

Western Pennsylvania Conservancy

Financial Statements and Supplementary Information

**Years Ended December 31, 2014 and 2013
with Independent Auditor's Reports**

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WESTERN PENNSYLVANIA CONSERVANCY

YEARS ENDED DECEMBER 31, 2014 AND 2013

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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, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to 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 from 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of unrestricted operating revenues and public support is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2015, 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 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.

Maier Duessel

Pittsburgh, Pennsylvania
May 26, 2015

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2013

	2014	2013
Assets		
Cash and cash equivalents	\$ 3,245,718	\$ 4,620,005
Cash held for land acquisition	111,883	120,400
Accounts and pledges receivable	4,669,165	5,705,837
Museum shop inventories	392,115	363,849
Prepaid expenses and deposits	577,149	624,678
Investments	47,335,275	46,276,015
Property and equipment, net	12,704,950	12,665,395
Fallingwater® and fine art collection	5,603,040	5,603,040
Land conservation projects	18,634,149	19,499,650
Total Assets	\$ 93,273,444	\$ 95,478,869
Liabilities and Net Assets		
Liabilities:		
Land escrows	\$ 111,883	\$ 120,400
Accounts payable and other liabilities	868,141	1,207,702
Notes payable and other obligations	688,722	932,274
Total Liabilities	1,668,746	2,260,376
Net Assets:		
Unrestricted	61,304,975	61,418,732
Temporarily restricted	15,470,037	16,779,345
Permanently restricted	14,829,686	15,020,416
Total Net Assets	91,604,698	93,218,493
Total Liabilities and Net Assets	\$ 93,273,444	\$ 95,478,869

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues and Public Support:				
Contributions, gifts, and grants	\$ 5,099,132	\$ 3,217,991	\$ 68,198	\$ 8,385,321
Memberships	993,425	-	-	993,425
Admissions	3,974,394	-	-	3,974,394
Sales	2,271,124	-	-	2,271,124
Investment return designated for current operations	2,548,391	344,184	-	2,892,575
Rent, royalties, and miscellaneous income	585,468	-	-	585,468
Net assets released from restrictions:				
Satisfaction of program restrictions	4,833,198	(4,833,198)	-	-
Total operating revenues and public support	20,305,132	(1,271,023)	68,198	19,102,307
Expenses:				
Programs	16,733,128	-	-	16,733,128
General and administrative	1,468,367	-	-	1,468,367
Development and fundraising	1,256,367	-	-	1,256,367
Total expenses	19,457,862	-	-	19,457,862
Change in Net Assets from Operations	847,270	(1,271,023)	68,198	(355,555)
Non-Operating Support and Income:				
Investment return in excess of (less than) amount designated for current operations	(843,522)	(238,165)	(471)	(1,082,158)
Capital gifts, grants, and other income	-	625,496	-	625,496
Net assets released from restrictions:				
Satisfaction of capital purpose restrictions	684,073	(684,073)	-	-
Released from permanent restriction by donor	-	258,457	(258,457)	-
Changes in charitable gift annuities	47,438	-	-	47,438
Net gain (loss) on conveyance of land	(849,016)	-	-	(849,016)
Net gain (loss) on other assets	-	-	-	-
Total non-operating support and income	(961,027)	(38,285)	(258,928)	(1,258,240)
Change in Net Assets	(113,757)	(1,309,308)	(190,730)	(1,613,795)
Net Assets:				
Beginning of year	61,418,732	16,779,345	15,020,416	93,218,493
End of year	<u>\$ 61,304,975</u>	<u>\$ 15,470,037</u>	<u>\$ 14,829,686</u>	<u>\$ 91,604,698</u>

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues and Public Support:				
Contributions, gifts, and grants	\$ 5,046,633	\$ 3,275,271	\$ 1,933,492	\$ 10,255,396
Memberships	972,474	-	-	972,474
Admissions	3,733,860	-	-	3,733,860
Sales	2,335,299	-	-	2,335,299
Investment return designated for current operations	2,579,364	327,422	-	2,906,786
Rent, royalties, and miscellaneous income	521,631	-	-	521,631
Net assets released from restrictions:				
Satisfaction of program restrictions	4,706,940	(4,706,940)	-	-
Total operating revenues and public support	19,896,201	(1,104,247)	1,933,492	20,725,446
Expenses:				
Programs	18,867,725	-	-	18,867,725
General and administrative	1,475,321	-	-	1,475,321
Development and fundraising	1,277,404	-	-	1,277,404
Total expenses	21,620,450	-	-	21,620,450
Change in Net Assets from Operations	<u>(1,724,249)</u>	<u>(1,104,247)</u>	<u>1,933,492</u>	<u>(895,004)</u>
Non-Operating Support and Income:				
Investment return in excess of (less than) amount designated for current operations	4,204,899	721,518	6,093	4,932,510
Capital gifts, grants, and other income	349,276	554,276	-	903,552
Net assets released from restrictions:				
Satisfaction of capital purpose restrictions	239,745	(239,745)	-	-
Released from permanent restriction by donor	-	-	-	-
Changes in charitable gift annuities	(30,477)	-	-	(30,477)
Net gain (loss) on conveyance of land	(7,840)	-	-	(7,840)
Net gain (loss) on other assets	(16,043)	-	-	(16,043)
Total non-operating support and income	4,739,560	1,036,049	6,093	5,781,702
Change in Net Assets	<u>3,015,311</u>	<u>(68,198)</u>	<u>1,939,585</u>	<u>4,886,698</u>
Net Assets:				
Beginning of year	58,403,421	16,847,543	13,080,831	88,331,795
End of year	<u>\$ 61,418,732</u>	<u>\$ 16,779,345</u>	<u>\$ 15,020,416</u>	<u>\$ 93,218,493</u>

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash Flows From Operating Activities:		
Change in net assets	\$ (1,613,795)	\$ 4,886,698
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	784,072	790,664
Net realized and unrealized (gains) losses on long-term investments	(998,807)	(7,029,962)
Contributions restricted for long-term purposes	(68,198)	(1,933,492)
Forgiveness of loan repayment	-	(12,000)
(Gain) loss on the conveyance of land	849,016	7,840
(Gain) loss on the disposal of other assets	-	16,043
Changes in assets and liabilities:		
Accounts and pledges receivable and inventories	439,908	1,100,582
Prepays and other deposits	47,529	(25,693)
Land conservation projects	(766,378)	(602,231)
Charitable gift annuities	(85,572)	143,717
Accounts payable and other liabilities	(339,561)	288,671
Net cash provided by (used in) operating activities	(1,751,786)	(2,369,163)
Cash Flows From Investing Activities:		
Purchase of property and equipment	(823,627)	(160,364)
Purchase of land and conservation projects	(234,394)	(3,098,598)
Purchase of investments	(20,032,379)	(57,103,358)
Proceeds from sale of investments	19,971,926	57,154,401
Net cash provided by (used in) investing activities	(1,118,474)	(3,207,919)
Cash Flows From Financing Activities:		
Collections of contributions for long-term purposes	636,696	1,135,190
(Payments on) proceeds from contributions for land acquisition	(8,517)	(516,913)
Repayment of note payable	(12,000)	(8,296)
Capital lease payments	(35,060)	(17,868)
Proceeds from line of credit	145,000	158,888
Repayment of line of credit	(255,920)	(633,274)
Reimbursements for land conservation projects	1,017,257	3,426,429
Net cash provided by (used in) financing activities	1,487,456	3,544,156
Net Increase (Decrease) in Cash and Cash Equivalents	(1,382,804)	(2,032,926)
Cash and Cash Equivalents:		
Beginning of year	4,740,405	6,773,331
End of year	\$ 3,357,601	\$ 4,740,405

Supplemental Schedule of Noncash Investing and Financing Activities:

The Conservancy entered into capital leases in 2013 of \$76,995; no capital leases were entered into for 2014.

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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 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 2014 and 2013, the Board approved a cash drawdown of \$2,892,575 and \$2,906,786, 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, 2014 AND 2013

<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. Easements acquired through donation and easements established by reservation of

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

rights are not recorded in the financial statements. Additionally, the Conservancy obtains easements through purchases directly from owners. In 2013, the Conservancy adopted a change in accounting policy from the prior year for purchased conservation easements in order to be consistent with certain other land trust practices and to best convey the long-term fair value of the easements. Purchased easements are recorded at cost and reduced to a carrying value of \$1 by the amount of any restricted grants received specifically for the easement purchases and by expensing the amount of the easement purchase funded by unrestricted revenue. 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

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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 donors 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. The Conservancy is subject to income tax on certain income that is considered unrelated business income, if earned. 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 the 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).

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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:

	<u>2014</u>	<u>2013</u>
Accounts and notes receivable:		
Billed grants and contracts	\$ 1,727,387	\$ 1,528,693
Unbilled grants and contracts	409,169	997,547
Other	<u>138,900</u>	<u>166,567</u>
Total accounts and notes receivable	<u>2,275,456</u>	<u>2,692,807</u>
Pledges receivable:		
Unrestricted contributions	25,950	5,868
Temporarily restricted contributions	1,808,549	1,921,439
Permanently restricted contributions	<u>582,986</u>	<u>1,164,626</u>
Gross pledges receivable	2,417,485	3,091,933
Less: unamortized discount	<u>(23,776)</u>	<u>(78,903)</u>
	<u>2,393,709</u>	<u>3,013,030</u>
Net accounts, notes, and pledges receivable	<u><u>\$ 4,669,165</u></u>	<u><u>\$ 5,705,837</u></u>

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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>
2015	\$ 1,856,260
2016	425,095
2017	84,560
2018	24,510
2019	10,510
Thereafter	16,550
	<u>2,417,485</u>
Less - amount representing discount	<u>(23,776)</u>
	<u><u>\$ 2,393,709</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, 2014 and 2013 are as follows: Level 1 pledges receivable – current \$1,856,260 and \$1,356,942, respectively, and Level 3 pledges receivable – noncurrent \$537,449 and \$1,656,088, respectively.

Fair values for Level 1 financial instruments are determined by quoted prices in active markets 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:

	2014	2013
Balance as of January 1	\$ 1,656,088	\$ 1,442,290
Additions of long-term pledges	112,578	833,494
Increases (decreases) due to change in scheduled payments	(66,947)	(173,061)
Pledges receivable, which became due within one year	(1,164,270)	(446,635)
Balance as of December 31	<u>\$ 537,449</u>	<u>\$ 1,656,088</u>

3. INVESTMENTS

Investment portfolios at December 31 consisted of the following:

	2014		2013	
	Amount	Percentage	Amount	Percentage
Limited partnerships	\$ 3,965,842	8%	\$ 3,580,841	8%
Fixed-income	12,137,428	26%	12,218,904	26%
Equity instruments	31,232,005	66%	30,476,270	66%
	<u>\$ 47,335,275</u>	<u>100%</u>	<u>\$ 46,276,015</u>	<u>100%</u>

The Conservancy has committed \$10,000,000 and \$8,000,000 in subscriptions to limited partnerships as of December 31, 2014 and 2013, respectively. The total funds invested were approximately \$3,966,000 and \$3,581,000 as of December 31, 2014 and 2013, respectively.

The above investments are being held by custodians and managed by professional investment advisors. Related management fees included in expenses amounted to approximately \$172,000 and \$186,000 in 2014 and 2013, respectively.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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

	2014	2013
Unrestricted	\$ 26,602,846	\$ 24,941,879
Temporarily restricted	13,678,554	14,916,957
Permanently restricted (Note 8)	7,053,875	6,417,179
	<u>\$ 47,335,275</u>	<u>\$ 46,276,015</u>

Income earned on investments at December 31 is as follows:

	2014	2013
Realized income:		
Interest and dividends	\$ 811,610	\$ 809,334
Gain (loss) on sale of investments	2,588,658	3,125,671
	3,400,268	3,935,005
Unrealized gains (losses)	(1,589,851)	3,904,291
Net investment gain (loss)	<u>\$ 1,810,417</u>	<u>\$ 7,839,296</u>

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

	2014	2013
Investment return designated for current operations	\$ 2,892,575	\$ 2,906,786
Investment return in excess of (less than) amount designated for current operations	(1,082,158)	4,932,510
	<u>\$ 1,810,417</u>	<u>\$ 7,839,296</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, 2014 AND 2013

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 from information provided by the General Partner of 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 a significant degree

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

of judgment. Due to the absence of readily determinable fair values and the inherent uncertainty of valuations, the estimated fair values for private investments may differ significantly from values that would have been used had a ready market for the securities existed.

The Conservancy is a 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, described in Note 2, that were recognized at fair value on a recurring basis as of December 31, 2014:

	Level 1	Level 2	Level 3	Total
<u>Fixed-income obligations</u>				
U.S. Government	\$ 105,555	\$ 3,214,840	\$ -	\$ 3,320,395
U.S. Corporate	8,760,162	-	-	8,760,162
Foreign Corporate	13,314	-	-	13,314
	<u>8,879,031</u>	<u>3,214,840</u>	<u>-</u>	<u>12,093,871</u>
<u>Equity instruments</u>				
U.S. Corporate	19,581,580	-	-	19,581,580
Foreign Corporate	11,601,332	-	-	11,601,332
	<u>31,182,912</u>	<u>-</u>	<u>-</u>	<u>31,182,912</u>
<u>Perpetual Trust</u>				
Equity U.S. Corporate	-	-	43,865	43,865
Equity Foreign Corporate	-	-	5,227	5,227
Fixed Income U.S. Corporate	-	-	39,444	39,444
Fixed Foreign Corporate	-	-	4,114	4,114
	<u>-</u>	<u>-</u>	<u>92,650</u>	<u>92,650</u>
<u>Limited partnerships</u>				
U.S. Corporate	-	-	3,239,417	3,239,417
Foreign Corporate	-	-	726,425	726,425
	<u>-</u>	<u>-</u>	<u>3,965,842</u>	<u>3,965,842</u>
	<u>\$ 40,061,943</u>	<u>\$ 3,214,840</u>	<u>\$ 4,058,492</u>	<u>\$ 47,335,275</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, 2013:

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	Level 1	Level 2	Level 3	Total
<u>Fixed-income obligations</u>				
U.S. Government	\$ 153,432	\$ 3,462,715	\$ -	\$ 3,616,147
U.S. Corporate	8,558,434	-	-	8,558,434
	<u>8,711,866</u>	<u>3,462,715</u>	<u>-</u>	<u>12,174,581</u>
<u>Equity instruments</u>				
U.S. Corporate	22,384,491	-	-	22,384,491
Foreign Corporate	8,042,981	-	-	8,042,981
	<u>30,427,472</u>	<u>-</u>	<u>-</u>	<u>30,427,472</u>
<u>Perpetual Trust</u>				
Equity U.S. Corporate	-	-	43,157	43,157
Equity Foreign Corporate	-	-	5,641	5,641
Fixed Income U.S. Corporate	-	-	44,323	44,323
	<u>-</u>	<u>-</u>	<u>93,121</u>	<u>93,121</u>
<u>Limited partnerships</u>				
U.S. Corporate	-	-	2,792,556	2,792,556
Foreign Corporate	-	-	788,285	788,285
	<u>-</u>	<u>-</u>	<u>3,580,841</u>	<u>3,580,841</u>
	<u>\$ 39,139,338</u>	<u>\$ 3,462,715</u>	<u>\$ 3,673,962</u>	<u>\$ 46,276,015</u>

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

	2014	2013
Fair value, beginning of year	\$ 3,673,962	\$ 2,872,281
Capital calls	765,698	1,149,730
Distributions	(1,059,746)	(604,710)
Net investment return, including unrealized gains	<u>678,578</u>	<u>256,661</u>
Fair value, end of year	<u>\$ 4,058,492</u>	<u>\$ 3,673,962</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 \$545,458 and \$202,662 in 2014 and 2013, respectively.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31 consisted of:

	2014	2013
Land	\$ 685,000	\$ 685,000
Building and building improvements	11,282,509	10,530,808
Equipment	2,351,875	2,294,591
Ground improvements	6,279,326	6,279,326
Construction in progress	48,528	33,886
	20,647,238	19,823,611
Less: accumulated depreciation	(7,942,288)	(7,158,216)
	<u>\$ 12,704,950</u>	<u>\$ 12,665,395</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 receives reimbursements from public and private sources for land acquisitions. The change in land conservation projects at December 31 consisted of the following:

	2014	2013
Balance as of January 1	\$ 19,499,650	\$ 19,233,090
Additions and acquisitions	1,619,711	4,252,428
Conveyances	(1,467,955)	(59,659)
Reimbursements	(1,017,257)	(3,926,209)
Balance as of December 31	<u>\$ 18,634,149</u>	<u>\$ 19,499,650</u>

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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 35,963 and 34,865 acres as easements as of December 31, 2014 and 2013, respectively.

7. NOTES PAYABLE AND OTHER OBLIGATIONS

Charitable Gift Annuities

Donors have established charitable gift annuities with the Conservancy and are to receive distributions ranging from 4.5% to 8.3% of the fair value of the contributions over the designated beneficiaries' lifetime. The present values of these obligations approximate \$343,000 and \$429,000, respectively, at December 31, 2014 and 2013.

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, 2014 and 2013, the balances due on the line of credit were \$182,167 and \$293,086, respectively. The line of credit expires August 23, 2015.

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, 2014 and 2013 was \$72,000 and \$84,000, respectively.

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

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

restricted in the statements of activities. Temporarily restricted contributions for the years ended December 31 were as follows:

	2014	2013
Operating:		
Conservation	\$ 1,773,997	\$ 1,154,649
Fallingwater	111,400	287,459
Community Gardens/Greenspace	1,127,575	1,672,288
Other	205,019	160,875
	<u>\$ 3,217,991</u>	<u>\$ 3,275,271</u>

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

	2014	2013
Conservation	\$ 7,266,872	\$ 8,015,897
Fallingwater	344,164	462,605
Community Gardens/Greenspace	1,233,544	2,081,571
Other	794,749	694,466
	<u>9,639,329</u>	<u>11,254,539</u>
Endowment	4,569,181	4,463,162
Capital items	1,261,527	1,061,644
	<u>\$ 15,470,037</u>	<u>\$ 16,779,345</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, 2014 AND 2013

	2014	2013
Endowment investments in perpetuity and endowment pledges, the income from which is expendable to support:		
Community Gardens/Greenspace	\$ 2,674,943	\$ 2,714,233
Fallingwater	2,029,277	1,941,372
Beechwood Farm Sanctuary	50,000	50,000
General purposes	1,344,557	1,334,997
Specific program support	1,624,024	1,614,472
	<u>7,722,801</u>	<u>7,655,074</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	1,942,636	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>\$ 14,829,686</u>	<u>\$ 15,020,416</u>

During 2014, the Conservancy received a clarification of donor intent relating to a portion of the 'land, proceeds from the sale of which are required to be reinvested in land upon divestment' when one of the land parcels was sold. The donor clarified that the use of the proceeds to carry out program activities related to land acquisition was within the original intent of the grant. As a result, \$258,457 was reclassified from permanently restricted net assets to temporarily restricted net assets in 2014.

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. Certain endowment earnings are donor restricted for a particular program. 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.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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 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
2014	<u>\$ 4,569,181</u>	<u>\$ 7,722,801</u>	<u>\$ 12,291,982</u>
2013	<u>\$ 4,463,162</u>	<u>\$ 7,655,074</u>	<u>\$ 12,118,236</u>

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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

	2014		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,463,162	\$ 7,655,074	\$ 12,118,236
Investment return:			
Investment income	178,586	-	178,586
Net appreciation (depreciation)	271,617	(471)	271,146
Drawdown	(344,184)	-	(344,184)
	4,569,181	7,654,603	12,223,784
Contributions	-	68,198	68,198
Endowment net assets, end of year	\$ 4,569,181	\$ 7,722,801	\$ 12,291,982
	2013		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 3,414,222	\$ 5,715,489	\$ 9,129,711
Investment return:			
Investment income	146,872	-	146,872
Net appreciation (depreciation)	1,229,490	6,093	1,235,583
Drawdown	(327,422)	-	(327,422)
	4,463,162	5,721,582	10,184,744
Contributions	-	1,933,492	1,933,492
Endowment net assets, end of year	\$ 4,463,162	\$ 7,655,074	\$ 12,118,236

In addition to the investments above, as described earlier in this note, the Conservancy maintained other permanently restricted assets approximating \$7,107,000 and \$7,365,000 at December 31, 2014 and 2013, respectively. These assets included land, buildings, and fine art.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

Endowment Investment Objective

The primary objective of 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 17 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 2014 and 2013 were as follows:

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
	<hr/>	<hr/>
Programs:		
Direct:		
Conservation	\$ 4,226,076	\$ 6,423,269
Watershed	1,552,943	1,555,409
Fallingwater	5,866,768	5,711,203
Community Gardens/Greenspace	3,418,648	3,684,625
Constituent programs/outreach	888,953	742,555
	<hr/>	<hr/>
Total direct programs	15,953,388	18,117,061
Depreciation (programs' portion)	779,740	750,664
	<hr/>	<hr/>
Total programs	16,733,128	18,867,725
	<hr/>	<hr/>
General and administrative	1,468,367	1,475,321
Development and fundraising	1,256,367	1,277,404
	<hr/>	<hr/>
Total expenses	\$ 19,457,862	\$ 21,620,450
	<hr/>	<hr/>
Percent of program expenses to total expenses	86%	87%
	<hr/>	<hr/>

10. RETIREMENT PLANS

The Conservancy maintains defined contribution retirement plans for all eligible employees. The plans provide for an employer contribution based on a percentage of employees' gross wages and based on a percentage of voluntary contributions by employees. Pension contributions charged to expense amounted to approximately \$827,000 and \$772,000 in 2014 and 2013, 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, up to a limit determined under the IRC, for retirement. As of December 31, 2014 and 2013, \$398,000 and \$338,000, respectively, are included on the statements of financial position as prepaid expenses and deposits with an offsetting liability. There are no employer contributions under the plan.

Supplementary Information

WESTERN PENNSYLVANIA CONSERVANCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2014

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>			
National Fish and Wildlife Foundation	15.663	0901.12.030425	\$ 8,232
National Fish and Wildlife Foundation	15.663	404.14.04539	10,000
Subtotal			18,232
Passed through US Fish and Wildlife Service:			
Fish and Wildlife Management Assistance	15.608	30181AG152	2,104
Fish and Wildlife Management Assistance	15.608	PFBC 2012-1114.01	31,869
Fish and Wildlife Management Assistance	15.608	PFBC 2014-0521.01	48,259
Fish and Wildlife Management Assistance	15.608	4300298242	137,170
Subtotal			219,402
Passed through US Fish and Wildlife Service:			
State Wildlife Grants	15.634	PFBC 2011-0915.01	68,090
State Wildlife Grants	15.634	PFBC 2012-0327.01	45,638
State Wildlife Grants	15.634	PFBC 2010-0629.02	67,932
State Wildlife Grants	15.634	PFBC 2014 - 0319.01	17,804
State Wildlife Grants	15.634	4100064707	9,553
State Wildlife Grants	15.634	PFBC 2012 - 0327.01	4,596
State Wildlife Grants	15.634	NPSOR160	26,613
State Wildlife Grants	15.634	13-SUBC-440-0000302976	10,918
State Wildlife Grants	15.634	WPCTA - 015	11,517
Subtotal			262,661
Passed through US Fish and Wildlife Service:			
Endangered Species Conservation - Recovery Implementation Funds	15.657	4100061339	41,448
Endangered Species Conservation - Recovery Implementation Funds	15.657	4100064364	30,877
Subtotal			72,325
Passed through US Fish and Wildlife Service:			
Great Lakes Restoration	15.662	F11AP01071-0001-2000	16,409
Passed through National Park Service:			
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P11AC30805	5,317
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P11AC30805	2,177
Cooperative Research and Training Programs - Resources of the National Park System	15.945	P11AC30805	1,603
Subtotal			9,097
Total U.S. Department of the Interior			598,126
<u>U.S. Department of Housing and Urban Development:</u>			
Passed through City of Pittsburgh:			
Community Development Block Grants/Entitlement Grants	14.218	50975	10,576
Community Development Block Grants/Entitlement Grants	14.218	50305	92,954
Total U.S. Department of Housing and Urban Development			103,530
<u>U.S. Environment Protection Agency:</u>			
Regional Wetland Program Development Grants	66.461	WPC-TA 013	74,201
Passed through National Fish and Wildlife Foundation:			
Chesapeake Bay Program	66.466	US-PA-101-3	22,650
Chesapeake Bay Program	66.466	0603.13.039631	38,550
Subtotal			61,200
Total U.S. Environment Protection Agency			135,401
<u>U.S. Department of Agriculture:</u>			
National Fish and Wildlife Foundation	10.683	0901.12-031030	8,738
National Fish and Wildlife Foundation	10.683	0501.13.038789	9,222
Subtotal			17,960
Passed through Forest Service:			
Cooperative Forestry Assistance	10.664	12-DG-11091900-017	20,782
Cooperative Forestry Assistance	10.664	10-DG-11420004-157	91,966
Cooperative Forestry Assistance	10.664	13-CS-11091900-028	15,651
Subtotal			128,399
Passed through Forest Service:			
Forest Stewardship Program	10.678	2011-0049-012	9,725
Soil and Water Conservation	10.902	68-2D37-13-650	21,370
Soil and Water Conservation	10.902	68-2D37-14-689	270
Soil and Water Conservation	10.902	73-2D37-09-334	424,000
Subtotal			445,640
Environmental Quality Incentives Program	10.912	68-2D37-14-689	15,240
Environmental Quality Incentives Program	10.912	69-2D37-13-682	3,742
Subtotal			18,982
Total U.S. Department of Agriculture			620,706
Total Expenditures of Federal Awards			\$ 1,457,763

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, 2014

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, 2014 AND 2013

	Amount		Percent of Total Unrestricted Operating Revenues and Public Support	
	2014	2013	2014	2013
Contributions, Grants, and Memberships, Including Restrictions Met in Current Year:				
Individuals	\$ 2,337,598	\$ 935,708	11%	5%
Foundations	4,110,952	5,059,101	20%	25%
Business community	721,587	982,901	4%	5%
Government	3,755,618	3,748,337	18%	19%
	<u>10,925,755</u>	<u>10,726,047</u>	<u>53%</u>	<u>54%</u>
Earned Income:				
Fallingwater admissions	3,974,394	3,733,860	20%	18%
Sales from Fallingwater museum shop and café	2,271,124	2,335,299	11%	12%
Rents, royalties, and miscellaneous	585,468	521,631	3%	3%
	<u>6,830,986</u>	<u>6,590,790</u>	<u>34%</u>	<u>33%</u>
Internal Income:				
Investment return designated for current operations	<u>2,548,391</u>	<u>2,579,364</u>	<u>13%</u>	<u>13%</u>
 Total unrestricted operating revenues and public support	<u><u>\$ 20,305,132</u></u>	<u><u>\$ 19,896,201</u></u>	<u><u>100%</u></u>	<u><u>100%</u></u>

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

Western Pennsylvania Conservancy

Independent Auditor's Reports
Required by OMB Circular A-133

Year Ended December 31, 2014

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), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 26, 2015.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

Mahe Duessel

Pittsburgh, Pennsylvania
May 26, 2015

Independent Auditor's Report on Compliance for the Major Program and 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, 2014. 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, 2014.

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 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 26, 2015

WESTERN PENNSYLVANIA CONSERVANCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2014

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified

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: Unmodified

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>
10.902	Soil and Water Conservation

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, 2014

NONE