

CATAWBA LANDS CONSERVANCY

*FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011*

Catawba Lands Conservancy

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December 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Catawba Lands Conservancy
Charlotte, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Catawba Lands Conservancy, (the Conservancy – a not-for-profit organization), which comprise the statement of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors of
Catawba Lands Conservancy
Charlotte, North Carolina

Opinion

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2013, on our consideration of Conservancy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Conservancy's internal control over financial reporting and compliance.

C. DeWitt Ford & Company, P.A.

June 19, 2013

Catawba Lands Conservancy

Statement of Financial Position

December 31, 2012 and 2011

	December 31,	
	2012	2011
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 1,068,622	\$ 784,276
Grants and other receivables	100,977	93,838
Other current assets	-	1,450
<u>Total Current Assets</u>	<u>1,169,599</u>	<u>879,564</u>
Property and Equipment (net)	270,753	120,048
Other Assets:		
Investments	1,198,455	982,256
Land held for sale	50,000	50,000
Property acquired for preservation	18,095,959	17,716,656
<u>Total Other Assets</u>	<u>19,344,414</u>	<u>18,748,912</u>
<u>TOTAL ASSETS</u>	<u>\$ 20,784,766</u>	<u>\$ 19,748,524</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 52,246	\$ 54,149
<u>Total Current Liabilities</u>	<u>52,246</u>	<u>54,149</u>
Net Assets:		
Unrestricted:		
Undesignated	816,335	708,465
Designated - land	18,095,959	17,716,656
Designated - other	522,497	390,600
<u>Total Unrestricted Net Assets</u>	<u>19,434,791</u>	<u>18,815,721</u>
Temporarily restricted	1,297,729	878,654
<u>Total Net Assets</u>	<u>20,732,520</u>	<u>19,694,375</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 20,784,766</u>	<u>\$ 19,748,524</u>

Catawba Lands Conservancy

Statement of Activities

Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	TOTALS
<u>SUPPORT AND REVENUE</u>			
Grants	\$ 188,209	\$ 1,909,787	\$ 2,097,996
Contributions of property to be preserved	361,201	-	361,201
Other contributions	625,053	133,752	758,805
Investment earnings	136,069	-	136,069
Other income	12,610	-	12,610
Net assets released by:			
Payment	1,577,964	(1,577,964)	-
Time	46,500	(46,500)	-
<i>Total Support, Revenue, and Reclassifications</i>	<u>2,947,606</u>	<u>419,075</u>	<u>3,366,681</u>
<u>EXPENSES</u>			
Salaries and benefits	1,036,202	-	1,036,202
Easements granted	658,073	-	658,073
Professional fees	318,934	-	318,934
Operations and maintenance	86,924	-	86,924
Public activities	61,207	-	61,207
Office supplies and expenses	48,347	-	48,347
Depreciation	28,798	-	28,798
Travel	22,139	-	22,139
Grants paid to City of Charlotte	20,000	-	20,000
Insurance	17,569	-	17,569
Communications	12,504	-	12,504
Other expenses	17,839	-	17,839
<i>Total Expenses</i>	<u>2,328,536</u>	<u>-</u>	<u>2,328,536</u>
<i>CHANGE IN NET ASSETS</i>	<u>619,070</u>	<u>419,075</u>	<u>1,038,145</u>
<i>NET ASSETS, BEGINNING</i>	<u>18,815,721</u>	<u>878,654</u>	<u>19,694,375</u>
<i>NET ASSETS, ENDING</i>	<u>\$ 19,434,791</u>	<u>\$ 1,297,729</u>	<u>\$ 20,732,520</u>

Catawba Lands Conservancy

Statement of Activities

Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	TOTALS
<u>SUPPORT AND REVENUE</u>			
Grants	\$ 142,595	\$ 4,968,503	\$ 5,111,098
Contributions of property to be preserved	6,386,409	-	6,386,409
Other contributions	450,526	119,052	569,578
Fundraising revenue	3,950	-	3,950
Investment earnings	25,707	-	25,707
Other income	13,849	-	13,849
Net assets released by:			
Payment	4,911,077	(4,911,077)	-
Time	56,250	(56,250)	-
<i>Total Support, Revenue, and Reclassifications</i>	<i>11,990,363</i>	<i>120,228</i>	<i>12,110,591</i>
<u>EXPENSES</u>			
Easements granted	6,111,015	-	6,111,015
Salaries and benefits	929,928	-	929,928
Grants to City of Concord	308,000	-	308,000
Professional fees	225,359	-	225,359
Operations and maintenance	84,536	-	84,536
Office supplies and expenses	50,121	-	50,121
Public activities	33,314	-	33,314
Depreciation	29,837	-	29,837
Travel	20,388	-	20,388
Insurance	15,311	-	15,311
Communications	16,293	-	16,293
Other expenses	26,085	-	26,085
<i>Total Expenses</i>	<i>7,850,187</i>	<i>-</i>	<i>7,850,187</i>
<i>CHANGE IN NET ASSETS</i>	<i>4,140,176</i>	<i>120,228</i>	<i>4,260,404</i>
<i>NET ASSETS, BEGINNING</i>	<i>14,675,545</i>	<i>758,426</i>	<i>15,433,971</i>
<i>NET ASSETS, ENDING</i>	<i>\$ 18,815,721</i>	<i>\$ 878,654</i>	<i>\$ 19,694,375</i>

Catawba Lands Conservancy

Statement of Cash Flows

Years Ended December 31, 2012 and 2011

	December 31,	
	2012	2011
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ 1,038,145	\$ 4,260,404
Adjustments to reconcile changes in net assets to cash flows from operating activities:		
Depreciation expense	28,798	29,837
Donated property, net of conservation easements granted	(379,303)	(1,817,215)
Grants received to acquire property for preservation	(663,709)	(2,193,352)
Net realized and unrealized (gains) losses on investments	(107,397)	4,165
(Increase) decrease in operating assets:		
Grants and other receivables	(7,139)	(46,588)
Other current assets	1,450	1,000
Increase (decrease) in operating liabilities:		
Accounts payable	(1,903)	23,214
<u>Cash Flows from Operating Activities</u>	<u>(91,058)</u>	<u>261,465</u>
<u>INVESTING ACTIVITIES</u>		
Grants received to acquire property for preservation	663,709	2,193,352
Purchase of property for preservation	-	(2,356,721)
Purchase of property and equipment	(179,503)	(13,619)
Purchase of investments	(202,103)	(183,545)
Proceeds from the sale of investments	93,301	162,592
<u>Cash Flows from Investing Activities</u>	<u>375,404</u>	<u>(197,941)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	284,346	63,524
CASH AND CASH EQUIVALENTS, BEGINNING	784,276	720,752
CASH AND CASH EQUIVALENTS, ENDING	\$ 1,068,622	\$ 784,276

Catawba Lands Conservancy

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 1 – NATURE OF OPERATIONS

Catawba Lands Conservancy (the “Conservancy”) is a non-profit organization dedicated to acquiring and preserving environmentally, historically, or culturally significant lands for open space, recreation, or protection of natural resources. The Conservancy principally preserves land tracts located in the North Carolina Catawba River Basin and the Southern Piedmont of North Carolina. The Conservancy is also responsible for the perpetual management and stewardship of properties owned and the monitoring and enforcement of conservation easements. The Conservancy is also involved in facilitating the acquisition of conservation easements that are deeded to other parties, such as the State of North Carolina.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets can be both undesignated and designated in nature. Undesignated, unrestricted net assets are those currently available for use in the day-to-day operation of the Conservancy and those resources invested in property and equipment. From time to time, the Board of Directors may designate certain amounts to be utilized or invested to meet specific objectives of the Conservancy. Such amounts, as well as property acquired for preservation, are reflected as unrestricted, designated net assets in the accompanying statement of financial position.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Conservancy and/or the passage of time. When a restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Conservancy. Generally, the donors of these assets permit the Conservancy to use all or part of the income earned on any related investments for general or specific purposes. At December 31, 2012 and 2011, the Conservancy had no permanently restricted net assets.

Catawba Lands Conservancy

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Public support and grant revenue

The Conservancy relies heavily upon various grants and public contributions to assist in the accomplishment of its preservation mission. Changes in economic conditions may directly affect a grantor's ability and willingness to make future contributions. Generally, grant funds made available to the Conservancy are utilized to accomplish specific objectives of the grantor and the Conservancy. Such grants contain specific criteria governing the expenditure of such funds. As a condition of the grant, the Conservancy agrees to fully utilize the funds in a manner as prescribed by the underlying grant agreement. Any noncompliance with the specific terms of the grant may result in funds being returned to the grantor and any reductions in grant funding could adversely affect the operations of the Conservancy.

Donated property

Property received as a gift is recorded at its estimated fair value on the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted the use of the donated asset to a specific purpose. Donated property amounted to \$379,303 and \$3,606,254 for the years ended December 31, 2012 and 2011.

Donated conservation easements

Conservation easements received as a gift are recorded at the estimated change in the market value of the associated property before and after the imposition of the easement. At that time, the Conservancy also records a like amount as an expense since the conservation easements have no future economic benefit to the Conservancy. Donated conservation easements amounted to \$6,201 and \$2,780,155 for the years ended December 31, 2012 and 2011.

Donated services

The Conservancy records donated services as contributions when the services either create or enhance nonfinancial assets or would be purchased if they had not been provided by contribution, require specialized skills, and are provided by individuals possessing those skills. A number of unpaid volunteers, who serve in the capacity of Board members and various other volunteers, have made significant contributions of their time to assist the Conservancy in achieving the goals of its programs. The value of this contributed time is not reflected in these financial statements since it does not meet the above recognition criteria.

Cash and cash equivalents

The Conservancy considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, except for those short-term investments managed as part of investment management strategies.

Catawba Lands Conservancy

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Allowance for doubtful accounts

Management's assessment of the collectability of receivables is based on a review of individual accounts, historical experience, and current economic conditions. Based on the underlying nature of the receivables at December 31, 2012 and 2011, management believes any allowance for uncollectible receivables is not material to the financial statements taken as a whole.

Property and equipment

Property and equipment is stated at cost if purchased or estimated fair value at date of receipt if donated, subject to a \$500 capitalization threshold. Depreciation is provided over the estimated useful lives of the assets and is computed on the straight-line method. The costs of major improvements are capitalized while the costs of maintenance and repairs, which do not improve or extend the useful life of the respective asset, are expensed when incurred. The cost and accumulated depreciation of property and equipment are eliminated from the accounts upon disposal and any resulting gain or loss is included in the changes in net assets in the period during which the disposition occurred.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued in the statement of financial position at their fair value. Fair value is determined by reference to exchange or dealer-quoted market prices. If a quoted market price is not available, fair value of securities is estimated using quoted market prices. If a quoted market price is not available, fair value of securities are reflected as investment gains or losses in the accompanying statements of activities.

Beneficial interests

The Conservancy recognizes its interest in assets held by other not-for-profit organizations (the Community Foundation of Gaston County, Inc. and Foundation for the Carolinas) for the sole benefit of the Conservancy. These assets are available to the Conservancy for acquisition and stewardship of property easements and are recorded as investments on the Statement of Financial Position.

Land held for sale

The Conservancy has received donations of land, which the Conservancy intends to sell. The proceeds from these sales will be available for the general operations of the Conservancy. The land held for sale is recorded at its fair value at the date of donation, which approximates its fair value at December 31, 2012 and 2011.

Catawba Lands Conservancy

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Property and easements acquired for preservation

The Conservancy may acquire certain property and/or conservation easements through purchases as well as through donor contributions. Donors generally contribute deeds to property and/or conservation easements. Conservation easements are legal agreements in which the landowner gives up some of the rights to their land, such as development, but retains ownership and management of the property. The conservation easements are permanent and run with the land to successive owners. Contributions are recorded at the estimated fair market value of the property or easement taking into consideration the fact that the lands' use may be severely limited based on the intent to preserve the property in its undeveloped state. Based on these facts, the values of easements shown in the accompanying Statement of Activities are based on management estimates.

Income tax status

The Conservancy is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3) with respect to its exempt function income. The Conservancy is not a private foundation as defined by Section 509(a) of the Internal Revenue Code.

U.S. generally accepted accounting principles requires an organization to recognize a tax benefit or expense from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Conservancy has no uncertain tax positions as of December 31, 2012.

Functional allocation of expenses

Expenses are allocated to program services, management and general, and fund raising based on management's estimates of time spent and various allocation methods appropriate to the type of expense.

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 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.

Catawba Lands Conservancy

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 3 – GRANTS AND OTHER RECEIVABLES

Total grants and other receivables were as follows at December 31:

	<u>2012</u>	<u>2011</u>
Grants receivable	\$ 96,573	\$ 91,186
Other receivables	<u>4,404</u>	<u>2,652</u>
TOTAL	<u>\$ 100,977</u>	<u>\$ 93,838</u>

NOTE 4 – INVESTMENTS

The fair value of investments was as follows at December 31:

	<u>2012</u>	<u>2011</u>
Money market funds	\$ 31,484	\$ 27,043
Equity mutual funds	784,535	340,426
Debt mutual funds	371,996	605,174
Land held for sale	50,000	50,000
Beneficial interest in trusts	<u>10,440</u>	<u>9,613</u>
TOTAL	<u>\$ 1,248,455</u>	<u>\$ 1,032,256</u>

These investments, other than the land held for investment, are insured by the Securities Investor Protection Corporation up to \$500,000. The Conservancy invests in a variety of investments, which are subject to fluctuations in market values and expose the Conservancy to a certain degree of investment risk.

Investment earnings

Investment earnings for the year ended December 31, 2012 and 2011 is summarized below:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 28,672	\$ 29,872
Realized and unrealized gains/(losses) on investments	<u>107,397</u>	<u>(4,165)</u>
TOTAL	<u>\$ 136,069</u>	<u>\$ 25,707</u>

Catawba Lands Conservancy

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Office equipment	\$ 159,652	\$ 130,784
Property improvements	<u>278,884</u>	<u>128,249</u>
Total Property and Equipment	438,536	259,033
Less - accumulated depreciation	<u>(167,783)</u>	<u>(138,985)</u>
PROPERTY AND EQUIPMENT, NET	<u>\$ 270,753</u>	<u>\$ 120,048</u>

NOTE 6 – LINES OF CREDIT

The Conservancy also maintains a \$1,250,000 secured line of credit agreement with another financial institution. The line of credit bears interest at the rate of LIBOR plus three percent and is collateralized by deeds of trust on various tracts of land owned by the Conservancy. The Conservancy did not utilize the line of credit during 2012 and 2011.

NOTE 7 – LEASES

Operating leases

The Conservancy has entered into non-cancelable operating lease agreements for office space and a copier. Lease payments actually made during 2012 and 2011 were \$53,016 and \$54,321, respectively, for office space and \$6,109 and \$5,901, respectively, for the copier. Future minimum payments of \$58,650 are due under operating leases during 2013.

NOTE 8 – RETIREMENT PLAN

The Conservancy maintains a SIMPLE-IRA plan, as described in Internal Revenue Code Section 408(p), for the benefit of its employees. Employees can make pretax contributions to the plan and the Conservancy can make matching or discretionary non-elective contributions on behalf of its employees. The Conservancy made matching contributions of three percent of eligible participants' salaries, which amounted to \$14,332 in 2012 and \$13,089 in 2011.

Catawba Lands Conservancy

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 9 – NET ASSETS

Board designated, unrestricted net assets

The Board of Directors of the Conservancy has elected to set aside the investment income on contributions received for the future stewardship and legal defense of land and easements that it owns. At December 31, 2012 and 2011 the total of these funds was \$461,744 and \$326,637, respectively. In addition, \$60,753 and \$63,963 was designated for preservation of property at December 31, 2012 and 2011, respectively.

The Board of Directors has also set aside land for its conservation efforts. At December 31, 2012 and 2011, this land was valued at \$18,095,959 and \$17,716,656, respectively.

Temporarily restricted

Funds that have been received by the Conservancy for a particular purpose or period of time that have remaining restrictions at December 31, 2012 and 2011 are detailed as follows:

	<u>2012</u>	<u>2011</u>
Time Restricted:		
Mecklenburg County	\$ 23,250	\$ 23,250
The Blumenthal Foundation	40,000	-
The John W. Harris Family Foundation	8,000	-
Total Time Restricted	<u>71,250</u>	<u>23,250</u>
Unutilized Funds:		
Stewardship and legal defense	876,985	789,031
Wal-mart grant	15,000	15,000
Fish and Wildlife	117	117
Rhyne Trail	-	616
Carolina Thread Trail	334,377	50,640
Total Unutilized Funds	<u>1,226,479</u>	<u>855,404</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 1,297,729</u>	<u>\$ 878,654</u>

Catawba Lands Conservancy

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 10 – IN-KIND CONTRIBUTIONS

The Conservancy received non-cash contributions (other than land and easements) during the year ended December 31, 2012 and 2011, in the form of goods and services that are required to be recognized in the accompanying statement of activities. In-kind contributions are detailed as follows:

	<u>2012</u>	<u>2011</u>
Legal and professional services	\$ 120,425	\$ 90,619
Design services	550	5,826
Small tools received	<u>3,662</u>	<u>-</u>
TOTAL	<u>\$ 124,637</u>	<u>\$ 96,445</u>

NOTE 11 – CONCENTRATIONS OF RISK

Geographic area

The Conservancy operates in a limited geographic area, and is therefore sensitive to changes in the local economy.

NOTE 12 – FUNCTIONAL EXPENSES

The Conservancy's activities are focused in three functional areas. Program services represent the primary focus of the Conservancy's activities. Supporting services are fundraising activities and general and administrative activities. The costs of providing the various programs and other activities for the year ended December 31, 2012 and 2011 are summarized on a functional basis below. Certain costs have been allocated among the program and supporting services benefited.

	<u>2012</u>	<u>2011</u>
Program services - public services	\$ 2,095,682	\$ 7,097,349
Supporting services -		
Fundraising	128,069	396,230
General and administrative	<u>104,785</u>	<u>356,608</u>
TOTAL	<u>\$ 2,328,536</u>	<u>\$ 7,850,187</u>

Catawba Lands Conservancy

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 13 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require fair value of financial instruments to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. It establishes a three-level valuation hierarchy based upon observable and unobservable inputs, as follows:

Level 1 - Fair value is based on quoted prices in active markets for identical assets or liabilities.

Level 2 - Fair value is based on 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 for substantially the full term of the assets or liabilities.

Level 3 - Fair value is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Conservancy has segregated its financial instruments into the most appropriate level within the fair value hierarchy at December 31, 2012, as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Mutual funds	\$ 1,188,016	\$ 1,188,016	\$ -	\$ -
Community Foundation funds	<u>10,439</u>	<u>-</u>	<u>-</u>	<u>10,439</u>
TOTAL	<u>\$ 1,198,455</u>	<u>\$ 1,188,016</u>	<u>\$ -</u>	<u>\$ 10,439</u>

The following table sets forth a summary of changes in the fair value of the Level 3 assets for the year ended December 31, 2012.

Balance, beginning of year	\$ 9,613
Net decrease in value	699
Purchases, sales, issuances, and settlements (net)	<u>127</u>
Balance, end of year	<u>\$ 10,439</u>

NOTE 14 – SUBSEQUENT EVENTS

The Conservancy has evaluated subsequent events from the date of the statement of financial position through the date of the audit report which is the date the financial statements were available to be issued. During this period, no material recognizable subsequent events were identified.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Catawba Lands Conservancy
Charlotte, North Carolina

We have audited, in accordance with the 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, the financial statements of Catawba Lands Conservancy (the "Conservancy"), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Conservancy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Conservancy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Conservancy's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors of
Catawba Lands Conservancy
Charlotte, North Carolina

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Conservancy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C. Dewitt Ford & Company, P.A.

Charlotte, North Carolina
June 19, 2013

C. DEWITT FOARD & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS
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PHILLIP G. WILSON
TERRY W. LANCASTER

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH APPLICABLE SECTIONS OF OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT

To the Board of Directors of
Catawba Lands Conservancy
Charlotte, North Carolina

Report on Compliance for Each Major State Program

We have audited Catawba Lands Conservancy's (the "Conservancy") compliance with the types compliance requirements described in the *OMB Circular A-133 Compliance Supplement*, and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on its major State program for the year ended December 31, 2012. The Conservancy's major State program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Conservancy's major state programs based on our audit of the types of compliance requirements referred to above. 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 applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act 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 State program occurred. An audit includes examining, on a test basis, evidence about the Conservancy'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 on compliance for each major state program. However, our audit does not provide a legal determination on the Conservancy's compliance.

Opinion on Each Major State Program

In our opinion, the Conservancy complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major State program for the year ended December 31, 2012.

To the Board of Directors of
Catawba Lands Conservancy
Charlotte, North Carolina

Report on Internal Control Over Compliance

Management of the Conservancy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Conservancy's internal control over compliance with the types of requirements that could have a direct and material effect on each major State program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Conservancy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

C. Dewitt Ford & Company, P.A.

Charlotte, North Carolina
June 19, 2013

Catawba Lands Conservancy
Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(s) identified that are not considered to be material weaknesses yes no

Noncompliance material to financial statements noted? yes no

Federal and State Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes no
- Significant deficiency(s) identified that are not considered to be material weaknesses yes no

Type of auditor's report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of Major Programs

State Programs -

North Carolina Department of Environment and Natural resources:
Clean Water Management Trust Fund

Dollar threshold used to distinguish between Type A and Type B Programs \$300,000

Auditee qualified as low-risk auditee? yes no

Catawba Lands Conservancy
Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

FINDINGS – FINANCIAL STATEMENTS AUDIT

None

FINDINGS – FEDERAL AND STATE AWARD FINDINGS AND QUESTIONED COSTS

None

SUMMARY OF PRIOR YEAR FINDINGS AND CORRECTIVE ACTION PLAN

2011-1 *Context:* Noncash transactions such as donations of land and easements, as well as grants for land purchases remitted directly to attorneys were not consistently reflected in the Conservancy's accounting records at fair value.

Cause: Complete documentation was not provided to the appropriate person to accurately record the transactions.

Effect: Land values were understated as a result of incomplete recordkeeping.

Recommendation: We recommend that Conservancy staff involved in land transactions prepare a summary of all relevant data associated with the transaction and that this data be periodically reviewed by the Conservancy executive director for completeness and accuracy.

Views of responsible officials and planned corrective actions: The Conservancy's management and leadership agree with this finding.

Corrective action plan contact person: Tom Okel, Executive Director

Corrective action plan: At the completion of land transactions, land acquisition staff will use a checklist as a guide to gather all documents relevant to each land transaction. These documents include appraisals, Form 8283, requests for grant reimbursements, grant agreements with detail of reimbursable costs, closing statements, stewardship budgets, first page of deed, and a summary explaining the land transaction. Some documents are not available immediately after a closing, therefore the land staff will add documents as they become available. Land transaction documents will be saved electronically on the common drive and the completed checklist will be signed by land staff. Once all documents have been identified and saved electronically, the land acquisition staff will notify the Finance Director that all documents are available; the Finance Director will enter the transaction into the accounting records and review the booked land or easement with the Executive Director and Associate Director. The Executive Director will sign off on the checklist. At year end, the Finance Director will provide the Executive and Associate Director with a cumulative list of land and easements added to the balance sheet so all can confirm that transactions have been captured at the appropriate dollar amount.

Current status: The plan was implemented in June 2012 and retroactively applied. No similar findings were noted in the 2012 audit.

Catawba Lands Conservancy
Schedule of State Awards Expended
Year Ended December 31, 2012

<u>STATE AWARDS</u>	<u>Contract Number</u>	
North Carolina Department of Environment and Natural Resources: Clean Water Management Trust Fund:		
Girl Scouts Hornets' Nest Council conservation easement	2008-007	\$ 663,709
Shandon Preserve	2008-007	<u>15,177</u>
TOTAL STATE AWARDS		<u>\$ 678,886</u>