMF4390458	74,940			2,055	2,055	2,055
		<u>\$ 10,250,394</u>	<u>\$ 316,992</u>	<u>\$ 2,130,259</u>	<u>\$ 2,494,808</u>	<u>\$ 2,494,808</u>	<u>\$ 681,541</u>

AUDUBON NATURE INSTITUTE, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Institute and is presented on the accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when the Institute has met the qualifications for the respective grants.

Accrued Reimbursement—Various reimbursement procedures are used for federal awards received by the Institute. Consequently, timing differences between expenditures and program reimbursements exist at the beginning and end of the year. Accrued balances at year-end represent an excess of reimbursable expenditures over reimbursements received.

Payments to Subrecipients—There were no payments to subrecipients for the year ended December 31, 2003.

Grant Contract Numbers—Federal CFDA Numbers are not available for the grants listed in the schedule of expenditures of federal awards. The identifying numbers presented are the contract numbers assigned by the respective federal agencies.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED DECEMBER 31, 2003

Part I—Summary of Auditor's Results

1. The independent auditors' report on the financial statements expressed an unqualified opinion.
2. The statement that reportable conditions in internal control were disclosed by the audit of the financial statements and whether any such conditions were material weaknesses is not applicable.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. The statement that reportable conditions in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses is not applicable.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The Institute's major programs for the fiscal year ended December 31, 2003 include:

CFDA Number

Name of Federal Program

14-48-0010-95-013

U.S. Fish and Wildlife Service - Support Facilities
for the Audubon Center for Research of Endangered
Species/Insectarium

58-6435-8-113/
58-6435-3-0076

USDA Agricultural Research Services -
Termite Education/Construction Grant

8. A threshold of \$ 300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Organization did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II—Financial Statement Findings Section

There were no findings related to the financial statements for the year ended December 31, 2003.

Part III—Federal Award findings and Questioned Cost Section

The Institute had no findings or questioned costs requiring disclosure for the year ended December 31, 2003.

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**SUMMARY OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2003**

There were no items identified in the course of the conduct of the prior year's examination that were reported.