

# **Western Pennsylvania Conservancy**

## **Financial Statements and Supplementary Information**

**Years Ended December 31, 2011 and 2010  
with Independent Auditor's Reports**

**MaherDuessel**  
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Pittsburgh | Harrisburg | Butler

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# WESTERN PENNSYLVANIA CONSERVANCY

YEARS ENDED DECEMBER 31, 2011 AND 2010

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Independent Auditor's Report

Board of Directors  
Western Pennsylvania Conservancy

We have audited the accompanying statements of financial position of the Western Pennsylvania Conservancy (Conservancy) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years 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 audits.

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 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 audits provide 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years 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 22, 2012, 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 audits were 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. Such information is the responsibility of management and was derived from and relates to underlying accounting and other records used to prepare the 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 28 through 30 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, 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 22, 2012

# WESTERN PENNSYLVANIA CONSERVANCY

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,651,749	\$ 3,401,116
Cash held for land acquisition	831,303	4,741,310
Accounts and pledges receivable	5,080,756	4,064,392
Notes receivable	500,000	-
Museum shop inventories	330,642	266,485
Prepaid expenses and deposits	531,802	335,971
Investments	40,440,967	43,541,960
Property and equipment, net	13,787,628	13,710,472
Fallingwater® and fine art collection	5,565,719	5,565,719
Land conservation projects	13,528,898	11,447,475
<b>Total Assets</b>	<b>\$ 83,249,464</b>	<b>\$ 87,074,900</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Land escrows	\$ 831,303	\$ 4,741,310
Accounts payable and other liabilities	1,472,399	1,132,884
Notes payable and other liabilities	1,348,062	925,181
<b>Total Liabilities</b>	<b>3,651,764</b>	<b>6,799,375</b>
<b>Net Assets:</b>		
Unrestricted	50,814,921	53,222,355
Temporarily restricted	16,136,366	14,806,522
Permanently restricted	12,646,413	12,246,648
<b>Total Net Assets</b>	<b>79,597,700</b>	<b>80,275,525</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 83,249,464</b>	<b>\$ 87,074,900</b>

See accompanying notes to financial statements.

# WESTERN PENNSYLVANIA CONSERVANCY

## STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b><u>Operating Revenues and Public Support:</u></b>				
Contributions, gifts, and grants	\$ 6,131,378	\$ 4,358,464	\$ 399,765	\$ 10,889,607
Memberships	938,021	-	-	938,021
Admissions	3,504,898	-	-	3,504,898
Sales	2,344,419	-	-	2,344,419
Investment return designated for current operations	2,199,328	506,150	-	2,705,478
Rent, royalties, and miscellaneous income	553,579	-	-	553,579
Net assets released from restrictions:				
Satisfaction of program restrictions	3,156,726	(3,156,726)	-	-
Total operating revenues and public support	18,828,349	1,707,888	399,765	20,936,002
<b><u>Expenses:</u></b>				
Programs	17,202,352	-	-	17,202,352
General and administrative	1,266,236	-	-	1,266,236
Development and fundraising	1,037,665	-	-	1,037,665
Total expenses	19,506,253	-	-	19,506,253
<b>Change in Net Assets from Operations</b>	(677,904)	1,707,888	399,765	1,429,749
<b><u>Non-Operating Support and Income:</u></b>				
Investment return in excess of (less than) amount designated for current operations	(2,069,232)	(1,068,984)	-	(3,138,216)
Capital gifts, grants, and other income	429,296	690,940	-	1,120,236
Changes in charitable gift annuities	25,356	-	-	25,356
Net gain (loss) on conveyance of land	(112,995)	-	-	(112,995)
Net gain (loss) on other assets	(1,955)	-	-	(1,955)
Total non-operating support and income	(1,729,530)	(378,044)	-	(2,107,574)
<b>Change in Net Assets</b>	(2,407,434)	1,329,844	399,765	(677,825)
<b><u>Net Assets:</u></b>				
Beginning of year	53,222,355	14,806,522	12,246,648	80,275,525
End of year	\$ 50,814,921	\$ 16,136,366	\$ 12,646,413	\$ 79,597,700

See accompanying notes to financial statements.

# WESTERN PENNSYLVANIA CONSERVANCY

## STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b><u>Operating Revenues and Public Support:</u></b>				
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
<b><u>Expenses:</u></b>				
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
<b>Change in Net Assets from Operations</b>	(160,342)	1,446,449	185,560	1,471,667
<b><u>Non-Operating Support and Income:</u></b>				
Investment return in excess of (less than) amount designated for current operation	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
<b>Change in Net Assets</b>	2,103,832	1,569,709	185,793	3,859,334
<b><u>Net Assets:</u></b>				
Beginning of year	51,118,523	13,236,813	12,060,855	76,416,191
End of year	\$ 53,222,355	\$ 14,806,522	\$ 12,246,648	\$ 80,275,525

See accompanying notes to financial statements.

# WESTERN PENNSYLVANIA CONSERVANCY

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (677,825)	\$ 3,859,334
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	719,699	720,465
Net realized and unrealized (gains) losses on long-term investments	1,578,554	(3,396,405)
Contributions restricted for long-term purposes	(399,765)	(185,560)
(Gain) loss on the conveyance of land	112,995	(2,084)
Loss on the disposal of other assets	1,955	155,000
Changes in assets and liabilities:		
Accounts and pledges receivable and inventories	(1,209,886)	(2,398,571)
Prepays and other deposits	(195,831)	(33,140)
Land conservation projects	(2,735,672)	(718,632)
Charitable Gift Annuities	(65,146)	19,285
Accounts payable and other liabilities	339,515	375,831
Net cash provided by (used in) operating activities	(2,531,407)	(1,604,477)
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(755,484)	(1,666,181)
Purchase of land	(309,757)	(226,000)
Purchase of investments	(40,852,053)	(11,331,613)
Proceeds from sale of investments	42,374,491	10,639,607
Proceeds from sale of building	-	545,000
Net cash provided by (used in) investing activities	457,197	(2,039,187)
<b>Cash Flows From Financing Activities:</b>		
Collections of contributions for long-term purposes	29,130	118,477
(Payments on) proceeds from contributions for land acquisition	(3,910,007)	4,622,200
Proceeds from note payable	-	120,000
Repayment of note payable	-	(242,172)
Capital lease payments	(4,995)	-
Proceeds from line of credit	944,281	494,584
Repayment of line of credit	(494,584)	-
Reimbursements for land conservation projects	851,011	658,985
Net cash provided by (used in) financing activities	(2,585,164)	5,772,074
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(4,659,374)	2,128,410
<b>Cash and Cash Equivalents:</b>		
Beginning of year	8,142,426	6,014,016
End of year	\$ 3,483,052	\$ 8,142,426

**Supplemental Schedule of Noncash Investing and Financing Activities:**

The Conservancy acquired land through the use of a note payable in 2010 of \$120,000.

The Conservancy acquired three pickup trucks through a capital lease in 2011 of \$43,000.

See accompanying notes to financial statements.

# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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### 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.

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# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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### Inventory

The museum shop, operating 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 2011 and 2010, the Board approved a cash drawdown of \$2,705,478 and \$2,619,658, 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, 2011 AND 2010

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<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. These easements are not recorded in the financial statements. All acres held as

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# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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easements are disclosed in Note 6. Easements purchased by the Conservancy are recorded at cost.

### 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

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# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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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. The Conservancy has assessed the tax positions it has taken or expects to take in its tax returns and no liability has been determined to be necessary.

### Fair Value Measurement

The Conservancy has adopted the Fair Value Measurement topic of ASC, including all applicable updates, 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).

### 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.

## **2. ACCOUNTS, NOTES, AND PLEDGES RECEIVABLE**

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

# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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	<u>2011</u>	<u>2010</u>
Accounts and notes receivable:		
Billed grants and contracts	\$ 1,914,397	\$ 1,724,139
Notes	500,000	-
Other	775,138	1,681,859
Pledges receivable:		
Unrestricted contributions	62,333	680
Temporarily restricted contributions	2,013,954	597,494
Permanently restricted contributions	391,341	70,196
	<u>2,467,628</u>	<u>668,370</u>
Less: unamortized discount	<u>(76,407)</u>	<u>(9,976)</u>
Net accounts, notes, and pledges receivable	<u>\$ 5,580,756</u>	<u>\$ 4,064,392</u>
Pledges, net of unamortized discount, due in:		
Less than one year	\$ 1,016,340	\$ 486,671
One to five years	<u>1,374,881</u>	<u>171,723</u>
	<u>\$ 2,391,221</u>	<u>\$ 658,394</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, 2011 and 2010.

A \$500,000 note was given to an organization during 2011 and was repaid in January 2012.

# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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### 3. INVESTMENTS

Investment portfolios at December 31 consisted of the following:

	2011		2010	
	Amount	Percentage	Amount	Percentage
Limited partnerships	\$ 2,419,921	6%	\$ 1,865,761	4%
Fixed-income	18,201,502	45%	17,781,854	41%
Equity instruments	19,819,544	49%	23,894,345	55%
	<u>\$ 40,440,967</u>	<u>100%</u>	<u>\$ 43,541,960</u>	<u>100%</u>

The Conservancy has committed \$4,000,000 in subscriptions to limited partnerships; as of December 31, 2011 and December 31, 2010. The total funds invested were approximately \$2,420,000 and \$1,866,000 in 2011 and 2010, respectively.

The above investments are being held by custodians and managed by professional investment advisors. During 2011, the Conservancy entered into a master custody agreement and transferred the investments into custodial accounts resulting in significant investment activity during the year. Related management fees included in expenses amounted to approximately \$308,000 and \$260,000 in 2011 and 2010, respectively.

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

	2011	2010
Unrestricted	\$ 21,577,765	\$ 24,640,313
Temporarily restricted	13,952,766	14,020,341
Permanently restricted (Note 8)	4,910,436	4,881,306
	<u>\$ 40,440,967</u>	<u>\$ 43,541,960</u>

# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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Income earned on investments at December 31 is as follows:

	<u>2011</u>	<u>2010</u>
Realized income:		
Interest and dividends	\$ 1,145,816	\$ 1,024,658
Gain (loss) on sale of investments	(344,494)	411,520
	<u>801,322</u>	<u>1,436,178</u>
Unrealized gains (losses)	(1,234,060)	2,984,886
Net investment gain (loss)	<u>\$ (432,738)</u>	<u>\$ 4,421,064</u>

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

	<u>2011</u>	<u>2010</u>
Investment return designated for current operations	\$ 2,705,478	\$ 2,619,658
Investment return in excess of (less than) amount designated for current operations	(3,138,216)	1,801,406
	<u>\$ (432,738)</u>	<u>\$ 4,421,064</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, 2011 AND 2010

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### 4. PROPERTY AND EQUIPMENT

Property and equipment at December 31 consisted of:

	<u>2011</u>	<u>2010</u>
Land	\$ 685,000	\$ 685,000
Building and building improvements	10,189,341	10,016,866
Equipment	2,814,787	2,654,102
Ground improvements	<u>6,287,869</u>	<u>5,863,798</u>
	19,976,997	19,219,766
Less: accumulated depreciation	<u>(6,189,369)</u>	<u>(5,509,294)</u>
	<u>\$ 13,787,628</u>	<u>\$ 13,710,472</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.

# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

### 5. LAND CONSERVATION PROJECTS

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

	2011	2010	Net Increase (Decrease)
Alameda Park	\$ 75,693	\$ 75,693	\$ -
Bear Run Reserve	1,930,533	1,930,533	-
Beechwood Farms Reserve	715,728	715,728	-
Bennett Branch Forest	1,926,632	1,926,632	-
Clarion River Project	880,811	880,811	-
Farm/Woodlands Program	293,371	293,371	-
French Creek	1,017,284	702,165	315,119
Lake Pleasant Properties	1,294,464	1,293,890	574
Laurel Highlands	438,308	141,293	297,015
Ligonier Valley	266,372	274,856	(8,484)
Lower Allegheny River Project	141,241	141,241	-
Loyalhanna Gorge	27,468	27,468	-
Martin Run	301,552	299,001	2,551
Mountain Streams	26,201	26,201	-
Natural Areas	185,829	181,829	4,000
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	222,512	-
Wolf Creek Narrows	204,946	204,946	-
Other land holdings	2,002,247	414,476	1,587,771
	<u>\$ 13,528,898</u>	<u>\$ 11,447,475</u>	<u>\$ 2,081,423</u>

# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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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:

	<u>2011</u>	<u>2010</u>
Additions and acquisitions	\$ 3,469,457	\$ 1,446,716
Conveyances	(537,023)	-
Reimbursements	<u>(851,011)</u>	<u>(1,158,985)</u>
	<u>\$ 2,081,423</u>	<u>\$ 287,731</u>

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.

### 6. CONSERVATION EASEMENTS

The Conservancy holds certain conservation easements throughout Western Pennsylvania. These easements include 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

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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<u>County</u>	<u>2011</u>	<u>2010</u>
Allegheny	821	821
Bedford	216	216
Blair	7	7
Butler	105	105
Cambria	3,167	3,167
Cameron	394	394
Clinton	106	106
Crawford	47	47
Elk	5	5
Erie	830	748
Fayette	645	645
Forest	66	-
Franklin	51	51
Greene	41	41
Huntingdon	2,873	2,873
Indiana	71	71
Jefferson	504	504
Lawrence	123	123
Lycoming	139	139
Mercer	716	716
Mifflin	195	195
Potter	377	377
Somerset	155	155
Venango	11,964	11,565
Warren	253	253
Westmoreland	8,577	8,029
Acres held	<u>32,448</u>	<u>31,353</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 8.3% of the fair value of the contributions

# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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over the designated beneficiaries' lifetime. The present values of these obligations approximate \$245,000 and \$311,000, respectively, at December 31, 2011 and 2010.

### Line of Credit

The Conservancy has a line of credit with a bank providing for total borrowing up to \$5,000,000. 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 six-month London InterBank Offered Rate (LIBOR) plus 0.35%. As of December 31, 2011 and 2010, the balances due on the line of credit were \$944,281 and \$494,584, respectively. The line of credit expires August 23, 2013.

### 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 first installment was paid in January 2012. The balance on this note payable at December 31, 2011 and 2010 was \$120,000 and \$120,000, respectively.

### Capital Lease

During 2011, the Conservancy entered into a five-year capital lease for \$43,000 for three pickup trucks to be used in the gardens department. The terms of the lease require monthly payments of \$895. The balance on this lease agreement at December 31, 2011 was \$38,000.

## **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:

# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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	<u>2011</u>	<u>2010</u>
Operating:		
Conservation	\$ 1,458,458	\$ 2,020,485
Fallingwater	113,018	237,689
Community Gardens/Greenspace	2,598,336	1,832,969
Other	188,652	44,302
	<u>\$ 4,358,464</u>	<u>\$ 4,135,445</u>

The net assets released from restrictions included amounts for capital purposes of \$690,940 and \$372,025 for the years ended December 31, 2011 and 2010, respectively.

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

	<u>2011</u>	<u>2010</u>
Conservation	\$ 9,101,116	\$ 8,924,806
Fallingwater	251,359	204,324
Community Gardens/Greenspace	1,919,730	1,114,767
Other	222,540	49,110
	<u>11,494,745</u>	<u>10,293,007</u>
Endowment	3,219,776	3,782,610
Capital items	1,421,845	730,905
	<u>\$ 16,136,366</u>	<u>\$ 14,806,522</u>

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

# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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	<u>2011</u>	<u>2010</u>
Endowment investments in perpetuity, the income from which is expendable to support:		
Community Gardens/Greenspace	\$ 888,100	\$ 869,000
Fallingwater	1,753,556	1,535,043
Beechwood Farm Sanctuary	50,000	50,000
General purposes	1,006,188	1,006,158
Specific program support	1,583,227	1,421,105
	<u>5,281,071</u>	<u>4,881,306</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)	<u>2,029,498</u>	<u>2,029,498</u>
	<u>\$ 12,646,413</u>	<u>\$ 12,246,648</u>

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 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. 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

# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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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
2011	<u>\$ 3,219,776</u>	<u>\$ 5,281,071</u>	<u>\$ 8,500,847</u>
2010	<u>\$ 3,782,610</u>	<u>\$ 4,881,306</u>	<u>\$ 8,663,916</u>

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

# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 3,782,610	\$ 4,881,306	\$ 8,663,916
Investment return:			
Investment income	214,508	-	214,508
Net appreciation (depreciation)	(271,192)	-	(271,192)
Drawdown	(506,150)	-	(506,150)
	3,219,776	4,881,306	8,101,082
Contributions	-	399,765	399,765
Endowment net assets, end of year	\$ 3,219,776	\$ 5,281,071	\$ 8,500,847
	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 (depreciation)	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

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, 2011 and 2010. These assets included land, buildings, and fine art.

# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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### 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 less than 15% 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 approximately 15 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 2011 and 2010 were as follows:

# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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	<u>2011</u>	<u>2010</u>
Programs:		
Direct:		
Conservation	\$ 5,613,076	\$ 4,733,830
Fallingwater	5,955,171	5,300,902
Community Gardens/Greenspace	4,094,538	4,500,803
Constituent programs/outreach	<u>859,868</u>	<u>833,397</u>
Total direct programs	16,522,653	15,368,932
Depreciation (programs' portion)	<u>679,699</u>	<u>680,465</u>
Total programs	<u>17,202,352</u>	<u>16,049,397</u>
General and administrative	1,266,236	1,285,384
Development and fundraising	<u>1,037,665</u>	<u>984,019</u>
Total expenses	<u>\$ 19,506,253</u>	<u>\$ 18,318,800</u>
Percent of program expenses to total expenses	<u>88%</u>	<u>88%</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 \$683,000 and \$686,000 in 2011 and 2010, 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, 2011 and 2010, \$229,000 and \$195,000, 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

# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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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 and the original pledge value discounted to net present value for pledges receivable expected to be received in more than one year as they have no significant observable inputs. For 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.

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# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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, 2011:

	Level 1	Level 2	Level 3	Total
<u>Fixed-income obligations</u>				
U.S. Government	\$ 4,338,436	\$ 2,745,988	\$ -	\$ 7,084,424
U.S. Corporate	9,095,262	-	-	9,095,262
	<u>13,433,698</u>	<u>2,745,988</u>	<u>-</u>	<u>16,179,686</u>
<u>Equity instruments</u>				
U.S. Corporate	15,161,848	-	-	15,161,848
Foreign Corporate	6,679,512	-	-	6,679,512
	<u>21,841,360</u>	<u>-</u>	<u>-</u>	<u>21,841,360</u>
<u>Limited partnerships</u>				
U.S. Corporate	-	-	1,889,069	1,889,069
Foreign Corporate	-	-	530,852	530,852
	<u>-</u>	<u>-</u>	<u>2,419,921</u>	<u>2,419,921</u>
<u>Pledges receivable</u>				
Due in less than 1 year	1,016,340	-	-	1,016,340
Due in 1-5 years	-	-	1,374,881	1,374,881
	<u>1,016,340</u>	<u>-</u>	<u>1,374,881</u>	<u>2,391,221</u>
	<u>\$ 36,291,398</u>	<u>\$ 2,745,988</u>	<u>\$ 3,794,802</u>	<u>\$ 42,832,188</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, 2010:

# WESTERN PENNSYLVANIA CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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	Level 1	Level 2	Level 3	Total
<u>Fixed-income obligations</u>				
U.S. Government	\$ 8,565,431	\$ 2,203,006	\$ -	\$ 10,768,437
U.S. Corporate	7,013,417	-	-	7,013,417
	15,578,848	2,203,006	-	17,781,854
<u>Equity instruments</u>				
U.S. Corporate	15,137,494	-	-	15,137,494
Foreign Corporate	8,756,851	-	-	8,756,851
	23,894,345	-	-	23,894,345
<u>Limited partnerships</u>				
U.S. Corporate	-	-	1,445,000	1,445,000
Foreign Corporate	-	-	420,761	420,761
	-	-	1,865,761	1,865,761
	\$ 39,473,193	\$ 2,203,006	\$ 1,865,761	\$ 43,541,960

Pledges receivable were immaterial at December 31, 2010 and therefore were not included in the table.

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

	2011	2010
Fair value, beginning of year	\$ 1,865,761	\$ 1,553,345
Capital calls	225,530	368,300
Pledges receivable due in 1-5 years	1,374,881	-
Net investment return, including unrealized gains	328,630	(55,884)
Fair value, end of year	\$ 3,794,802	\$ 1,865,761

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 \$74,608 and \$475,841 in 2011 and 2010, respectively.

## **Supplementary Information**

# WESTERN PENNSYLVANIA CONSERVANCY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2011

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	2011-0005-000	\$ 10,264
Fish and Wildlife Management Assistance	15.608	30181AG152	25,860
Fish and Wildlife Management Assistance	15.608	PFBC 2011-0426.01	25,205
Fish and Wildlife Management Assistance	15.608	52230-A-G002	1,811
Subtotal			63,140
Passed through US Fish and Wildlife Service:			
State Wildlife Grants	15.634	PFBC 2011-0915.01	34,241
State Wildlife Grants	15.634	PFBC 2009-0309.02	9,547
State Wildlife Grants	15.634	PFBC 2009-0309.04	74,952
State Wildlife Grants	15.634	WPC-C-0809-130	11,265
State Wildlife Grants	15.634	PFBC 2011-1102.04	16,000
State Wildlife Grants	15.634	516609M041	1,792
State Wildlife Grants	15.634	PFBC 092305.03	43,608
State Wildlife Grants	15.634	PFBC 2010-0629.02	61,519
State Wildlife Grants	15.634	PFBC 2007-1204.01	19,786
State Wildlife Grants	15.634	PFBC 2008-0204.01	33,284
State Wildlife Grants	15.634	231045	6,762
Subtotal			312,756
Passed through National Park Service:			
State Wildlife Grants	15.634	NPSOR132	13,000
Passed through National Park Service:			
Rivers, Trails, and Conservation Assistance	15.921	N/A	125
Total U.S. Department of the Interior			389,021
<u>U.S. Department of Housing and Urban Development:</u>			
Passed through City of Pittsburgh:			
Community Development Block Grants/Entitlement Grants	14.218	49298	44,511
Community Development Block Grants/Entitlement Grants	14.218	48726	62,582
Total U.S. Department of Housing and Urban Development			107,093
<u>U.S. Environment Protection Agency:</u>			
Great Lakes Program	66.469	030411-1	1,555
Regional Wetland Program Development Grants	66.461	WPC-06-0001	44,303
Regional Wetland Program Development Grants	66.461	WPC-06-0001	23,773
Subtotal			68,076
Passed through National Fish and Wildlife Foundation:			
Chesapeake Bay Program	66.466	2010-0067-005	8,168
Chesapeake Bay Program	66.466	2010-0076-004/22704	25,000
Chesapeake Bay Program	66.466	2010-0067-024	4,308
Subtotal			37,476
Passed through Environmental Protection Agency:			
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	02261270905-CF	768,873
Total U.S. Environment Protection Agency			875,980
<u>U.S. Department of Agriculture:</u>			
Passed through Forest Service:			
Cooperative Forestry Assistance	10.664	10-DG-11420004-157	11,741
Total U.S. Department of Agriculture			11,741
<u>U.S.D.A. Natural Resources Conservation Service</u>			
Farm and Ranch Lands Protection Program	10.913	68-2D37-09-374	561
Farm and Ranch Lands Protection Program	10.913	68-2D37-10-437	27,000
Farm and Ranch Lands Protection Program	10.913	NRCS 69-3A75-9-153	13,128
Total - U.S.D.A. Natural Resources Conservation Service			40,689
Total Federal Awards			\$ 1,424,524

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, 2011

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### **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, 2011 AND 2010

	Amount		Percent of Total Unrestricted Operating Revenues and Public Support	
	2011	2010	2011	2010
<b>Contributions, Grants, and Memberships, Including Restrictions Met in Current Year:</b>				
Individuals	\$ 2,544,880	\$ 1,373,026	14%	8%
Foundations	2,269,030	3,234,435	12%	18%
Business community	1,420,276	635,493	8%	3%
Government	3,991,939	4,650,718	21%	25%
	10,226,125	9,893,672	54%	54%
<b>Earned Income:</b>				
Fallingwater admissions	3,504,898	3,212,122	19%	18%
Sales from Fallingwater museum shop and café	2,344,419	2,240,238	12%	12%
Rents, royalties, and miscellaneous	553,579	672,768	3%	4%
	6,402,896	6,125,128	34%	34%
<b>Internal Income:</b>				
Investment return designated for current operations	2,199,328	2,139,658	12%	13%
 Total unrestricted operating revenues and public support	 \$ 18,828,349	 \$ 18,158,458	 100%	 100%

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, 2011

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, 2011, and have issued our report thereon dated May 22, 2012. 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*.

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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.

*Maher Duessel*

Pittsburgh, Pennsylvania  
May 22, 2012

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, 2011. 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2011.

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.

*Mahe Duessel*

Pittsburgh, Pennsylvania  
May 22, 2012

# WESTERN PENNSYLVANIA CONSERVANCY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2011

### 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>
14.218	Community Development Block Grants/Entitlement 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, 2011**

**NONE**