

Western Pennsylvania Conservancy

Financial Statements and Supplementary Information

Years Ended December 31, 2010 and 2009
with Independent Auditor's Reports

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Pittsburgh | Harrisburg | Butler

Pursuing the profession while promoting the public good*
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WESTERN PENNSYLVANIA CONSERVANCY

YEARS ENDED DECEMBER 31, 2010 AND 2009

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Independent Auditor's Report

Board of Directors
Western Pennsylvania Conservancy

We have audited the accompanying statement of financial position of the Western Pennsylvania Conservancy (Conservancy) as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Conservancy's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Conservancy's financial statements as of and for the year ended December 31, 2009. The prior year financial statements were audited by other auditors whose report, dated May 19, 2010, expressed an unqualified opinion on those 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 the 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 Conservancy as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2011, on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Conservancy taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. The accompanying schedules of unrestricted operating revenues and public support are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Conservancy. The information found on pages 29 and 31 has been subjected to the auditing procedures applied in the audit of the financial statements (which for 2009, were audited by other auditors as described above) and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements of 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.

Maher Duessel

Pittsburgh, Pennsylvania
May 12, 2011

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|---|----------------------|----------------------|
| <hr/> Assets <hr/> | | |
| Cash and cash equivalents | \$ 3,401,116 | \$ 5,894,906 |
| Cash held for land acquisition | 4,741,310 | 119,110 |
| Accounts and pledges receivable | 4,064,392 | 1,537,530 |
| Museum shop inventories | 266,485 | 327,693 |
| Prepaid expenses and deposits | 335,971 | 302,831 |
| Investments | 43,541,960 | 39,453,549 |
| Property and equipment, net | 13,710,472 | 13,464,756 |
| Fallingwater® and fine art collection | 5,565,719 | 5,565,719 |
| Land conservation projects | 11,447,475 | 11,159,744 |
| | <hr/> | <hr/> |
| Total Assets | \$ 87,074,900 | \$ 77,825,838 |
| | <hr/> | <hr/> |
| <hr/> Liabilities and Net Assets <hr/> | | |
| Liabilities: | | |
| Land escrows | \$ 4,741,310 | \$ 119,110 |
| Accounts payable and other liabilities | 1,132,884 | 757,053 |
| Notes payable and other liabilities | 925,181 | 533,484 |
| | <hr/> | <hr/> |
| Total Liabilities | 6,799,375 | 1,409,647 |
| | <hr/> | <hr/> |
| Net Assets: | | |
| Unrestricted | 53,222,355 | 51,118,523 |
| Temporarily restricted | 14,806,522 | 13,236,813 |
| Permanently restricted | 12,246,648 | 12,060,855 |
| | <hr/> | <hr/> |
| Total Net Assets | 80,275,525 | 76,416,191 |
| | <hr/> | <hr/> |
| Total Liabilities and Net Assets | \$ 87,074,900 | \$ 77,825,838 |
| | <hr/> | <hr/> |

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|----------------------|---------------------------|---------------------------|----------------------|
| Operating Revenues and Public Support: | | | | |
| Contributions, gifts, and grants | \$ 5,854,161 | \$ 4,135,445 | \$ 185,560 | \$ 10,175,166 |
| Memberships | 870,515 | - | - | 870,515 |
| Admissions | 3,212,122 | - | - | 3,212,122 |
| Sales | 2,240,238 | - | - | 2,240,238 |
| Investment return designated for current operations | 2,139,658 | 480,000 | - | 2,619,658 |
| Rent, royalties, and miscellaneous income | 672,768 | - | - | 672,768 |
| Net assets released from restrictions: | | | | |
| Satisfaction of program restrictions | 3,168,996 | (3,168,996) | - | - |
| Total operating revenues and public support | 18,158,458 | 1,446,449 | 185,560 | 19,790,467 |
| Expenses: | | | | |
| Programs | 16,049,397 | - | - | 16,049,397 |
| General and administrative | 1,285,384 | - | - | 1,285,384 |
| Development and fundraising | 984,019 | - | - | 984,019 |
| Total expenses | 18,318,800 | - | - | 18,318,800 |
| Change in Net Assets from Operations | (160,342) | 1,446,449 | 185,560 | 1,471,667 |
| Non-Operating Support and Income: | | | | |
| Investment return in excess of (less than) amount designated for current operations | 2,049,938 | (248,765) | 233 | 1,801,406 |
| Capital gifts, grants, and other income | 428,067 | 372,025 | - | 800,092 |
| Changes in charitable gift annuities | (72,718) | - | - | (72,718) |
| Net gain (loss) on conveyance of land | 2,084 | - | - | 2,084 |
| Net gain (loss) on other assets | (143,197) | - | - | (143,197) |
| Total non-operating support and income | 2,264,174 | 123,260 | 233 | 2,387,667 |
| Change in Net Assets | 2,103,832 | 1,569,709 | 185,793 | 3,859,334 |
| Net Assets: | | | | |
| Beginning of year | 51,118,523 | 13,236,813 | 12,060,855 | 76,416,191 |
| Reclassification | - | - | - | - |
| End of year | <u>\$ 53,222,355</u> | <u>\$ 14,806,522</u> | <u>\$ 12,246,648</u> | <u>\$ 80,275,525</u> |

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2009

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------|---------------------------|---------------------------|---------------|
| <u>Operating Revenues and Public Support:</u> | | | | |
| Contributions, gifts, and grants | \$ 3,761,904 | \$ 3,811,702 | \$ 218,316 | \$ 7,791,922 |
| Memberships | 763,662 | - | - | 763,662 |
| Admissions | 3,125,701 | - | - | 3,125,701 |
| Sales | 2,105,755 | - | - | 2,105,755 |
| Investment return designated for current operations | 2,196,018 | 345,000 | - | 2,541,018 |
| Rent, royalties, and miscellaneous income | 455,309 | - | - | 455,309 |
| Net assets released from restrictions: | | | | |
| Satisfaction of program restrictions | 3,796,823 | (3,796,823) | - | - |
| Total operating revenues and public support | 16,205,172 | 359,879 | 218,316 | 16,783,367 |
| <u>Expenses:</u> | | | | |
| Programs | 14,699,417 | - | - | 14,699,417 |
| General and administrative | 1,153,331 | - | - | 1,153,331 |
| Development and fundraising | 966,653 | - | - | 966,653 |
| Total expenses | 16,819,401 | - | - | 16,819,401 |
| Change in Net Assets from Operations | (614,229) | 359,879 | 218,316 | (36,034) |
| <u>Non-Operating Support and Income:</u> | | | | |
| Investment return in excess of (less than) amount designated for current operation | 4,701,853 | 601,588 | 2,605 | 5,306,046 |
| Capital gifts, grants, and other income | 282,637 | 212,032 | 54,688 | 549,357 |
| Changes in charitable gift annuities | (92,696) | - | - | (92,696) |
| Net gain (loss) on conveyance of land | 80,377 | - | - | 80,377 |
| Net gain (loss) on other assets | 5,359 | - | - | 5,359 |
| Total non-operating support and income | 4,977,530 | 813,620 | 57,293 | 5,848,443 |
| Change in Net Assets | 4,363,301 | 1,173,499 | 275,609 | 5,812,409 |
| <u>Net Assets:</u> | | | | |
| Beginning of year | 45,185,329 | 13,633,207 | 11,785,246 | 70,603,782 |
| Reclassification | 1,569,893 | (1,569,893) | - | - |
| End of year | \$ 51,118,523 | \$ 13,236,813 | \$ 12,060,855 | \$ 76,416,191 |

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|---|--------------|--------------|
| Cash Flows From Operating Activities: | | |
| Change in net assets | \$ 3,859,334 | \$ 5,812,409 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 720,465 | 705,781 |
| Net realized and unrealized gains on long-term investments | (3,396,405) | (6,943,772) |
| Contributions restricted for long-term purposes | (185,560) | (273,004) |
| (Gain) loss on the conveyance of land | (2,084) | (80,377) |
| Loss on the sale of building | 155,000 | - |
| Changes in assets and liabilities: | | |
| Accounts and pledges receivable and inventories | (2,398,571) | 2,270,077 |
| Prepays and other deposits | (33,140) | (18,582) |
| Land conservation projects | (718,632) | (3,442,998) |
| Accounts payable and other liabilities | 395,116 | 239,417 |
| Net cash provided by (used in) operating activities | (1,604,477) | (1,731,049) |
| Cash Flows From Investing Activities: | | |
| Purchase of property and equipment | (1,666,181) | (271,589) |
| Purchase of land | (226,000) | (207,429) |
| Purchase of investments | (11,331,613) | (13,662,316) |
| Proceeds from sale of investments | 10,639,607 | 9,856,400 |
| Proceeds from sale of building | 545,000 | - |
| Principal payments received | - | 65,879 |
| Net cash provided by (used in) investing activities | (2,039,187) | (4,219,055) |
| Cash Flows From Financing Activities: | | |
| Collections of contributions for long-term purposes | 118,477 | 211,849 |
| (Payments on) proceeds from contributions for land acquisition | 4,622,200 | (248,290) |
| Proceeds from note payable | 120,000 | - |
| Repayment of note payable | (242,172) | (446,758) |
| (Repayment of) proceeds from line of credit | 494,584 | (2,300,000) |
| Reimbursements for land conservation projects | 658,985 | 3,825,961 |
| Net cash provided by (used in) financing activities | 5,772,074 | 1,042,762 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 2,128,410 | (4,907,342) |
| Cash and Cash Equivalents: | | |
| Beginning of year | 6,014,016 | 10,921,358 |
| End of year | \$ 8,142,426 | \$ 6,014,016 |

Supplemental Schedule of Noncash Investing and Financing Activities:

The Conservancy acquired land through the use of a note payable in 2010 and 2009 of \$120,000 and \$242,173, respectively.

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Western Pennsylvania Conservancy (Conservancy) is a public 501(c)(3) tax-exempt nonprofit organization that protects and restores exceptional places to provide our region with clean waters and healthy forest, wildlife, and natural areas for the benefit of present and future generations. The Conservancy creates green spaces and gardens, contributing to the vitality of our cities and towns, and preserves Fallingwater, a symbol of people living in harmony with nature.

The Conservancy's support comes through membership revenues, grants, contracts, private and public donations, Fallingwater admissions and sales, and investment income.

Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ significantly from those estimates.

Cash and Cash Equivalents

The Conservancy considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The majority of cash and cash equivalents are maintained in short-term, interest-bearing money market accounts. The Conservancy maintains cash at various financial institutions that may exceed federally insured amounts at times.

Accounts Receivable

Accounts receivable consist of amounts due under contracts and grants. Accounts receivable are stated at the amount that management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with those having outstanding balances and current relationships with the Conservancy, it believes that realized losses on balances outstanding at year-end will be immaterial. Accordingly, no allowance for doubtful accounts is deemed necessary.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

Inventory

The museum shop, operated in connection with Fallingwater, maintains an inventory of gift items. The inventory is valued at the lower of cost or market, with cost determined using the specific identification method.

Investments

Investments are carried at current fair value. Those investments received as gifts or donations are recorded at their fair value on the date received. Net appreciation in the fair value of investments, other than that restricted by donors, is reflected in unrestricted revenues and gains.

Gain on sale of investments is calculated on the specific identification method based on the original cost of the holding.

The Board of Directors (Board) of the Conservancy approves annual drawdowns from the investment portfolio during the budget process in accordance with the spending policy. During 2010 and 2009, the Board approved a cash drawdown of \$2,619,658 and \$2,541,018, respectively. This distribution is periodically transferred to the Conservancy's operating funds. The amount transferred is reflected in operating revenues and public support as investment return designated for current operations. The difference between total investment income and the transfer is reflected in non-operating support and income. Any funds drawn down in excess of operational requirements are reinvested into the investment portfolio.

The income from certain permanently restricted endowment funds is restricted by the donors for specific programs. If program expenditures have exceeded the income generated by these funds, the amount of annual income from these funds is included in unrestricted earnings. If program expenditures have not exceeded the income generated by these funds, the amount of annual income from these funds is included in temporarily restricted earnings.

Property and Equipment

Buildings and equipment acquired are recorded at cost. Depreciation is computed over the following estimated useful lives of the assets using the straight-line method:

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

| <u>Description</u> | <u>Years</u> |
|------------------------------|--------------|
| Buildings | 40 |
| Renovations and improvements | 10-15 |
| Vehicles and equipment | 5-10 |

Maintenance and repairs that are not considered to extend the useful lives of assets are charged to operations as incurred. Expenditures for additions and improvements are capitalized. Upon sale or retirement, the cost of assets and related allowances are removed from the accounts, and any resulting gains or losses are included in income (expense) for the year.

Fallingwater and the Fine Art Collection

Fallingwater and the Fine Art Collection include Fallingwater, a home designed by Frank Lloyd Wright in Mill Run, Pennsylvania, and various works of art. Items purchased for Fallingwater and the Fine Art Collection are recorded at cost; items donated are valued based on appraised values at the date of donation. Other donations of collectible items are recorded at fair value upon receipt of notification from the donor. In accordance with prevailing accounting practices, Fallingwater and the Fine Art Collection, whose useful lives are extraordinarily long, are presently not required to be, and therefore are not being, depreciated. Gains or losses from deaccessions, if any, of these items are reflected on the statements of activities.

Land Conservation Projects and Easements

The Conservancy acquires, protects, and holds land for conservation purposes. Land is valued at cost or, in the case of donated land, at fair value on the date of the contribution. The Conservancy capitalizes certain costs incurred during the time the land is being acquired and protection activities are underway. These costs include development, land improvements, legal fees, and miscellaneous other items. Grants received as reimbursement for land costs on projects where the Conservancy does not intend to hold the land for the long-term reduce the cost basis of the land.

The Conservancy holds certain conservation easements and deed restrictions (easements). The Conservancy obtains easements by the sale of a piece of land owned by the Conservancy, where part of the agreement is that the Conservancy retains the conservation easement on the land. The Conservancy also obtains easements from third parties by purchase or donation, or by reservation of rights upon sale of land, under which a third party maintains its ownership of the underlying land.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

These easements are not recorded in the financial statements. Easements purchased by the Conservancy are recorded at cost (see schedule in Note 6).

Revenue Recognition

Grant revenue is recognized when earned, based on the terms of the grants. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. 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 statements of activities as net assets released from restrictions.

Pledges receivable are recognized as revenues or gains in the period received as assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met (see Note 2).

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

Membership

Membership gifts are reflected as revenue when received. Membership gifts are payable on an annual basis and initiated by the donor throughout the year.

Net Assets

The net assets of the Conservancy are reported in each of the following three classes: a) unrestricted net assets, b) temporarily restricted net assets, and c) permanently restricted net assets. Net assets of the two restricted classes are created only by

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

donor-imposed restrictions on their use. All other net assets are unrestricted and are reported as part of the unrestricted class.

Non-Operating Support and Income

The Conservancy includes all support and income as an increase in net assets from operations except certain investment income, contributions, and net gains and losses from the conveyance of properties or sale of assets.

Income Taxes

The Conservancy has been granted an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service (IRS) has classified the Conservancy as other than a private foundation. Therefore, no provision for income taxes has been provided. The Conservancy annually files a Form 990, and the Form 990 is subject to examination by the IRS generally for three years after it is filed.

Effective for the year ended December 31, 2009, the Conservancy implemented the Income Taxes topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) clarifying the accounting for uncertainty in income taxes recognized in an entity's financial statements. This topic prescribes a recognition threshold and measurement principles for financial statements disclosure of tax positions taken or expected to be taken on a tax return. The Conservancy has assessed the tax positions it has taken or expects to take in its tax returns. The implementation had no impact on the financial statements, and no liability has been recorded.

Fair Value Measurement

The Conservancy previously adopted the Fair Value Measurement topic of ASC, which established a framework for measuring fair value under accounting principles generally accepted in the United States of America and expanded disclosure about fair value measurement (see Note 11).

Recent Accounting Pronouncements

In January 2010, FASB issued an Accounting Standards Update, "*Fair Value Measurements and Disclosures*," to require new disclosure for fair value measurements and provide clarification for existing disclosure requirements. More specifically, this update will require (a) an entity to disclose separately the amounts of

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers and (b) information about purchases, sales, issuances, and settlements to be presented separately (i.e., to present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and require disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. The adoption of this statement will expand its consolidated financial statement footnote disclosures. The new disclosures and clarifications are effective for annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. Refer to Note 11 for disclosures resulting from the adoption of this update in fiscal year ended December 31, 2010.

FASB has issued ASU 2010-20, *“Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.”* While the implementation guidance for the standard specifically states that unconditional promises to give are not considered financing receivables, receivables that arise from exchange transactions and contracts could meet the definition of a financing receivable. The standard requires specific disclosures relating to placing financing receivables on nonaccrual status, past due receivables, risk elements, allowances for doubtful accounts, and a description of monitoring of credit quality of financing receivables. The requirements of ASU 2010-20 are generally effective for nonprofit organizations (those that aren’t defined as a “public entity”) in periods ending on or after December 15, 2011. In addition, FASB is deliberating significant changes in the accounting for leases. The goal of the project is to ensure that all assets and liabilities arising from lease contracts relating to property, plant, and equipment are recognized on the balance sheet and the guidance will provide both lessee and lessor accounting requirements. The project essentially eliminates the currently allowed operating lease accounting method and will apply to leases in existence at the time of the implementation. A final standard is expected to be issued in 2011 and the exact implementation dates will be disclosed at that time.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor’s Report date, which is the date the financial statements were available to be issued.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

2. ACCOUNTS AND PLEDGES RECEIVABLE

Accounts and pledges receivable at December 31 consist of the following:

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| Accounts receivable: | | |
| Billed grants and contracts | \$ 1,724,139 | \$ 1,061,931 |
| Other | 1,681,859 | 277,581 |
| Pledges receivable: | | |
| Unrestricted contributions | 680 | 11,984 |
| Temporarily restricted contributions | 597,494 | 132,836 |
| Permanently restricted contributions | <u>70,196</u> | <u>65,325</u> |
| Gross receivables | 668,370 | 210,145 |
| Less: unamortized discount | <u>(9,976)</u> | <u>(12,127)</u> |
| Net accounts and pledges receivable | <u>\$ 4,064,392</u> | <u>\$ 1,537,530</u> |
| Pledges, net of unamortized discount, due in: | | |
| Less than one year | \$ 486,671 | \$ 105,420 |
| One to five years | <u>171,723</u> | <u>92,598</u> |
| | <u>\$ 658,394</u> | <u>\$ 198,018</u> |

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of approximately 3% at December 31, 2010 and 2009.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

3. INVESTMENTS

Investment portfolios at December 31 consisted of the following:

| | 2010 | | 2009 | |
|----------------------|----------------------|-------------|----------------------|-------------|
| | Amount | Percentage | Amount | Percentage |
| Limited partnerships | \$ 1,865,761 | 4% | \$ 1,553,345 | 4% |
| Fixed-income | 17,781,854 | 41% | 16,489,713 | 42% |
| Equity instruments | 23,894,345 | 55% | 21,410,491 | 54% |
| | <u>\$ 43,541,960</u> | <u>100%</u> | <u>\$ 39,453,549</u> | <u>100%</u> |

The Conservancy has committed \$4,000,000 in subscriptions to limited partnerships; as of December 31, 2010, total funds invested were approximately \$1,866,000.

The above investments are being held by custodians and managed by professional investment advisors. Related management fees included in expenses amounted to approximately \$260,000 and \$196,000 in 2010 and 2009, respectively.

Investments are included in net assets at December 31 as follows:

| | 2010 | 2009 |
|---------------------------------|----------------------|----------------------|
| Unrestricted | \$ 24,640,313 | \$ 21,521,223 |
| Temporarily restricted | 14,020,341 | 13,236,813 |
| Permanently restricted (Note 8) | 4,881,306 | 4,695,513 |
| | <u>\$ 43,541,960</u> | <u>\$ 39,453,549</u> |

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

Income earned on investments at December 31 is as follows:

| | <u>2010</u> | <u>2009</u> |
|------------------------------------|---------------------|---------------------|
| Realized income: | | |
| Interest and dividends | \$ 1,024,658 | \$ 903,009 |
| Gain (loss) on sale of investments | 411,520 | (1,470,985) |
| | <u>1,436,178</u> | <u>(567,976)</u> |
| Unrealized gains (losses) | <u>2,984,886</u> | <u>8,415,040</u> |
| Net investment gain (loss) | <u>\$ 4,421,064</u> | <u>\$ 7,847,064</u> |

The investment income is reported in the statements of activities for the years ended December 31 as follows:

| | <u>2010</u> | <u>2009</u> |
|--|---------------------|---------------------|
| Investment return designated for current operations | \$ 2,619,658 | \$ 2,541,018 |
| Investment return in excess of (less than) amount designated for current operations | <u>1,801,406</u> | <u>5,306,046</u> |
| | <u>\$ 4,421,064</u> | <u>\$ 7,847,064</u> |

Investments are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near-term and that such changes could materially affect the amounts reported in the statements of financial position.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31 consisted of:

| | <u>2010</u> | <u>2009</u> |
|------------------------------------|----------------------|----------------------|
| Land | \$ 685,000 | \$ 857,000 |
| Building and building improvements | 10,016,866 | 9,847,971 |
| Equipment | 2,654,102 | 2,669,973 |
| Ground improvements | <u>5,863,798</u> | <u>4,480,762</u> |
| | 19,219,766 | 17,855,706 |
| Less: accumulated depreciation | <u>(5,509,294)</u> | <u>(4,918,950)</u> |
| | 13,710,472 | 12,936,756 |
| Building held for sale | <u>-</u> | <u>528,000</u> |
| | <u>\$ 13,710,472</u> | <u>\$ 13,464,756</u> |

In 2000, the Conservancy granted a preservation easement to the Pennsylvania Historical and Museum Commission for the Conservancy's commitment for ongoing preservation and maintenance of Fallingwater. The term of the easement is 50 years from the completion of the Fallingwater restoration. No cost was assigned to the easement granted.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

5. LAND CONSERVATION PROJECTS

The Conservancy holds land conservation projects as of December 31 as follows:

| | 2010 | 2009 | Increase (Decrease) |
|-------------------------------|----------------------|----------------------|------------------------|
| Alameda Park | \$ 75,693 | \$ 75,693 | \$ - |
| Bear Run Reserve | 1,930,533 | 1,704,533 | 226,000 |
| Beechwood Farms Reserve | 715,728 | 715,728 | - |
| Bennett Branch Forest | 1,926,632 | 1,926,632 | - |
| Clarion River Project | 880,811 | 878,211 | 2,600 |
| Farm/Woodlands Program | 293,371 | 293,371 | - |
| French Creek | 702,165 | 696,165 | 6,000 |
| Lake Pleasant Properties | 1,293,890 | 1,293,890 | - |
| Laurel Highlands | 141,293 | 134,115 | 7,178 |
| Ligonier Valley | 274,856 | 273,506 | 1,350 |
| Lower Allegheny River Project | 141,241 | 141,241 | - |
| Loyalhanna Gorge | 27,468 | 27,468 | - |
| Martin Run | 299,001 | 299,001 | - |
| Mountain Streams | 26,201 | 26,201 | - |
| Natural Areas | 181,829 | 181,829 | - |
| Nemacolin Subsurface Rights | 305,356 | 305,356 | - |
| Plain Grove Fen | 442,730 | 442,730 | - |
| Sideling Hill Creek | 256,525 | 256,525 | - |
| Tionesta Lake | 117,123 | 117,123 | - |
| Tom's Run Project | 551,230 | 551,230 | - |
| Upper Allegheny River Project | 21,865 | 21,865 | - |
| Wattsburg Bog Properties | 222,512 | 222,355 | 157 |
| Wolf Creek Narrows | 204,946 | 204,946 | - |
| Other land holdings | 414,476 | 370,030 | 44,446 |
| | <u>\$ 11,447,475</u> | <u>\$ 11,159,744</u> | <u>\$ 287,731</u> |

The Conservancy receives reimbursements from public and private sources for land acquisitions, which reduce the carrying value of land conservation projects. The change in such projects at December 31 consisted of the following:

WESTERN PENNSYLVANIA CONSERVANCY

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YEARS ENDED DECEMBER 31, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|----------------------------|--------------------|--------------------|
| Additions and acquisitions | \$ 1,446,716 | \$ 4,240,181 |
| Conveyances | - | (267,204) |
| Reimbursements | <u>(1,158,985)</u> | <u>(3,825,961)</u> |
| | <u>\$ 287,731</u> | <u>\$ 147,016</u> |

6. CONSERVATION EASEMENTS

The Conservancy holds certain conservation easements throughout Western Pennsylvania. These easements include such things as development rights, scenic preservation, and other privileges related to natural resource conservation. Easements are received by gift, by reservation of certain rights upon sale of land, or by purchase. The Conservancy held acres as easements in the following Western Pennsylvania counties as of December 31 as follows:

WESTERN PENNSYLVANIA CONSERVANCY

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YEARS ENDED DECEMBER 31, 2010 AND 2009

| <u>County</u> | <u>2010</u> | <u>2009</u> |
|---------------|---------------|---------------|
| Allegheny | 845 | 845 |
| Bedford | 215 | 102 |
| Blair | 7 | 7 |
| Butler | 90 | 90 |
| Cambria | 3,148 | 3,148 |
| Cameron | 394 | 394 |
| Clinton | 106 | 106 |
| Crawford | 46 | 46 |
| Elk | 5 | 5 |
| Erie | 800 | 800 |
| Fayette | 647 | 647 |
| Franklin | 51 | 51 |
| Greene | 41 | 41 |
| Huntingdon | 2,873 | 2,873 |
| Indiana | 71 | 71 |
| Jefferson | 500 | 500 |
| Lawrence | 19 | 19 |
| Lycoming | 139 | 139 |
| Mercer | 820 | 820 |
| Mifflin | 192 | 192 |
| Potter | 345 | 345 |
| Somerset | 152 | 152 |
| Venango | 11,601 | 11,601 |
| Warren | 273 | 273 |
| Westmoreland | 8,126 | 8,126 |
| Acres held | <u>31,506</u> | <u>31,393</u> |

7. NOTES PAYABLE AND OTHER LIABILITIES

Charitable Gift Annuities

Donors have established charitable gift annuities with the Conservancy and are to receive distributions ranging from 6% to 12% of the fair value of the contributions

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

over the designated beneficiaries' lifetime. The present values of these obligations approximate \$311,000 and \$291,000, respectively, at December 31, 2010 and 2009.

Line of Credit

The Conservancy has a line of credit with a bank providing for total borrowing up to \$10,000,000. The line is secured by general unrestricted investments and is intended to be used for short-term financing for large land acquisition projects. Interest is payable at either the Prime Rate minus 2.1% or various rates based on the one-, two-, three-, or 6-month London InterBank Offered Rate (LIBOR) plus 0.35%. As of December 31, 2010 and 2009, the balances due on the line of credit were \$494,584 and \$0, respectively. The line of credit expires August 23, 2011.

Note Payable

The Conservancy has a note payable of \$120,000, dated July 30, 2010, used to acquire property within the Bear Run Nature Reserve in Stewart Township, Fayette County. The note is non-interest bearing and is payable in ten annual installments of \$12,000.

The Conservancy had a note payable of approximately \$242,000, dated June 22, 2009, used to acquire a conservation easement in Ligonier Township, Westmoreland County, Pennsylvania. The note was paid in full to the seller on January 8, 2010, without interest.

8. RESTRICTED ASSETS

Certain restricted contributions and grants received are to be expended for specific purposes and/or in succeeding years. They are, therefore, reflected as temporarily restricted in the statements of activities. Temporarily restricted contributions for the years ended December 31 were as follows:

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|-----------------------------------|---------------------|---------------------|
| Operating: | | |
| Conservation | \$ 1,914,273 | \$ 708,911 |
| Land Conservation and Stewardship | 106,212 | 1,464,503 |
| Fallingwater | 237,689 | 111,900 |
| Community Gardens/Greenspace | 1,832,969 | 1,525,270 |
| Other | 44,302 | 1,118 |
| | <u>\$ 4,135,445</u> | <u>\$ 3,811,702</u> |

The non-operating amounts released from restrictions included capital amounts of \$372,025 and \$212,032 for the years ended December 31, 2010 and 2009, respectively.

Temporarily restricted net assets as of December 31 are available for the following programs:

| | <u>2010</u> | <u>2009</u> |
|-----------------------------------|----------------------|----------------------|
| Conservation | \$ 2,554,277 | \$ 1,649,631 |
| Land Conservation and Stewardship | 6,370,529 | 6,626,271 |
| Fallingwater | 204,324 | 100,161 |
| Community Gardens/Greenspace | 1,114,767 | 918,328 |
| Other | 49,110 | 32,166 |
| | <u>10,293,007</u> | <u>9,326,557</u> |
| Endowment | 3,782,610 | 3,523,163 |
| Capital items | 730,905 | 387,093 |
| | <u>\$ 14,806,522</u> | <u>\$ 13,236,813</u> |

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YEARS ENDED DECEMBER 31, 2010 AND 2009

Permanently restricted net assets as of December 31 are available for the following programs:

| | 2010 | 2009 |
|--|----------------------|----------------------|
| Endowment investments in perpetuity, the income from which is expendable to support: | | |
| Community Gardens/Greenspace | \$ 869,000 | \$ 869,000 |
| Fallingwater | 1,535,043 | 1,485,850 |
| Beechwood Farm Sanctuary | 50,000 | 50,000 |
| General purposes | 1,006,158 | 1,006,158 |
| Specific program support | 1,421,105 | 1,284,505 |
| | <u>4,881,306</u> | <u>4,695,513</u> |
| Land required to be held in perpetuity | 2,534,751 | 2,534,751 |
| Land, proceeds from the sale of which are required to be reinvested upon divestment | 2,201,093 | 2,201,093 |
| Fallingwater | 600,000 | 600,000 |
| Fine art collection (at values assigned at acquisition) | 2,029,498 | 2,029,498 |
| | <u>\$ 12,246,648</u> | <u>\$ 12,060,855</u> |

In 2009, the net asset reclassifications reflect the results of reviews of gift instruments that revised the interpretation or understanding of donor intent.

The Conservancy's endowment consists of various investment funds established primarily for the financial needs of the organization and its purpose. The endowment includes only donor-restricted endowment funds and accumulated income thereon. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board has elected to apply the Commonwealth of Pennsylvania's Act 141 (Act 141). Act 141 permits utilization of a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of the endowment's

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

investments as income each year. However, the long-term preservation of the real value of the assets must be taken into consideration when the Board elects the amount. Accordingly, the Conservancy implemented the disclosure provision of Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds, which disclosures are provided in the following paragraphs. In accordance with Act 141, on an annual basis, the Board, in writing, must elect a spending rate of between 2% and 7%. The Conservancy classifies as permanently restricted net assets the original fair value of gifts donated to the permanent endowment and the original fair value of subsequent gifts to the permanent endowment. The undistributed amounts earned are included in temporarily restricted net assets. In accordance with Act 141, the Conservancy has adopted a written investment policy, of which a section specifically relates to the endowment fund. On an annual basis, the Board also sets a spending rate.

Donor-restricted endowment funds as of December 31 are composed of the following net assets:

| | Temporarily Restricted | Permanently Restricted | Total |
|------|---------------------------|---------------------------|---------------------|
| 2010 | <u>\$ 3,782,610</u> | <u>\$ 4,881,306</u> | <u>\$ 8,663,916</u> |
| 2009 | <u>\$ 3,523,163</u> | <u>\$ 4,695,513</u> | <u>\$ 8,218,676</u> |

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YEARS ENDED DECEMBER 31, 2010 AND 2009

Changes in donor-restricted endowment funds by net asset type for the years ended December 31 is as follows:

| | 2010 | | |
|---|---------------------------|---------------------------|--------------|
| | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ 3,523,163 | \$ 4,695,513 | \$ 8,218,676 |
| Investment return: | | | |
| Investment income | 197,014 | - | 197,014 |
| Net appreciation | 542,433 | 233 | 542,666 |
| Drawdown | (480,000) | - | (480,000) |
| | 3,782,610 | 4,695,746 | 8,478,356 |
| Contributions | - | 185,560 | 185,560 |
| Endowment net assets, end of year | \$ 3,782,610 | \$ 4,881,306 | \$ 8,663,916 |
| | | | |
| | 2009 | | |
| | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ 2,576,574 | \$ 4,474,592 | \$ 7,051,166 |
| Investment return: | | | |
| Investment income | 181,271 | - | 181,271 |
| Net appreciation | 1,110,318 | 2,605 | 1,112,923 |
| Drawdown | (345,000) | - | (345,000) |
| | 3,523,163 | 4,477,197 | 8,000,360 |
| Contributions | - | 218,316 | 218,316 |
| Endowment net assets, end of year | \$ 3,523,163 | \$ 4,695,513 | \$ 8,218,676 |

In addition to the investments above, as described earlier in this footnote, the Conservancy maintained other permanently restricted assets approximating \$7,365,000 at December 31, 2010 and 2009. These assets included land, buildings, and fine art.

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YEARS ENDED DECEMBER 31, 2010 AND 2009

Endowment Investment Objective

The primary objective in endowment fund (Fund) investments is the pursuit of a long-term growth adequate to meet the Conservancy's annual spending needs over time. The next objective is to preserve principal and to dampen volatility to stabilize the market value and cash flows from the Fund. A third objective is to realize growth above inflation to build the economic value of the Fund over time.

The Board believes that a long-term growth-oriented approach is appropriate, given that annual distributions from the Fund represents only 15%-25% of the Conservancy's operating budget.

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

The Conservancy has chosen not to manage its underlying assets directly, but to utilize independent investment managers. To maintain prudent diversification and to avoid undue risk, the Conservancy's portfolio is divided among 10 to 20 separate managers.

The Conservancy recognizes the difficulty of achieving the Fund's investment objectives in light of the uncertainties and complexities of the investment markets. The Conservancy further recognizes that risk (i.e. the uncertainty of future events) and volatility (i.e., the potential for variability of asset values and the possibility of loss in purchasing power due to inflation) are present to varying degrees in all types of investment vehicles. Several factors suggest collectively that the Fund can tolerate some interim fluctuations in market value and rates of return in order to achieve long-term objectives.

9. EXPENSES

Expenses for 2010 and 2009 were as follows:

WESTERN PENNSYLVANIA CONSERVANCY

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YEARS ENDED DECEMBER 31, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|--|----------------------|----------------------|
| Programs: | | |
| Direct: | | |
| Conservation | \$ 4,733,830 | \$ 5,056,268 |
| Fallingwater | 5,300,902 | 5,152,611 |
| Community Gardens/Greenspace | 4,500,803 | 2,999,371 |
| Constituent programs/outreach | <u>833,397</u> | <u>825,386</u> |
| Total direct programs | 15,368,932 | 14,033,636 |
| Depreciation (programs' portion) | <u>680,465</u> | <u>665,781</u> |
| Total programs | <u>16,049,397</u> | <u>14,699,417</u> |
| General and administrative | 1,285,384 | 1,153,331 |
| Development and fundraising | <u>984,019</u> | <u>966,653</u> |
| Total expenses | <u>\$ 18,318,800</u> | <u>\$ 16,819,401</u> |
| Percent of program expenses to total expenses | <u>88%</u> | <u>87%</u> |

10. RETIREMENT PLAN

The Conservancy maintains a defined contribution retirement plan for all eligible employees. The plan provides for a contribution based on a percentage of employees' gross wages. Pension contributions charged to expense amounted to approximately \$686,000 and \$647,000 in 2010 and 2009, respectively.

The Conservancy provides a 457(b) private salary deferral plan under the IRC, which allows for certain corporate officers to defer a portion of their compensation, in an amount determined under the IRC, for retirement. As of December 31, 2010 and 2009, \$195,000 and \$151,000, respectively, are included on the statements of financial position. There are no employer contributions under the plan.

11. FAIR VALUE MEASUREMENTS

The Fair Value Measurements topic (topic) of the ASC establishes a fair value hierarchy that prioritizes the inputs used to determine fair value and requires the Conservancy to classify assets and liabilities carried at fair value based on

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

observability of these inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of fair value hierarchy defined by the topic are:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reported date. Financial assets utilizing Level 1 inputs include active exchange-traded equity securities.

Level 2: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level 3: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. Level 3 inputs include all inputs that do not meet the requirements of Level 1 or Level 2.

Determination of Fair Value

The Conservancy measures fair value based upon market price, where available. For Level 3 items, the Conservancy's valuation is determined in good faith by the General Partner of the limited partnerships. Fair value is based on the best information available and is determined by reference to information including, but not limited to, the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public or private transactions, valuations for publicly-traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and restrictions on disposition. For Level 2 items, fair value estimates include (1) the market approach, (2) the income approach, and (3) cost for a period of time after an acquisition. These valuation methodologies involve significant degree of judgment. Due to the absence of readily determinable fair values and the inherent uncertainty of valuations, the estimated fair values for private investments may differ significantly from values that would have been used had a ready market for the securities existed.

The following represents the fair value hierarchy of the Conservancy's financial assets that were recognized at fair value on a recurring basis as of December 31, 2010:

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|----------------------|---------------------|---------------------|----------------------|
| <u>Fixed-income obligations</u> | | | | |
| U.S. Government | \$ 8,565,431 | \$ 2,203,006 | \$ - | \$ 8,565,431 |
| U.S. Corporate | 7,013,417 | - | - | 7,013,417 |
| | <u>15,578,848</u> | <u>2,203,006</u> | <u>-</u> | <u>17,781,854</u> |
| <u>Equity instruments</u> | | | | |
| U.S. Corporate | 15,137,494 | - | - | 15,137,494 |
| Foreign Corporate | 8,756,851 | - | - | 8,756,851 |
| | <u>23,894,345</u> | <u>-</u> | <u>-</u> | <u>23,894,345</u> |
| <u>Limited partnerships</u> | | | | |
| U.S. Corporate | - | - | 1,445,000 | 1,445,000 |
| Foreign Corporate | - | - | 420,761 | 420,761 |
| | <u>-</u> | <u>-</u> | <u>1,865,761</u> | <u>1,865,761</u> |
| | <u>\$ 39,473,193</u> | <u>\$ 2,203,006</u> | <u>\$ 1,865,761</u> | <u>\$ 43,541,960</u> |

The following represents the fair value hierarchy of the Conservancy's financial assets that were recognized at fair value on a recurring basis as of December 31, 2009:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|----------------------|-------------------|---------------------|----------------------|
| <u>Fixed-income obligations</u> | | | | |
| U.S. Government | \$ 8,545,616 | \$ 985,698 | \$ - | \$ 8,545,616 |
| U.S. Corporate | 6,958,399 | - | - | 6,958,399 |
| | <u>15,504,015</u> | <u>985,698</u> | <u>-</u> | <u>16,489,713</u> |
| <u>Equity instruments</u> | | | | |
| U.S. Corporate | 13,472,619 | - | - | 13,472,619 |
| Foreign Corporate | 7,937,872 | - | - | 7,937,872 |
| | <u>21,410,491</u> | <u>-</u> | <u>-</u> | <u>21,410,491</u> |
| <u>Limited partnerships</u> | | | | |
| U.S. Corporate | - | - | 1,319,793 | 1,319,793 |
| Foreign Corporate | - | - | 233,552 | 233,552 |
| | <u>-</u> | <u>-</u> | <u>1,553,345</u> | <u>1,553,345</u> |
| | <u>\$ 36,914,506</u> | <u>\$ 985,698</u> | <u>\$ 1,553,345</u> | <u>\$ 39,453,549</u> |

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The Conservancy re-examined the composition of the investment portfolio and determined that \$3,843,231 of Level 2 investments should be transferred to Level 1 in the 2010 presentation and the conforming change was made to the 2009 presentation. In addition, additional classifications of instruments are presented for 2010 and 2009 to conform to current accounting standards.

A reconciliation for years ended December 31 of fair value measures categorized as Level 3 follows:

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| Fair value, beginning of year | \$ 1,553,345 | \$ 1,261,434 |
| Capital calls | 368,300 | 202,225 |
| Net investment return, including unrealized gains | <u>(55,884)</u> | <u>89,686</u> |
| Fair value, end of year | <u>\$ 1,865,761</u> | <u>\$ 1,553,345</u> |

The amount of total gains for the year included in investment return attributable to the change in unrealized gains related to the limited partnerships is \$475,841 and \$184,465 in 2010 and 2009, respectively.

12. SUBSEQUENT EVENT

The Conservancy obtained approximately \$4,300,000 from a donor in December 2010 to acquire property in the Evitts Creek section of Bedford County. The transaction was cancelled subsequent to December 31, 2010. The \$4,300,000 is recorded in the land escrow liability section of the statements of financial position at December 31, 2010 as the money was returned during 2011.

Supplementary Information

WESTERN PENNSYLVANIA CONSERVANCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2010

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Grantor Number or Pass-Through Grantor Number | Amount Expended |
|--|---------------------------|---|--------------------|
| <u>U.S. Department of the Interior:</u> | | | |
| Passed through US Fish and Wildlife Service: | | | |
| Fish and Wildlife Management Assistance | 15.608 | 52230-A-G002 | \$ 8,189 |
| State Wildlife Grants | 15.634 | PFBC 2010-0319.01 | 12,468 |
| State Wildlife Grants | 15.634 | PFBC 2009-0309.01 | 10,261 |
| State Wildlife Grants | 15.634 | PFBC 2009-0309.02 | 37,990 |
| State Wildlife Grants | 15.634 | PFBC 2009-0309.04 | 12,811 |
| State Wildlife Grants | 15.634 | PFBC 2009-0518.02 | 50,641 |
| State Wildlife Grants | 15.634 | 4100049272 | 32,775 |
| State Wildlife Grants | 15.634 | WPC-C-0809-130 | 12,031 |
| State Wildlife Grants | 15.634 | 516609M041 | 7,319 |
| State Wildlife Grants | 15.634 | PFBC 092305.03 | 41,230 |
| State Wildlife Grants | 15.634 | PFBC 2006-1002.01 | 1,288 |
| State Wildlife Grants | 15.634 | PFBC 0006-1122.01 | 4,473 |
| State Wildlife Grants | 15.634 | WM-0010-07 | 14,680 |
| State Wildlife Grants | 15.634 | PFBC 2007-1204.01 | 26,776 |
| State Wildlife Grants | 15.634 | PFBC 2008-0204.01 | 66,335 |
| State Wildlife Grants | 15.634 | 4100049818 | 43,937 |
| Subtotal | | | 375,015 |
| Passed through National Park Service: | | | |
| State Wildlife Grants | 15.634 | NPSOR122(B) | 16,877 |
| State Wildlife Grants | 15.634 | N/A | 16,190 |
| Subtotal | | | 33,067 |
| Passed through National Park Service: | | | |
| Rivers, Trails and Conservation Assistance | 15.921 | R-4506070747 | 1,094 |
| Rivers, Trails and Conservation Assistance | 15.921 | N/A | 4,375 |
| Subtotal | | | 5,469 |
| Total U.S. Department of the Interior | | | 421,740 |
| <u>U.S. Department of Housing and Urban Development:</u> | | | |
| Passed through City of Pittsburgh: | | | |
| Community Development Block Grant/Entitlement Grants | 14.218 | N/A | 720 |
| Community Development Block Grant/Entitlement Grants | 14.218 | 48726 | 41,418 |
| Community Development Block Grant/Entitlement Grants | 14.218 | 47908 | 88,444 |
| Total U.S. Department of Housing and Urban Development | | | 130,582 |
| <u>U.S. Department of Transportation:</u> | | | |
| Transportation Enhancements Program | 20.205 | 116956 | 112,632 |
| <u>U.S. Environment Protection Agency:</u> | | | |
| Regional Wetland Program Development Grants | 66.461 | WPC-06-0001 | 26,299 |
| Regional Wetland Program Development Grants | 66.461 | WPC-06-0001 | 45,925 |
| Subtotal | | | 72,224 |
| Passed through Pennvest: | | | |
| ARRA - Capitalization Grants for Clean Water State Revolving Funds | 66.458 | 02261270905-CF | 1,479,483 |
| Total U.S. Environment Protection Agency | | | 1,551,707 |
| <u>U.S. Department of Agriculture:</u> | | | |
| Passed through Natural Resources Conservation Service: | | | |
| Farm and Ranch Lands Protection Program | 10.913 | 68-2D37-09-374 | 44,786 |
| Farm and Ranch Lands Protection Program | 10.913 | NRCS 69-3A75-9-153 | 9,410 |
| Subtotal | | | 54,196 |
| Passed through Forest Service: | | | |
| Cooperative Forestry Assistance | 10.664 | 08-CS-11091900-036 | 6,033 |
| Cooperative Forestry Assistance | 10.664 | 10-DG-11420004-157 | 816 |
| Subtotal | | | 6,849 |
| Total U.S. Department of Agriculture | | | 61,045 |
| Total Federal Awards | | | \$ 2,277,706 |

See accompanying note to schedule of expenditures of federal awards.

WESTERN PENNSYLVANIA CONSERVANCY

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2010

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (schedule) is presented on the accrual basis of accounting. Funds reflected as disbursed on this schedule represent expenditures incurred to the extent of the program or award amounts.

WESTERN PENNSYLVANIA CONSERVANCY

SCHEDULES OF UNRESTRICTED OPERATING REVENUES AND PUBLIC SUPPORT

YEARS ENDED DECEMBER 31, 2010 AND 2009

| | Amount | | Percent of Total Unrestricted Operating Revenues and Public Support | |
|--|----------------------|----------------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Contributions, Grants, and Memberships, Including Restrictions Met in Current Year: | | | | |
| Individuals | \$ 1,373,026 | \$ 1,278,275 | 8% | 8% |
| Foundations | 3,234,435 | 3,285,603 | 18% | 20% |
| Business community | 635,493 | 511,876 | 3% | 3% |
| Government | 4,650,718 | 3,246,635 | 25% | 20% |
| | <u>9,893,672</u> | <u>8,322,389</u> | <u>54%</u> | <u>51%</u> |
| Earned Income: | | | | |
| Fallingwater admissions | 3,212,122 | 3,125,701 | 18% | 19% |
| Sales from Fallingwater museum shop and café | 2,240,238 | 2,105,755 | 12% | 13% |
| Rents, royalties, and miscellaneous | 672,768 | 455,309 | 4% | 3% |
| | <u>6,125,128</u> | <u>5,686,765</u> | <u>34%</u> | <u>35%</u> |
| Internal Income: | | | | |
| Investment return designated for current operations | 2,139,658 | 2,196,018 | 13% | 14% |
| Total unrestricted operating revenues and public support | <u>\$ 18,158,458</u> | <u>\$ 16,205,172</u> | <u>100%</u> | <u>100%</u> |

The independent auditor's report should be read with these schedules.

Western Pennsylvania Conservancy

Independent Auditor's Reports
in Accordance with OMB Circular A-133

Year Ended December 31, 2010

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*

Board of Directors
Western Pennsylvania Conservancy

We have audited the financial statements of the Western Pennsylvania Conservancy (Conservancy) as of and for the year ended December 31, 2010, and have issued our report thereon dated May 12, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Conservancy's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Conservancy's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Conservancy's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Conservancy's financial statements are free of 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*.

* * * * *

Board of Directors
Western Pennsylvania Conservancy
Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

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

Mahe Duessel

Pittsburgh, Pennsylvania
May 12, 2011

Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each of its Major Programs and on Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Directors
Western Pennsylvania Conservancy

Compliance

We have audited the Western Pennsylvania Conservancy's (Conservancy) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Conservancy's major federal programs for the year ended December 31, 2010. The Conservancy'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 Conservancy's management. Our responsibility is to express an opinion on the Conservancy'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; 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 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. Our audit does not provide a legal determination on the Conservancy's compliance with those requirements.

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 each of its major federal programs for the year ended December 31, 2010.

Internal Control over Compliance

Management of the Conservancy 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 Conservancy's internal control over compliance with the 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, 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.

Board of Directors
Western Pennsylvania Conservancy
Independent Auditor's Report on Compliance
with Requirements that Could Have a Direct
and Material Effect on Each of its Major Programs

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 federal 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 federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

* * * * *

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

Maher Duessel

Pittsburgh, Pennsylvania
May 12, 2011

WESTERN PENNSYLVANIA CONSERVANCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2010

I. Summary of Audit Results

1. Type of auditor's report issued: Unqualified

2. Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?
 yes none reported

3. Noncompliance material to financial statements noted? yes no

4. Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?
 yes none reported

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

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

7. Major Programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|--|
| 15.634 | State Wildlife Grants |
| 66.458 | ARRA-Capitalization Grants for Clean Water State Revolving Funds |

8. Dollar threshold used to distinguish between type A and type B programs: \$300,000

9. Auditee qualified as low-risk auditee? yes no

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

No matters were reported.

III. Findings and questioned costs for federal awards.

No matters were reported.

WESTERN PENNSYLVANIA CONSERVANCY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2010

NONE