

Western Pennsylvania Conservancy

Financial Statements and Supplementary Information

**Years Ended December 31, 2012 and 2011
with Independent Auditor's Reports**

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

YEARS ENDED DECEMBER 31, 2012 AND 2011

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Independent Auditor's Report

Board of Directors
Western Pennsylvania Conservancy

Report on the Financial Statements

We have audited the accompanying financial statements of the Western Pennsylvania Conservancy (Conservancy), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for Financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

Other Matters

Supplementary Information

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 financial statements. Such information is the responsibility of management and was derived from and relates to the 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 financial statements of the Conservancy. The information found on pages 31 through 33 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2013, 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* in considering the Conservancy's internal control over financial reporting and compliance.

Maher Duessel

Pittsburgh, Pennsylvania
May 9, 2013

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash and cash equivalents	\$ 6,136,018	\$ 2,651,749
Cash held for land acquisition	637,313	831,303
Accounts and pledges receivable	6,022,696	5,080,756
Notes receivable	-	500,000
Museum shop inventories	349,270	330,642
Prepaid expenses and deposits	598,985	531,802
Investments	39,295,271	40,440,967
Property and equipment, net	13,236,568	13,787,628
Fallingwater® and fine art collection	5,603,040	5,565,719
Land conservation projects	19,233,090	13,528,898
Total Assets	\$ 91,112,251	\$ 83,249,464
Liabilities and Net Assets		
Liabilities:		
Land escrows	\$ 637,313	\$ 831,303
Accounts payable and other liabilities	919,031	1,472,399
Notes payable and other liabilities	1,224,112	1,348,062
Total Liabilities	2,780,456	3,651,764
Net Assets:		
Unrestricted	58,403,421	50,814,921
Temporarily restricted	16,847,543	16,136,366
Permanently restricted	13,080,831	12,646,413
Total Net Assets	88,331,795	79,597,700
Total Liabilities and Net Assets	\$ 91,112,251	\$ 83,249,464

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Operating Revenues and Public Support:</u>				
Contributions, gifts, and grants	\$ 3,950,071	\$ 7,152,002	\$ 434,418	\$ 11,536,491
Memberships	1,027,835	-	-	1,027,835
Admissions	3,579,578	-	-	3,579,578
Sales	2,259,615	-	-	2,259,615
Investment return designated for current operations	2,518,315	445,607	-	2,963,922
Rent, royalties, and miscellaneous income	558,197	-	-	558,197
Net assets released from restrictions:				
Satisfaction of program restrictions	6,017,388	(6,017,388)	-	-
Total operating revenues and public support	19,910,999	1,580,221	434,418	21,925,638
<u>Expenses:</u>				
Programs	16,325,028	-	-	16,325,028
General and administrative	1,394,959	-	-	1,394,959
Development and fundraising	1,225,995	-	-	1,225,995
Total expenses	18,945,982	-	-	18,945,982
Change in Net Assets from Operations	965,017	1,580,221	434,418	2,979,656
<u>Non-Operating Support and Income:</u>				
Investment return in excess of (less than) amount designated for current operations	1,382,043	(251,161)	-	1,130,882
Capital gifts, grants, and other income	4,563,757	-	-	4,563,757
Net assets released from restrictions:				
Satisfaction of capital purpose restrictions	617,883	(617,883)	-	-
Changes in charitable gift annuities	(15,015)	-	-	(15,015)
Net gain (loss) on conveyance of land	74,641	-	-	74,641
Net gain (loss) on other assets	174	-	-	174
Total non-operating support and income	6,623,483	(869,044)	-	5,754,439
Change in Net Assets	7,588,500	711,177	434,418	8,734,095
<u>Net Assets:</u>				
Beginning of year	50,814,921	16,136,366	12,646,413	79,597,700
End of year	\$ 58,403,421	\$ 16,847,543	\$ 13,080,831	\$ 88,331,795

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Operating Revenues and Public Support:</u>				
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
<u>Expenses:</u>				
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
Change in Net Assets from Operations	(677,904)	1,707,888	399,765	1,429,749
<u>Non-Operating Support and Income:</u>				
Investment return in excess of (less than) amount designated for current operation	(2,069,232)	(1,068,984)	-	(3,138,216)
Capital gifts, grants, and other income	429,296	690,940	-	1,120,236
Net assets released from restrictions:				
Satisfaction of capital purpose restrictions	-	-	-	-
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)
Change in Net Assets	(2,407,434)	1,329,844	399,765	(677,825)
<u>Net Assets:</u>				
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

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities:		
Change in net assets	\$ 8,734,095	\$ (677,825)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	788,422	719,699
Net realized and unrealized (gains) losses on long-term investments	(2,778,684)	1,578,554
Contributions restricted for long-term purposes	(434,418)	(399,765)
(Gain) loss on the conveyance of land	(74,641)	112,995
(Gain) loss on the disposal of other assets	(174)	1,955
Changes in assets and liabilities:		
Accounts and pledges receivable and inventories	(807,040)	(1,209,886)
Prepays and other deposits	(67,183)	(195,831)
Land conservation projects	(5,704,192)	(2,735,672)
Charitable Gift Annuities	(39,830)	(65,146)
Accounts payable and other liabilities	(553,368)	339,515
Net cash provided by (used in) operating activities	(937,013)	(2,531,407)
Cash Flows From Investing Activities:		
Purchase of property and equipment	(274,683)	(755,484)
Purchase of land	-	(309,757)
Purchase of investments	(14,081,687)	(40,852,053)
Proceeds from sale of investments	17,908,025	42,374,491
Net cash provided by (used in) investing activities	3,551,655	457,197
Cash Flows From Financing Activities:		
Collections of contributions for long-term purposes	87,946	29,130
(Payments on) proceeds from contributions for land acquisition	(193,990)	(3,910,007)
Capital lease payments	-	(4,995)
Proceeds from line of credit	851,810	944,281
Repayment of line of credit	(1,028,618)	(494,584)
Reimbursements for land conservation projects	958,489	851,011
Net cash provided by (used in) financing activities	675,637	(2,585,164)
Net Increase (Decrease) in Cash and Cash Equivalents	3,290,279	(4,659,374)
Cash and Cash Equivalents:		
Beginning of year	3,483,052	8,142,426
End of year	\$ 6,773,331	\$ 3,483,052

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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, 2012 AND 2011

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 2012 and 2011, the Board approved a cash drawdown of \$2,963,922 and \$2,705,478, 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, 2012 AND 2011

<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 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. Additionally, the

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

Conservancy obtains easements through purchases directly from owners. Purchased easements are recorded at cost and reduced by the amount of any restricted grants received specifically for the easement purchases. All acres held as easements are disclosed in Note 6.

Land Escrows

Contributions received for specific acquisitions of land which the Conservancy intends to convey after purchase are recorded as land escrows until the property is purchased, at which time revenue is recognized.

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.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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 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 Accounting Standards Codification (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 Notes 2 and 3).

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, 2012 AND 2011

2. ACCOUNTS, NOTES, AND PLEDGES RECEIVABLE

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

	<u>2012</u>	<u>2011</u>
Accounts and notes receivable:		
Billed grants and contracts	\$ 1,191,709	\$ 1,914,397
Unbilled grants and contracts	1,667,278	544,279
Notes	-	500,000
Other	413,692	230,859
Total accounts and notes receivable	<u>3,272,679</u>	<u>3,189,535</u>
Pledges receivable:		
Unrestricted contributions	30,956	62,333
Temporarily restricted contributions	2,439,853	2,013,954
Permanently restricted contributions	363,529	391,341
Gross pledges receivable	2,834,338	2,467,628
Less: unamortized discount	<u>(84,321)</u>	<u>(76,407)</u>
	<u>2,750,017</u>	<u>2,391,221</u>
Net accounts, notes, and pledges receivable	<u>\$ 6,022,696</u>	<u>\$ 5,580,756</u>
Pledges, net of unamortized discount, due in:		
Less than one year	\$ 1,307,727	\$ 1,016,340
One to five years	1,442,290	1,374,881
	<u>\$ 2,750,017</u>	<u>\$ 2,391,221</u>

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

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NOTES TO FINANCIAL STATEMENTS

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Pledges are recorded in the accompanying financial statements at net present value and are expected to be received as follows:

<u>Years ending December 31</u>	<u>Amount</u>
2013	\$ 1,307,728
2014	651,269
2015	542,251
2016	287,010
2017	16,510
Thereafter	<u>29,570</u>
	2,834,338
Less - amount representing discount	<u>(84,321)</u>
	<u><u>\$ 2,750,017</u></u>

The Conservancy's estimate that an allowance for uncollectible pledges is not necessary is based on historical collection experience and a review of the current status of the pledges. Decisions to charge off uncollectible pledges are based on management's judgment after consideration of facts and circumstances surrounding potential uncollectible accounts. It is reasonably possible that the Conservancy's estimate of an allowance for uncollectible pledges will change.

Fair values of assets measured on a recurring basis as of December 31, 2012 and 2011 are as follows: Level 1 pledges receivable – current \$1,307,727 and \$1,016,340, respectively, and Level 3 pledges receivable – noncurrent \$1,442,290 and \$1,374,881, respectively.

Fair values for Level 1 financial instruments are determined by quoted prices in active market for identical financial instruments. Pledges due within one year are considered to be Level 1 because of the short maturity of these instruments. Fair values for Level 2 financial instruments are determined by other significant observable inputs (quoted prices for similar financial instruments, interest rates, prepayment speeds, credit risk, etc.). Fair values for Level 3 financial instruments are determined by significant unobservable inputs, including the Conservancy's own assumptions in determining the fair value of financial instruments.

Since the Conservancy's noncurrent pledges receivable have no significant observable inputs, they are classified as Level 3.

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NOTES TO FINANCIAL STATEMENTS

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The input used by the Conservancy to measure the value of noncurrent pledges receivable is the original pledge commitment discounted at two to five years based upon the original value less 3% per year until received.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) include pledges expected to be received in more than one year:

	2012	2011
Balance as of January 1	\$ 1,374,881	\$ 171,723
Additions of long-term pledges	792,923	1,332,440
Increases (decreases) due to change in scheduled payments	45,502	(48,093)
Pledges receivable, which became due within one year	(771,016)	(81,189)
Balance as of December 31	<u>\$ 1,442,290</u>	<u>\$ 1,374,881</u>

3. INVESTMENTS

Investment portfolios at December 31 consisted of the following:

	2012		2011	
	Amount	Percentage	Amount	Percentage
Limited partnerships	\$ 2,872,281	7%	\$ 2,419,921	6%
Fixed-income	13,543,735	35%	18,201,502	45%
Equity instruments	22,879,255	58%	19,819,544	49%
	<u>\$ 39,295,271</u>	<u>100%</u>	<u>\$ 40,440,967</u>	<u>100%</u>

The Conservancy has committed \$6,000,000 and \$4,000,000 in subscriptions to limited partnerships; as of December 31, 2012 and December 31, 2011, respectively. The total funds invested were approximately \$2,872,000 and \$2,420,000 in 2012 and 2011, respectively.

The above investments are being held by custodians and managed by professional investment advisors. Related management fees included in expenses amounted to approximately \$211,000 and \$308,000 in 2012 and 2011, respectively.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	<u>2012</u>	<u>2011</u>
Unrestricted	\$ 18,912,839	\$ 21,577,765
Temporarily restricted	15,100,443	13,952,766
Permanently restricted (Note 8)	<u>5,281,989</u>	<u>4,910,436</u>
	<u>\$ 39,295,271</u>	<u>\$ 40,440,967</u>

Income earned on investments at December 31 is as follows:

	<u>2012</u>	<u>2011</u>
Realized income:		
Interest and dividends	\$ 1,316,123	\$ 1,145,816
Gain (loss) on sale of investments	<u>1,720,257</u>	<u>(344,494)</u>
	3,036,380	801,322
Unrealized gains (losses)	<u>1,058,424</u>	<u>(1,234,060)</u>
Net investment gain (loss)	<u>\$ 4,094,804</u>	<u>\$ (432,738)</u>

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

	<u>2012</u>	<u>2011</u>
Investment return designated for current operations	\$ 2,963,922	\$ 2,705,478
Investment return in excess of (less than) amount designated for current operations	<u>1,130,882</u>	<u>(3,138,216)</u>
	<u>\$ 4,094,804</u>	<u>\$ (432,738)</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, 2012 AND 2011

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 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 as provided by the custodian and information from the limited partnerships and by the market value of the underlying investments for interests in perpetual trusts provided by the trustee 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. Quantitative unobservable inputs of Level 3 items are not developed by the Conservancy for measuring fair value. 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

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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.

During 2012, the Conservancy became the beneficiary of a perpetual charitable trust (trust). Under the trust agreement, the Conservancy is entitled to a 12.5% share of the value of the trust as of April 17, 2012 and is entitled to annual distributions of 12.5% of a stated 6% annual return on the investments held by the trust thereafter.

The following represents the fair value hierarchy of the Conservancy's financial assets, other than pledges receivable that were recognized at fair value on a recurring basis as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
<u>Fixed-income obligations</u>				
U.S. Government	\$ 1,575,700	\$ 3,081,929	\$ -	\$ 4,657,629
U.S. Corporate	8,886,106	-	-	8,886,106
	<u>10,461,806</u>	<u>3,081,929</u>	<u>-</u>	<u>13,543,735</u>
<u>Equity instruments</u>				
U.S. Corporate	14,882,047	-	-	14,882,047
Foreign Corporate	7,997,208	-	-	7,997,208
	<u>22,879,255</u>	<u>-</u>	<u>-</u>	<u>22,879,255</u>
<u>Perpetual Trust</u>				
Equity U.S. Corporate	-	-	35,854	35,854
Equity Foreign Corporate	-	-	4,790	4,790
Fixed Income U.S. Corporate	-	-	46,384	46,384
	<u>-</u>	<u>-</u>	<u>87,028</u>	<u>87,028</u>
<u>Limited partnerships</u>				
U.S. Corporate	-	-	2,036,598	2,036,598
Foreign Corporate	-	-	748,655	748,655
	<u>-</u>	<u>-</u>	<u>2,785,253</u>	<u>2,785,253</u>
	<u>\$ 33,341,061</u>	<u>\$ 3,081,929</u>	<u>\$ 2,872,281</u>	<u>\$ 39,295,271</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, 2011:

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 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>\$ 35,275,058</u>	<u>\$ 2,745,988</u>	<u>\$ 2,419,921</u>	<u>\$ 40,440,967</u>

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

	2012	2011
Fair value, beginning of year	\$ 2,419,921	\$ 1,865,761
Capital calls	653,829	688,458
Distributions	(453,084)	(476,857)
Contribution of Perpetual Trust	87,028	-
Net investment return, including unrealized gains	164,587	342,559
Fair value, end of year	<u>\$ 2,872,281</u>	<u>\$ 2,419,921</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 \$110,608 and \$30,766 in 2012 and 2011, respectively.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31 consisted of:

	<u>2012</u>	<u>2011</u>
Land	\$ 685,000	\$ 685,000
Building and building improvements	10,309,918	10,189,341
Equipment	2,646,456	2,814,787
Ground improvements	<u>6,279,327</u>	<u>6,287,869</u>
	19,920,701	19,976,997
Less: accumulated depreciation	<u>(6,684,133)</u>	<u>(6,189,369)</u>
	<u>\$ 13,236,568</u>	<u>\$ 13,787,628</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.

5. LAND CONSERVATION PROJECTS

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

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011	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	1,927,832	1,926,632	1,200
Clarion River Project	880,811	880,811	-
Farm/Woodlands Program	293,371	293,371	-
French Creek	2,033,507	1,017,284	1,016,223
Juniata & Potomac Region	5,226	-	5,226
Kettle Creek	1,000	-	1,000
Lake Erie Watershed	509,767	-	509,767
Lake Pleasant Properties	1,441,285	1,294,464	146,821
Laurel Highlands	3,006,170	438,308	2,567,862
Ligonier Valley	264,910	266,372	(1,462)
Lower Allegheny River Project	141,241	141,241	-
Loyalhanna Gorge	27,468	27,468	-
Lutzville Cliffs Properties	10,075	-	10,075
Martin Run	301,552	301,552	-
Massasauga Properties	516	-	516
Mountain Streams	26,201	26,201	-
Natural Areas	559,783	185,829	373,954
Nemacolin Subsurface Rights	305,356	305,356	-
Plain Grove Fen	445,380	442,730	2,650
Sideling Hill Creek	256,525	256,525	-
Sinnemahoning Properties	119,785	-	119,785
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	2,952,822	2,002,247	950,575
	<u>\$ 19,233,090</u>	<u>\$ 13,528,898</u>	<u>\$ 5,704,192</u>

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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>2012</u>	<u>2011</u>
Additions and acquisitions	\$ 6,588,040	\$ 3,469,457
Conveyances	74,641	(537,023)
Reimbursements	<u>(958,489)</u>	<u>(851,011)</u>
	<u>\$ 5,704,192</u>	<u>\$ 2,081,423</u>

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, 2012 AND 2011

<u>County</u>	<u>2012</u>	<u>2011</u>
Allegheny	900	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	830
Fayette	645	645
Forest	66	66
Franklin	51	51
Greene	41	41
Huntingdon	2,873	2,873
Indiana	1,010	71
Jefferson	504	504
Lawrence	165	123
Lycoming	139	139
Mercer	716	716
Mifflin	195	195
Potter	377	377
Somerset	291	155
Venango	11,964	11,964
Warren	253	253
Westmoreland	8,610	8,577
Acres held	<u>33,677</u>	<u>32,448</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, 2012 AND 2011

over the designated beneficiaries' lifetime. The present values of these obligations approximate \$285,000 and \$245,000, respectively, at December 31, 2012 and 2011.

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, 2012 and 2011, the balances due on the line of credit were \$767,473 and \$944,281, 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, 2012 and 2011 was \$96,000 and \$120,000, respectively.

Capital Leases

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, 2012 and 2011 was \$31,000 and \$38,000, respectively.

During 2012, the Conservancy entered into a five-year capital lease for \$45,784 for a GIS server. The terms of the lease require monthly payments of \$763. The balance of this lease agreement at December 31, 2012 was \$36,286.

Vehicle Loan

During 2012, the Conservancy purchased a vehicle and financed \$9,140. This loan is interest bearing at 11% over 47 months of \$211. The balance on this loan at December 31, 2012 is \$8,700.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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:

	<u>2012</u>	<u>2011</u>
Operating:		
Conservation	\$ 4,077,503	\$ 1,458,458
Fallingwater	176,980	113,018
Community Gardens/Greenspace	2,704,308	2,598,336
Other	193,211	188,652
	<u>\$ 7,152,002</u>	<u>\$ 4,358,464</u>

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

	<u>2012</u>	<u>2011</u>
Conservation	\$ 8,938,029	\$ 9,101,116
Fallingwater	353,590	251,359
Community Gardens/Greenspace	2,310,163	1,919,730
Other	458,949	222,540
	<u>12,060,731</u>	<u>11,494,745</u>
Endowment	3,414,222	3,219,776
Capital items	1,372,590	1,421,845
	<u>\$ 16,847,543</u>	<u>\$ 16,136,366</u>

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	2012	2011
Endowment investments in perpetuity and endowment pledges, the income from which is expendable to support:		
Community Gardens/Greenspace	\$ 1,047,045	\$ 888,100
Fallingwater	1,834,504	1,753,556
Beechwood Farm Sanctuary	50,000	50,000
General purposes	1,093,216	1,006,188
Specific program support	1,690,724	1,583,227
	<u>5,715,489</u>	<u>5,281,071</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 in land 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>\$ 13,080,831</u>	<u>\$ 12,646,413</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

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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
2012	\$ 3,414,222	\$ 5,715,489	\$ 9,129,711
2011	\$ 3,219,776	\$ 5,281,071	\$ 8,500,847

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

	2012		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 3,219,776	\$ 5,281,071	\$ 8,500,847
Investment return:			
Investment income	285,574	-	285,574
Net appreciation (depreciation)	354,479	-	354,479
Drawdown	(445,607)	-	(445,607)
	3,414,222	5,281,071	8,695,293
Contributions	-	434,418	434,418
Endowment net assets, end of year	\$ 3,414,222	\$ 5,715,489	\$ 9,129,711

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	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

In addition to the investments above, as described earlier in this note, the Conservancy maintained other permanently restricted assets approximating \$7,365,000 at December 31, 2012 and 2011. These assets included land, buildings, and fine art.

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

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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 2012 and 2011 were as follows:

	2012	2011
Programs:		
Direct:		
Conservation	\$ 5,861,115	\$ 5,613,076
Fallingwater	5,420,900	5,955,171
Community Gardens/Greenspace	3,476,448	4,094,538
Constituent programs/outreach	818,143	859,868
Total direct programs	15,576,606	16,522,653
Depreciation (programs' portion)	748,422	679,699
Total programs	16,325,028	17,202,352
General and administrative	1,394,959	1,266,236
Development and fundraising	1,225,995	1,037,665
Total expenses	\$ 18,945,982	\$ 19,506,253
Percent of program expenses to total expenses	86%	88%

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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 \$720,000 and \$683,000 in 2012 and 2011, 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, 2012 and 2011, \$280,000 and \$229,000, respectively, are included on the statements of financial position. There are no employer contributions under the plan.

Supplementary Information

WESTERN PENNSYLVANIA CONSERVANCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

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	\$ 38,822
Fish and Wildlife Management Assistance	15.608	30181AG152	9,112
Fish and Wildlife Management Assistance	15.608	PFBC 2011-0426.01	29,846
Fish and Wildlife Management Assistance	15.608	4300298242	213,842
Subtotal			291,622
Passed through US Fish and Wildlife Service:			
State Wildlife Grants	15.634	PFBC 2011-0915.01	72,430
State Wildlife Grants	15.634	10/08-A	20,175
State Wildlife Grants	15.634	PFBC 2009-0309.04	79,678
State Wildlife Grants	15.634	PFBC 092305.03	30,557
State Wildlife Grants	15.634	PFBC 2012-0327.01	26,564
State Wildlife Grants	15.634	PFBC 2010-0629.02	67,280
State Wildlife Grants	15.634	PFBC 2007-1204.01	2,777
State Wildlife Grants	15.634	231045	16,960
Subtotal			316,421
Passed through US Fish and Wildlife Service:			
Endangered Species Conservation - Recovery Implementation Funds	15.657	4100061339	1,516
Passed through US Fish and Wildlife Service:			
Great Lakes Restoration	15.662	F11AP00812-0001-305C	136,240
Passed through National Park Service:			
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P11AC30805	21,899
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P11AC30805	8,000
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P11AC30805	4,716
Subtotal			34,615
Passed through National Park Service:			
Rivers, Trails, and Conservation Assistance	15.921	N/A	21,587
Total U.S. Department of the Interior			802,001
<u>U.S. Department of Transportation</u>			
Passed through Federal Highway Administration			
Highway Planning and Construction	20.205	4100059774	37,345
Total U.S. Department of Transportation			37,345
<u>U.S. Department of Housing and Urban Development:</u>			
Passed through City of Pittsburgh:			
Community Development Block Grants/Entitlement Grants	14.218	49885	20,208
Community Development Block Grants/Entitlement Grants	14.218	49298	57,489
Total U.S. Department of Housing and Urban Development			77,697
<u>U.S. Environment Protection Agency:</u>			
Great Lakes Program			
Regional Wetland Program Development Grants	66.469	030411-1	1,445
Regional Wetland Program Development Grants	66.461	WPC-06-0001	17,094
Passed through National Fish and Wildlife Foundation:			
Chesapeake Bay Program	66.466	2010-0067-005	41,832
Chesapeake Bay Program	66.466	US-PA-101-3	6,327
Chesapeake Bay Program	66.466	2010-0067-024	11,588
Subtotal			59,747
Passed through Environmental Protection Agency:			
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	02261270905-CF	1,775
Total U.S. Environment Protection Agency			80,061
<u>U.S. Department of Agriculture:</u>			
Passed through Forest Service:			
Cooperative Forestry Assistance	10.664	01-CS-11091900-036	5,329
Cooperative Forestry Assistance	10.664	N/A	7,512
Cooperative Forestry Assistance	10.664	11-CS-11091900-022	9,679
Cooperative Forestry Assistance	10.664	10-DG-11420004-157	22,923
Subtotal			45,443
Passed through Forest Service:			
Forest Stewardship Program	10.678	2011-0049-012	40,003
Total U.S. Department of Agriculture			85,446
<u>U.S.D.A. Natural Resources Conservation Service</u>			
Soil and Water Conservation	10.902	68-2D37-12-559	750
Soil and Water Conservation	10.902	68-2D37-10-437	18,550
Soil and Water Conservation	10.902	NRCS 69-3A75-9-153	51,768
Total - U.S.D.A. Natural Resources Conservation Service			71,068
Total Expenditures of Federal Awards			\$ 1,153,618

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, 2012

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, 2012 AND 2011

	Amount		Percent of Total Unrestricted Operating Revenues and Public Support	
	2012	2011	2012	2011
Contributions, Grants, and Memberships, Including Restrictions Met in Current Year:				
Individuals	\$ 2,317,273	\$ 2,544,880	11%	14%
Foundations	3,766,861	2,269,030	19%	12%
Business community	917,903	1,420,276	5%	8%
Government	3,993,257	3,991,939	20%	21%
	10,995,294	10,226,125	55%	54%
Earned Income:				
Fallingwater admissions	3,579,578	3,504,898	18%	19%
Sales from Fallingwater museum shop and café	2,259,615	2,344,419	11%	12%
Rents, royalties, and miscellaneous	558,197	553,579	3%	3%
	6,397,390	6,402,896	32%	34%
Internal Income:				
Investment return designated for current operations	2,518,315	2,199,328	13%	12%
Total unrestricted operating revenues and public support	\$ 19,910,999	\$ 18,828,349	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, 2012

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Western Pennsylvania Conservancy (Conservancy), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Conservancy's basic financial statements, and have issued our report thereon dated May 9, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Mahe Duessel

Pittsburgh, Pennsylvania
May 9, 2013

Independent Auditor's Report on Compliance for the Major Federal Program and
Report on Internal Control over Compliance Required by OMB Circular A-133

Board of Directors
Western Pennsylvania Conservancy

Report on Compliance for the Major Federal Program

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 the Conservancy's major federal program for the year ended December 31, 2012. The Conservancy's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Conservancy's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for the major federal program. However, our audit does not provide a legal determination on the Conservancy's compliance.

Opinion on the Major Federal Program

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

Board of Directors
Western Pennsylvania Conservancy
Independent Auditor's Report on Compliance
for the Major Federal Program and
Report on Internal Control over Compliance

Report on Internal Control over Compliance

Management of the Conservancy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Conservancy's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program 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.

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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

* * * * *

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

Maher Duessel

Pittsburgh, Pennsylvania
May 9, 2013

WESTERN PENNSYLVANIA CONSERVANCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2012

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

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, 2012

NONE