

Western Pennsylvania Conservancy

Financial Statements and Supplementary Information

Years Ended December 31, 2018 and 2017
with Independent Auditor's Reports

MaherDuessel

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WESTERN PENNSYLVANIA CONSERVANCY

YEARS ENDED DECEMBER 31, 2018 AND 2017

TABLE OF CONTENTS

Independent Auditor's Report

Financial Statements:

Statements of Financial Position	1
Statements of Activities:	
- Year Ended December 31, 2018	2
- Year Ended December 31, 2017	3
Statements of Functional Expenses:	
- Year Ended December 31, 2018	4
- Year Ended December 31, 2017	5
Statements of Cash Flows	6
Notes to Financial Statements	7

Supplementary Information:

Schedule of Expenditures of Federal Awards	33
Notes to Schedule of Expenditures of Federal Awards	35
Schedules of Operating Revenues and Public Support Without Donor Restrictions	36

Independent Auditor's Reports Required by the Uniform Guidance:

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 <i>Government Auditing Standards</i>	37
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WESTERN PENNSYLVANIA CONSERVANCY

YEARS ENDED DECEMBER 31, 2018 AND 2017

TABLE OF CONTENTS

(Continued)

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	39
Schedule of Findings and Questioned Costs	42
Summary Schedule of Prior Audit Findings	43

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, 2018 and 2017, and the related statements of activities, functional expenses, 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 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, 2018 and 2017, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, the Conservancy adopted ASU 2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.”* The amendment changes how nonprofit organizations classify net assets and provide information in its financial statements and notes about its financial performance, cash flow, and liquidity, among other requirements. Our opinion is not modified with respect to this matter.

Other Matters

Other 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedules of operating revenues and public support without donor restrictions is presented for purposes of additional analysis and is also 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 15, 2019, 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.

Maher Duessel

Pittsburgh, Pennsylvania
May 15, 2019

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 3,317,866	\$ 1,562,529
Cash held for land acquisition	125,139	2,784,402
Accounts and pledges receivable	2,359,744	3,198,198
Museum shop inventories	430,605	469,501
Prepaid expenses and deposits	990,468	1,036,909
Investments	50,533,897	53,963,604
Property and equipment, net	12,867,986	13,148,998
Fallingwater® and fine art collection	5,728,355	5,701,695
Land conservation projects	20,349,005	19,858,742
Total Assets	<u>\$ 96,703,065</u>	<u>\$ 101,724,578</u>
Liabilities and Net Assets		
Liabilities:		
Land escrows	\$ 125,139	\$ 2,784,402
Accounts payable and other liabilities	1,680,206	1,619,168
Notes payable and other obligations	990,377	1,911,807
Total Liabilities	<u>2,795,722</u>	<u>6,315,377</u>
Net Assets (as restated for 2017):		
Without donor restrictions	<u>66,620,223</u>	<u>67,746,493</u>
With donor restrictions:		
Purpose and time restrictions	13,328,536	13,898,580
Perpetual in nature	13,958,584	13,764,128
Total with donor restrictions	<u>27,287,120</u>	<u>27,662,708</u>
Total Net Assets	<u>93,907,343</u>	<u>95,409,201</u>
Total Liabilities and Net Assets	<u>\$ 96,703,065</u>	<u>\$ 101,724,578</u>

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues and Public Support:			
Contributions, gifts, and grants	\$ 6,240,925	\$ 7,285,312	\$ 13,526,237
Memberships	1,245,004	-	1,245,004
Admissions	4,992,199	-	4,992,199
Sales	2,542,598	-	2,542,598
Investment return, net, appropriated by the governing board for current operations	2,161,761	508,004	2,669,765
Rent, royalties, and miscellaneous income	581,316	-	581,316
Net assets released from restrictions:			
Investment return appropriated and released for current operations from donor-restricted endowment	508,004	(508,004)	-
Satisfaction of program restrictions	6,852,865	(6,852,865)	-
Total operating revenues and public support	25,124,672	432,447	25,557,119
Expenses:			
Program	20,282,309	-	20,282,309
Management and general	1,921,778	-	1,921,778
Development	2,123,194	-	2,123,194
Total expenses	24,327,281	-	24,327,281
Change in Net Assets from Operations	797,391	432,447	1,229,838
Non-Operating Support and Income:			
Investment return, net, in excess of (less than) amounts appropriated for current operations	(2,501,828)	(584,745)	(3,086,573)
Capital gifts, grants, and other income	84,101	617,535	701,636
Net assets released from restrictions:			
Satisfaction of capital purpose restrictions	840,825	(840,825)	-
Changes in charitable gift annuities	(51,665)	-	(51,665)
Net gain (loss) on conveyance of land	(312,652)	-	(312,652)
Net gain (loss) on other assets	17,558	-	17,558
Total non-operating support and income	(1,923,661)	(808,035)	(2,731,696)
Change in Net Assets	(1,126,270)	(375,588)	(1,501,858)
Net Assets:			
Beginning of year, as restated	67,746,493	27,662,708	95,409,201
End of year	\$ 66,620,223	\$ 27,287,120	\$ 93,907,343

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues and Public Support:			
Contributions, gifts, and grants	\$ 5,643,720	\$ 3,768,201	\$ 9,411,921
Memberships	1,170,147	-	1,170,147
Admissions	5,088,987	-	5,088,987
Sales	2,493,739	-	2,493,739
Investment return, net, appropriated by the governing board for current operations	2,188,688	504,796	2,693,484
Rent, royalties, and miscellaneous income	721,197	-	721,197
Net assets released from restrictions:			
Investment return appropriated and released for current operations from donor-restricted endowment	504,796	(504,796)	-
Satisfaction of program restrictions	4,266,785	(4,266,785)	-
Total operating revenues and public support	22,078,059	(498,584)	21,579,475
Expenses:			
Program	17,423,675	-	17,423,675
Management and general	1,790,604	-	1,790,604
Development	1,873,747	-	1,873,747
Total expenses	21,088,026	-	21,088,026
Change in Net Assets from Operations	990,033	(498,584)	491,449
Non-Operating Support and Income:			
Investment return, net, in excess of (less than) amounts appropriated for current operations	3,948,213	1,252,365	5,200,578
Capital gifts, grants, and other income	204,001	189,265	393,266
Net assets released from restrictions:			
Satisfaction of capital purpose restrictions	204,247	(204,247)	-
Changes in charitable gift annuities	(57,247)	-	(57,247)
Net gain (loss) on conveyance of land	(357,417)	-	(357,417)
Net gain (loss) on other assets	11,258	-	11,258
Total non-operating support and income	3,953,055	1,237,383	5,190,438
Change in Net Assets	4,943,088	738,799	5,681,887
Net Assets:			
Beginning of year, as restated	62,803,405	26,923,909	89,727,314
End of year	\$ 67,746,493	\$ 27,662,708	\$ 95,409,201

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Expenses					Support Activities			Total Expenses
	Conservation	Fallingwater	Government Relations & Community Gardens	Watershed	Communications	Total Program Expenses	Management and General	Development	
Salaries	\$ 2,695,670	\$ 2,806,665	\$ 895,204	\$ 936,826	\$ 253,284	\$ 7,587,649	\$ 1,087,491	\$ 1,056,082	\$ 9,731,222
Fringe benefits	923,036	958,305	306,536	320,783	86,729	2,595,389	372,593	361,615	3,329,598
Cost of goods sold	-	997,026	-	-	-	997,026	-	-	997,026
Supplies and materials	157,683	424,062	526,532	265,862	4,816	1,378,953	64,118	75,474	1,518,545
Government relations	-	-	62,236	-	-	62,236	-	-	62,236
Postage and freight	2,506	58,375	1,143	881	11,270	74,175	2,852	92,704	169,731
Contracted services	122,823	323,635	516,201	368,431	41,121	1,372,212	91,217	206,143	1,669,571
Professional services	401,186	222,999	142,561	30,421	20,255	817,422	50,855	53,324	921,601
Honorariums	1,431	47,162	8,833	205	3	57,634	2,470	2,377	62,482
Rental expense	96,384	34,084	26,160	19,451	8,116	184,195	8,603	10,819	203,617
Utilities	43,255	152,989	22,838	15,563	2,776	237,422	17,592	12,393	267,407
Telecommunications	24,327	44,533	14,655	18,211	2,558	104,283	10,650	8,133	123,066
Travel/business	88,091	53,354	10,198	59,137	1,638	212,418	12,163	20,387	244,968
Training and development	48,981	78,159	23,918	5,851	3,891	160,798	8,381	8,527	177,706
Marketing/advertising	4,163	94,187	153	327	50,204	149,034	4,202	8,098	161,334
Repairs and maintenance	74,126	186,000	33,574	24,115	4,502	322,316	28,988	50,559	401,863
General insurance	59,802	136,972	20,581	17,861	3,820	239,036	20,461	14,259	273,756
Real estate taxes	70,650	70,699	4,559	4,011	858	150,776	8,158	6,952	165,886
Contributions/grants	2,100,405	2,745	1,965	215,360	370	2,320,845	75,843	95,630	2,492,318
Miscellaneous	52,020	229,970	6,952	5,661	973	295,577	15,141	39,718	350,436
Depreciation expense	347,224	345,000	130,824	115,082	24,780	962,911	40,000	-	1,002,911
Easement acquisition expense	-	-	-	-	-	-	-	-	-
Total expenses	<u>\$ 7,313,762</u>	<u>\$ 7,266,922</u>	<u>\$ 2,755,622</u>	<u>\$ 2,424,038</u>	<u>\$ 521,964</u>	<u>\$ 20,282,309</u>	<u>\$ 1,921,778</u>	<u>\$ 2,123,194</u>	<u>\$ 24,327,281</u>

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Expenses					Support Activities			Total Expenses
	Conservation	Fallingwater	Government Relations & Community Gardens	Watershed	Communications	Total Program Expenses	Management and General	Development	
Salaries	\$ 2,499,436	\$ 2,647,363	\$ 910,426	\$ 874,338	\$ 228,653	\$ 7,160,216	\$ 1,044,879	\$ 977,946	\$ 9,183,041
Fringe benefits	876,737	928,626	319,338	306,695	80,206	2,511,602	366,515	343,037	3,221,155
Cost of goods sold	-	981,004	-	-	-	981,004	-	-	981,004
Supplies and materials	129,594	483,707	474,002	152,308	17,196	1,256,805	60,200	65,558	1,382,564
Government relations	-	-	62,028	-	-	62,028	-	-	62,028
Postage and freight	3,330	62,396	1,831	994	15,451	84,002	2,454	88,015	174,472
Contracted services	209,626	261,591	479,535	401,669	51,041	1,403,463	77,939	194,915	1,676,316
Professional services	193,018	206,604	238,566	55,869	18,975	713,031	58,151	36,371	807,552
Honorariums	-	34,456	10,925	-	-	45,381	1,448	1,948	48,778
Rental expense	54,315	27,623	28,612	17,511	11,627	139,688	6,785	9,502	155,975
Utilities	36,225	130,467	25,824	16,757	3,231	212,505	14,335	8,677	235,517
Telecommunications	22,780	48,967	17,291	18,803	2,448	110,289	10,669	6,912	127,869
Travel/business	80,974	64,243	11,064	53,382	629	210,292	12,150	16,696	239,137
Training and development	16,581	57,820	3,783	5,178	7,409	90,771	8,921	10,669	110,362
Marketing/advertising	3,834	100,496	1,082	292	57,200	162,904	3,437	8,043	174,384
Repairs and maintenance	55,872	191,173	34,300	28,344	5,547	315,236	25,972	44,014	385,222
General insurance	57,344	146,987	30,062	22,976	5,356	262,725	20,927	11,526	295,178
Real estate taxes	89,335	67,516	7,609	5,815	1,356	171,631	9,482	6,298	187,412
Contributions/grants	1,145	1,612	117	63,982	12	66,868	1,480	2,120	70,468
Miscellaneous	27,763	232,206	11,700	14,118	1,284	287,072	12,066	31,905	331,042
Depreciation expense	248,136	352,641	142,213	108,683	27,057	878,730	40,000	-	918,730
Easement acquisition expense	297,434	-	-	-	-	297,434	12,793	9,595	319,822
Total expenses	<u>\$ 4,903,478</u>	<u>\$ 7,027,499</u>	<u>\$ 2,810,309</u>	<u>\$ 2,147,711</u>	<u>\$ 534,678</u>	<u>\$ 17,423,675</u>	<u>\$ 1,790,604</u>	<u>\$ 1,873,747</u>	<u>\$ 21,088,026</u>

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	\$ (1,501,858)	\$ 5,681,887
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,002,911	918,730
Land escrow funds returned to donor	(1,144,609)	-
Land escrow funds - grant payment	(1,500,000)	-
Contribution of property and equipment	(20,000)	(64,000)
Contribution of land conservation project	(60,000)	(204,000)
Accretion of interest-free note payable	29,558	14,778
Net realized and unrealized (gains) losses on long-term investments	997,539	(7,324,831)
Contributions restricted for long-term purposes	(205,149)	(184,793)
(Gain) loss on the conveyance of land	312,652	357,417
(Gain) loss on the disposal of other assets	(17,558)	(11,258)
Changes in assets and liabilities:		
Accounts and pledges receivable	942,058	(338,365)
Inventories	38,896	(28,053)
Notes receivable	-	405,000
Prepays and other deposits	46,441	(151,839)
Land conservation projects	(1,999,314)	(1,775,317)
Charitable gift annuities	(27,175)	137,368
Accounts payable and other liabilities	61,038	124,310
Net cash provided by (used in) operating activities	(3,044,570)	(2,442,966)
Cash Flows From Investing Activities:		
Purchase of property and equipment	(711,000)	(940,906)
Purchase of land and conservation projects	(1,228,929)	(482,331)
Purchase of investments	(14,811,479)	(17,461,067)
Proceeds from sale of investments	17,243,647	18,271,692
Net cash provided by (used in) investing activities	492,239	(612,612)
Cash Flows From Financing Activities:		
Collections of contributions for long-term purposes	101,545	208,847
(Payments on) proceeds from contributions for land acquisition	(14,654)	-
Proceeds from note payable	326,500	30,679
Repayment of note payable	(524,969)	(32,388)
Capital lease payments	(10,696)	(17,754)
Proceeds from line of credit	95,295	716,264
Repayment of line of credit	(809,944)	-
Reimbursements for land conservation projects	2,485,328	2,609,098
Net cash provided by (used in) financing activities	1,648,405	3,514,746
Net Increase (Decrease) in Cash and Cash Equivalents	(903,926)	459,168
Cash and Cash Equivalents:		
Beginning of year	4,346,931	3,887,763
End of year	\$ 3,443,005	\$ 4,346,931
Supplemental Schedule of Noncash Investing and Financing Activities:		
Contribution of property and equipment	\$ 20,000	\$ 64,000
Contribution of land conservation project	\$ 60,000	\$ 204,000
Construction in progress purchases included in accounts payable	\$ -	\$ 18,357
Capital lease	\$ -	\$ 28,990

See accompanying notes to financial statements.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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.

Basis of Accounting

The financial statements of the Conservancy have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities in accordance with accounting principles generally accepted in the United States of America.

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.

Measure of Operations

The Conservancy's operating revenues in excess of expenses and transfers include all operating revenues and expenses that are an integral part of its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from non-operating funds to support current operating activities. The measure of operations includes support for operating activities from both donor-restricted net assets and net assets without donor restrictions for long-term investment (the donor-restricted endowment and general invested assets) according to the Conservancy's spending policy, which is detailed in Note 9. The measure of operations excludes investment return, net, in excess of (less than) amounts made available for current

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

operations, capital grants and expenditures, gains and losses on sale of land and other assets, and changes in fair value of charitable gift annuities.

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.

Inventory

The museum shop, operating in connection with Fallingwater®, maintains an inventory of gift items. The inventory is valued at the lower of cost and net realizable value, 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 as revenues or gains in net assets without donor restrictions.

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

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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 2018 and 2017, a cash drawdown of \$2,669,765 and \$2,693,484, respectively, was made. 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, net, appropriated for current operations. The difference between total investment income and the transfer is reflected in non-operating support and income and is retained to support operations of future years.

The income from certain donor-restricted endowment funds is restricted by the donors for specific programs. If program expenditures have equaled or exceeded the income generated by these funds, the amount of annual income from these funds is included in net assets without donor restrictions. If program expenditures have not exceeded the income generated by these funds, the amount of annual income from these funds is included in net assets with donor restrictions.

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:

<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 recorded based on appraised values at the date of donation. Other donations of collectible items are

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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 due diligence, demolition of structures, legal fees, and miscellaneous other items to return the land to its natural state. 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), each representing a legal interest in land owned by another person or entity. The easements grant the Conservancy the right to use, control, and/or protect the land for conservation purposes. Easements can be acquired by donations from landowners or by the sale of a piece of land owned by the Conservancy, where part of the agreement is that the Conservancy retains the easement on the land after sale. The Conservancy has also obtained easements from third parties under which a third party creates the easement at the time of its conveyance of the property. Easements acquired through donation, easements established by retention of rights, and easements created by third parties are not recorded in the financial statements. Additionally, the Conservancy obtains easements through purchases directly from owners. 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 revenue without donor restrictions. Total acreage held as easements is disclosed in Note 6.

Land Escrows

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

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

In 2018, unspent land escrow funds of approximately \$1.1 million were returned to a donor as a result of easement purchases that were unable to be completed. In addition, approximately \$1.5 million of land escrow funds were paid out as part of a grant to another organization in 2018. Similar transactions did not occur during 2017.

Revenue Recognition

Grant revenue is recognized when earned, based on the terms of the grants. Contributions received are recorded as contribution revenue that increases net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Unconditional promises to give (pledges receivable) are recognized as revenues in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises for the years ended December 31, 2018 and 2017.

The Conservancy reports gifts of land, buildings, and equipment as support without donor restriction 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 considers donor restrictions to have expired when the donated or acquired long-lived assets are placed in service.

Memberships, Admissions, and Sales

Membership gifts are reflected as contribution support when received. Membership gifts are payable on an annual basis and initiated by donors throughout the year. Admissions and merchandise sales are recognized at the time of sale or services provided.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

Methods Used for Allocation of Expenses from Management and General Activities

The costs of program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Those expenses include depreciation, the President's office, information technology department, general overhead, and special initiatives. Depreciation is allocated based on proportionate share of expenses. The President's office is allocated based on estimates of time and effort. The information technology department is allocated based on number of computers. General overhead is allocated based on number of employees by division. Special initiatives are allocated based on estimates of costs utilized by division.

Net Assets

The net assets of the Conservancy are reported in each of the following two classes: a) net assets without donor restrictions and b) net assets with donor restrictions. Net assets with donor restrictions are created only by donor-imposed restrictions on their use. All other net assets are reported as part of the net assets without donor restrictions class.

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 to be unrelated business income, if earned. The Conservancy annually files a Form 990. 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).

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

Liquidity and Availability

The following reflects the Conservancy's financial assets (cash and cash equivalents, accounts and pledges receivable, and investments) as of December 31 expected to be available within one year to meet the cash needs for general expenditures.

	<u>2018</u>	<u>2017</u>
Financial assets, at year-end	\$ 56,211,507	\$ 58,724,331
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(13,328,536)	(13,898,580)
Assets to be held in perpetuity	(8,217,190)	(8,022,734)
Financial asset available to meet cash needs for general expenditures within one year	<u>\$ 34,665,781</u>	<u>\$ 36,803,017</u>

The Conservancy is substantially supported by contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Conservancy must maintain sufficient resources to meet those responsibilities to its donors. Thus, some financial assets may not be available for general expenditure within one year. As part of the Conservancy's liquidity management, management structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Conservancy manages its liquid resources by focusing on fundraising and grant writing efforts to ensure the entity has adequate contributions and grants to cover the programs that are being conducted. The Conservancy prepares detailed budgets and remains active in fundraising and grant writing as well as cost management to ensure the entity maintains adequate liquidity.

Recent Accounting Pronouncements

ASU No. 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities," was effective for the Conservancy's financial statements for the year ending December 31, 2018. This standard aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. In conjunction with adopting ASU-2016-14, net asset categories were reviewed resulting in net assets previously classified as permanently restricted to be reclassified to net assets without donor restriction, as the land previously believed to have a donor restriction had no such

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

requirement. As a result, \$1,365,491 was added to net assets without donor restrictions. The table below shows the transfers between net asset classifications as a result of ASU adoption as of January 1, 2017.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Without Donor Restrictions	With Donor Restrictions
Beginning net assets, before adoption	\$ 61,437,914	\$ 13,349,191	\$ 14,940,209	\$ -	\$ -
Transfers between classes as a result of adoption	(61,437,914)	(13,349,191)	(14,940,209)	62,803,405	26,923,909
Beginning net assets, as restated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,803,405</u>	<u>\$ 26,923,909</u>

Pending Accounting Pronouncements

FASB has issued amendments of the FASB Accounting Standard Codification that will become effective in future years as shown below. Management has not yet determined the impact of these admendments on the Conservancy's financial statements:

ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*," is effective for the financial statements for the year ending December 31, 2019 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures.

ASU 2016-02, "*Leases (Topic 842)*," is effective for the financial statements for the year beginning after December 15, 2019. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU 2018-08, "*Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*," is effective for the financial statements for the year beginning after December 15, 2018. This amendment provides guidance for characterizing grants and similar contracts with government agencies and

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions.

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 and Pledges Receivable

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

	<u>2018</u>	<u>2017</u>
Accounts receivable:		
Billed grants and contracts	\$ 1,708,755	\$ 1,572,697
Unbilled grants and contracts	59,259	190,525
Other	62,805	343,397
Total accounts receivable	<u>1,830,819</u>	<u>2,106,619</u>
Pledges receivable:		
Contributions without donor restriction	5,685	23,985
Contributions with donor restriction		
Time or purpose restrictions	433,244	1,084,791
Perpetual in nature	<u>123,100</u>	<u>13,796</u>
Gross pledges receivable	562,029	1,122,572
Less: unamortized discount	<u>(33,104)</u>	<u>(30,993)</u>
Total pledges receivable	<u>528,925</u>	<u>1,091,579</u>
Net accounts and pledges receivable	<u><u>\$ 2,359,744</u></u>	<u><u>\$ 3,198,198</u></u>

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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

Years ending December 31,	Amount
2019	\$ 245,661
2020	74,760
2021	34,410
2022	18,910
2023	38,288
Thereafter	150,000
	<u>562,029</u>
Less - amount representing discount	<u>(33,104)</u>
	<u>\$ 528,925</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, 2018 and 2017 are as follows: Level 1 pledges receivable – current - \$245,661 and \$779,331, respectively, and Level 3 pledges receivable – noncurrent - \$283,264 and \$312,248, 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.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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:

	2018	2017
Balance as of January 1	\$ 312,248	\$ 669,883
Additions of long-term pledges	119,025	57,648
Increases (decreases) due to change in scheduled payments	15,817	15,073
Pledges receivable, which became due within one year	(163,826)	(430,356)
Balance as of December 31	<u>\$ 283,264</u>	<u>\$ 312,248</u>

3. Investments

Investment portfolios at December 31 consisted of the following:

	2018		2017	
	Amount	Percentage	Amount	Percentage
Limited partnerships	\$ 7,653,257	15%	\$ 6,589,477	12%
Fixed-income	13,400,886	27%	13,012,328	24%
Equity instruments	29,479,754	58%	34,361,799	64%
	<u>\$ 50,533,897</u>	<u>100%</u>	<u>\$ 53,963,604</u>	<u>100%</u>

The Conservancy had committed \$14,000,000 and \$12,000,000 in subscriptions to limited partnerships as of December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the Conservancy had unfunded commitments to its limited partnerships of \$4,845,073 and \$3,993,932, respectively. The total funds invested were approximately \$7,653,000 and \$6,589,000 as of December 31, 2018 and 2017, respectively.

The above investments are being held by custodians and managed by professional investment advisors. Related management fees included in investment return amounted to approximately \$168,000 and \$159,000 in 2018 and 2017, respectively.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	<u>2018</u>	<u>2017</u>
Without donor restrictions	\$ 29,591,725	\$ 33,200,891
With donor restrictions:		
Purpose and time restrictions	12,922,696	12,844,782
Perpetual in nature (Note 8 & 9)	<u>8,019,476</u>	<u>7,917,931</u>
	<u>\$ 50,533,897</u>	<u>\$ 53,963,604</u>

Income earned on investments at December 31 is as follows:

	<u>2018</u>	<u>2017</u>
Realized income:		
Interest and dividends, net	\$ 580,731	\$ 569,231
Gain (loss) on sale of investments	<u>4,589,334</u>	<u>784,108</u>
	5,170,065	1,353,339
Unrealized gains (losses)	<u>(5,586,873)</u>	<u>6,540,723</u>
Net investment gain (loss)	<u>\$ (416,808)</u>	<u>\$ 7,894,062</u>

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

	<u>2018</u>	<u>2017</u>
Investment return, net, appropriated by the governing board for current operations	\$ 2,669,765	\$ 2,693,484
Investment return, net, in excess of amounts appropriated for current operations	<u>(3,086,573)</u>	<u>5,200,578</u>
	<u>\$ (416,808)</u>	<u>\$ 7,894,062</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, 2018 AND 2017

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 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. For Level 3 items, the Conservancy's valuation is determined by the market value of the underlying investments for interests in perpetual trusts provided by the trustee as they have no significant observable inputs. 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.

Investments in Limited Partnerships are valued at net asset value per share under the so-called practical expedient. The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using the method are met. The net asset values are determined by the funds and provided by the portfolio manager. Valuations are generally based on the compilation of prices from each fund's underlying

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

company or fund administrator. Upon completion of the fund valuations, the Conservancy's individual quarterly investor valuations are based upon their ownership share of each pool. Generally, the Conservancy may not transfer, or withdraw, its investment prior to the limited partnership termination. All investment funds have an original term of ten to twelve years, with the right to extend the term of the fund for one to two years.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of the future fair values. Furthermore, although the Conservancy believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2018:

	Level 1	Level 2	Level 3	Total
<u>Fixed-income obligations:</u>				
U.S. Government	\$ 681,654	\$ 2,167,793	\$ -	\$ 2,849,447
U.S. Corporate	10,492,658	-	-	10,492,658
Foreign Corporate	29,670	-	-	29,670
	<u>11,203,982</u>	<u>2,167,793</u>	<u>-</u>	<u>13,371,775</u>
<u>Equity instruments:</u>				
U.S. Corporate	17,934,695	-	-	17,934,695
Foreign Corporate	11,493,856	-	-	11,493,856
	<u>29,428,551</u>	<u>-</u>	<u>-</u>	<u>29,428,551</u>
<u>Perpetual Trust:</u>				
Equity U.S. Corporate	-	-	45,345	45,345
Equity Foreign Corporate	-	-	5,858	5,858
Fixed Income U.S. Corporate	-	-	25,184	25,184
Fixed Foreign Corporate	-	-	3,927	3,927
	<u>-</u>	<u>-</u>	<u>80,314</u>	<u>80,314</u>
Total assets in fair value hierarchy	<u>\$ 40,632,533</u>	<u>\$ 2,167,793</u>	<u>\$ 80,314</u>	<u>42,880,640</u>
<u>Limited partnerships:</u>				
U.S. Corporate				4,452,711
Foreign Corporate				<u>3,200,546</u>
Investments measured at net asset value *				<u>7,653,257</u>
Investments at fair value				<u>\$ 50,533,897</u>

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2017:

	Level 1	Level 2	Level 3	Total
<u>Fixed-income obligations:</u>				
U.S. Government	\$ 256,383	\$ 2,393,245	\$ -	\$ 2,649,628
U.S. Corporate	10,290,679	-	-	10,290,679
Foreign Corporate	30,504	-	-	30,504
	<u>10,577,566</u>	<u>2,393,245</u>	<u>-</u>	<u>12,970,811</u>
<u>Equity instruments:</u>				
U.S. Corporate	21,558,839	-	-	21,558,839
Foreign Corporate	12,753,470	-	-	12,753,470
	<u>34,312,309</u>	<u>-</u>	<u>-</u>	<u>34,312,309</u>
<u>Perpetual Trust:</u>				
Equity U.S. Corporate	-	-	43,632	43,632
Equity Foreign Corporate	-	-	5,858	5,858
Fixed Income U.S. Corporate	-	-	37,590	37,590
Fixed Foreign Corporate	-	-	3,927	3,927
	<u>-</u>	<u>-</u>	<u>91,007</u>	<u>91,007</u>
Total assets in fair value hierarchy	<u>\$ 44,889,875</u>	<u>\$ 2,393,245</u>	<u>\$ 91,007</u>	<u>47,374,127</u>
<u>Limited partnerships:</u>				
U.S. Corporate				4,371,974
Foreign Corporate				<u>2,217,503</u>
Investments measured at net asset value *				<u>6,589,477</u>
Investments at fair value				<u>\$ 53,963,604</u>

* In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	2018	2017
Fair value, beginning of year	\$ 91,007	\$ 86,390
Net investment return, including unrealized gains (losses)	(10,693)	4,617
Fair value, end of year	<u>\$ 80,314</u>	<u>\$ 91,007</u>

4. Property and Equipment

Property and equipment at December 31 consisted of:

	2018	2017
Land	\$ 685,000	\$ 685,000
Building and building improvements	13,397,590	13,144,126
Equipment	2,837,764	2,557,278
Ground improvements	6,679,777	6,666,983
Construction in progress	271,896	423,463
	23,872,027	23,476,850
Less: accumulated depreciation	<u>(11,004,041)</u>	<u>(10,327,852)</u>
	<u>\$ 12,867,986</u>	<u>\$ 13,148,998</u>

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

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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:

	<u>2018</u>	<u>2017</u>
Balance as of January 1	\$ 19,858,742	\$ 20,363,609
Additions and acquisitions	3,293,709	3,219,779
Conveyances	(318,118)	(1,115,548)
Reimbursements	<u>(2,485,328)</u>	<u>(2,609,098)</u>
Balance as of December 31	<u>\$ 20,349,005</u>	<u>\$ 19,858,742</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 37,495 and 36,769 acres as easements as of December 31, 2018 and 2017, 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 4.3% to 9.5% of the fair value, discounted at 3%, of the contributions over the designated beneficiaries' lifetime. The present values of these obligations approximate \$585,000 and \$612,000 at December 31, 2018 and 2017, respectively.

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 investments without donor restriction and is

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

intended to be used for short-term financing for 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, 2018 and 2017, the balances due on the line of credit were approximately \$1,600 and \$716,000, respectively. The line of credit expires August 31, 2020.

Notes 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, 2018 and 2017 was \$24,000 and \$36,000, respectively.

The Conservancy received a program-related investment in the form of a note payable for \$500,000, dated April 15, 2016, used to acquire property in the headwaters of Loyalhanna Creek. The note is non-interest bearing and is payable on or before June 30, 2020. Interest was imputed at a rate of 3.25%. The note was measured at fair value at inception in the amount of \$426,000. The difference between fair value and stated amount of the loan was recognized as a contribution. Interest expense of \$29,558 and \$14,778 was recognized during 2018 and 2017. The balance on this note payable at December 31, 2018 and 2017 was approximately \$0 and \$470,000, respectively. The Conservancy paid off the note payable during 2018.

The Conservancy has a note payable for \$326,500, dated October 10, 2018, relating to a final payment on the purchase of property within the French Creek area. The note is non-interest bearing and is payable in one installment. The balance on this note payable at December 31, 2018 and 2017 was approximately \$326,500 and \$0, respectively. The note was paid in full in January 2019.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

8. Net Assets

Certain restricted contributions and grants received are to be expended for specific purposes and/or when a stipulated time restriction ends. Contributions reflected as with donor restrictions in the statements of activities are as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for a specified purpose (or purpose and time):		
Conservation	\$ 4,128,077	\$ 1,209,914
Fallingwater®	390,938	151,857
Community Gardens/Greenspace	1,924,692	1,329,792
Watershed	537,354	566,956
Other	99,102	224,889
	<u>7,080,163</u>	<u>3,483,408</u>
Subject solely to the passage of time:		
Fallingwater®	-	100,000
Total subject to purpose and time restrictions	<u>7,080,163</u>	<u>3,583,408</u>
Subject to the Conservancy's spending policy and appropriation:		
Contributions in perpetuity	205,149	184,793
Total operating contributions with donor restrictions	<u>\$ 7,285,312</u>	<u>\$ 3,768,201</u>

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

Net assets released from donor restrictions as reflected in the statement of activities are as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for a specified purpose (or purpose and time):		
Conservation	\$ 4,049,279	\$ 1,940,412
Fallingwater®	391,087	218,795
Community Gardens/Greenspace	1,450,793	1,426,461
Watershed	614,296	549,280
Other	327,410	111,837
	<u>6,832,865</u>	<u>4,246,785</u>
Subject solely to the passage of time:		
Fallingwater®	20,000	20,000
Total subject to purpose and time restrictions	<u>6,852,865</u>	<u>4,266,785</u>
Subject to the Conservancy's spending policy and appropriation:		
Amount appropriated for expenditures	508,004	504,796
Total operating net assets released from restrictions	<u>\$ 7,360,869</u>	<u>\$ 4,771,581</u>

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

Net assets with donor restrictions as of December 31 are restricted for the following purpose or periods:

	2018	2017
Subject to expenditure for a specified purpose (or purpose and time):		
Conservation	\$ 4,535,240	\$ 4,806,358
Fallingwater®	167,898	167,234
Community Gardens/Greenspace	1,803,395	1,329,495
Watershed	823,982	829,064
Other	607,592	836,715
Capital items	520,575	436,250
	8,458,682	8,405,116
Subject to the passage of time:		
Term endowment, income only to be used until 2038	100,000	100,000
Charitable gift annuities	74,922	74,922
For periods after December 31	83,790	133,348
	258,712	308,270
Subject to the Conservancy's spending policy and appropriation:		
Endowment income restricted to specific programs	4,611,142	5,185,194
Endowment investments in perpetuity and endowment pledges, the income from which is expendable to support:		
Community Gardens/Greenspace	2,832,003	2,762,473
Fallingwater®	2,208,738	2,166,659
Beechwood Farm Sanctuary	50,000	50,000
General Purposes	1,382,391	1,365,444
Specific program support	1,744,058	1,678,158
	8,217,190	8,022,734
Not subject to appropriation or expenditure:		
Land required to be held in perpetuity (as adjusted, see Note 2)	1,169,260	1,169,260
Land, proceeds from the sale of which are required to be reinvested in land upon divestment	1,942,636	1,942,636
Fallingwater®	600,000	600,000
Fine art collection (at values assigned at acquisition)	2,029,498	2,029,498
	5,741,394	5,741,394
Total net assets with donor restrictions	\$ 27,287,120	\$ 27,662,708

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

As discussed in Note 2, net asset categories were reviewed in conjunction with adopting ASU-2016-14, which resulted in net assets previously classified as permanently restricted to be reclassified to net assets without donor restriction as the land previously believed to have a donor restriction had no such requirement. As a result, \$1,365,491 was reclassified from net assets with donor restrictions.

9. Endowment

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. The Conservancy does not have a Board-designated endowment.

Interpretation of Relevant Law

The Board has elected to apply the Commonwealth of Pennsylvania's Act 141 of 1998 (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 net assets with donor restrictions the original fair value of gifts donated to the donor-restricted endowment and the original fair value of subsequent gifts to the donor-restricted endowment. The undistributed amounts earned are included in net assets with donor restrictions because those net assets are time restricted until the Board appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. 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.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

The Conservancy considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Conservancy has interpreted Act 141 to permit spending from underwater funds in accordance with the prudent measures required under the law.

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

	2018	2017
	With Donor Restrictions	With Donor Restrictions
Donor-restricted endowment funds:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 8,217,190	\$ 8,022,734
Endowment income restricted to specific programs	4,611,142	5,185,194
Total	\$ 12,828,332	\$ 13,207,928

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

	2018	2017
	With Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning of year	\$ 13,207,928	\$ 11,770,770
Investment return, net	(76,741)	1,757,161
Contributions	205,149	184,793
Appropriation of endowment assets for expenditure	(508,004)	(504,796)
Endowment net assets, end of year	\$ 12,828,332	\$ 13,207,928

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

In addition to the investments above, as described in Note 8, the Conservancy maintained other net assets with donor restriction, not subject to appropriation or expenditure, approximating \$5,741,000 at December 31, 2018 and 2017. These assets included land, buildings, and fine art.

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Act 141 requires the Conservancy to retain as a fund of perpetual duration. The Conservancy had no underwater endowment funds at December 31, 2018 or 2017.

Endowment Investment Objective

The primary objective of endowment fund (Fund) investments is to, as closely as possible, achieve a rate of return in excess of the rate of inflation plus spending over the long term, not necessarily year-by-year, in order to preserve the purchasing power of endowed assets while providing a relatively predictable and growing stream of distributions in support of the Conservancy's operations.

The Board believes that a long-term growth-oriented approach is appropriate, given that annual distributions from the Fund represents approximately 10% 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 12 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

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

suggest collectively that the Fund can tolerate some interim fluctuations in market value and rates of return in order to achieve long-term objectives.

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 \$978,000 and \$923,000 in 2018 and 2017, 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, 2018 and 2017, \$695,000 and \$677,000, 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, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor Number or Pass-Through Grantor Number	Amounts Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of the Interior:</u>				
National Fish and Wildlife Foundation	15.663	0404.16.053423	\$ -	\$ 35,666
National Fish and Wildlife Foundation	15.663	0603.15.049422	-	1,428
National Fish and Wildlife Foundation	15.663	0407.18.061679	-	15,190
National Fish and Wildlife Foundation	15.663	N/A	-	2,451
Total 15.663			-	54,735
Passed through US Fish and Wildlife Service:				
Fish and Wildlife Management Assistance	15.608	400020421	-	15,000
Passed through Pennsylvania Game Commission:				
Fish and Wildlife Cluster:				
Wildlife Restoration and Basic Hunter Education	15.611	4000021501	-	21,065
Wildlife Restoration and Basic Hunter Education	15.611	4000021689	-	39,256
Wildlife Restoration and Basic Hunter Education	15.611	4000020056	-	4,135
Total Fish and Wildlife Cluster			-	64,456
Passed through Pennsylvania Fish and Boat Commission:				
State Wildlife Grants	15.634	PFBC 2017 - 1023.02	-	64,161
State Wildlife Grants	15.634	PFBC 2015-0526.01	-	80,864
State Wildlife Grants	15.634	PFBC 2016-0328.02	-	85,972
State Wildlife Grants	15.634	PFBC 2016-0204.02	-	5,160
State Wildlife Grants	15.634	PFBC 2015-0626.02	-	18,501
Subtotal			-	254,658
Passed through Pennsylvania Department of Conservation and Natural Resources:				
State Wildlife Grants	15.634	WPC TA - 018	-	19,968
Subtotal			-	19,968
Passed through Pennsylvania Game Commission:				
State Wildlife Grants	15.634	4100073263	-	35,083
State Wildlife Grants	15.634	4100072848	-	4,552
Subtotal			-	39,635
Total 15.634			-	314,261
North American Wetlands Conservation Fund	15.623	US-PA-108-2	-	96,296
North American Wetlands Conservation Fund	15.623	0020129477	-	97,996
Total 15.623			-	194,292
Cooperative Landscape Conservation	15.669	F15AC01052-0001-LCCO	-	595
Great Lakes Restoration	15.662	5660-WPC-USFWS-0211	-	124,233
Great Lakes Restoration	15.662	5468-WPC-USFWS-0558	-	954
Total 15.662			-	125,187
Subtotal Passed through US Fish and Wildlife Service			-	713,791
Passed through Office of Surface Mining:				
Not-for-Profit AMD Reclamation	15.253	S13AC20036	-	64,614
Passed through National Park Service:				
Cooperative Research and Training Program	15.945	P17AC01590	-	24,163
Total U.S. Department of the Interior			-	857,303

(Continued)

See accompanying notes to schedule of expenditures of federal awards.

WESTERN PENNSYLVANIA CONSERVANCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2018
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor Number or Pass-Through Grantor Number	Amounts Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Housing and Urban Development:</u>				
Passed through City of Pittsburgh:				
Entitlement Grants Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	N/A	-	45,281
Total U.S. Department of Housing and Urban Development			-	45,281
<u>U.S. Department of Defense:</u>				
Passed through US Army Corps of Engineers				
Collaborative Research and Development Grant	12.114	WPC-TNC-070118-A104678	-	13,723
Total U.S. Department of Defense			-	13,723
<u>U.S. Environment Protection Agency:</u>				
Regional Wetland Program Development Grants	66.461	WPC-TA 004	-	63,197
Regional Wetland Program Development Grants	66.461	WPC-TA 019	-	71,536
Total 66.461			-	134,733
Passed through National Fish and Wildlife Foundation:				
Chesapeake Bay Program	66.466	0603.15.049422	-	3,049
Chesapeake Bay Program	66.466	0603.15.049656	-	12,943
Chesapeake Bay Program	66.466	0603.17.057439	-	68,924
Chesapeake Bay Program	66.466	WPC - TA 023	-	8,729
Chesapeake Bay Program	66.466	0600.17.058652	-	23,178
Chesapeake Bay Program	66.466	0603.16.053396	-	21,636
Total 66.466			-	138,459
Total U.S. Environment Protection Agency			-	273,192
<u>U.S. Department of Agriculture:</u>				
National Fish and Wildlife Foundation	10.683	0603.17.057439	-	13,976
National Fish and Wildlife Foundation	10.683	0603.16.053313	-	23,377
Total 10.683			-	37,353
Passed through Forest Service:				
Cooperative Forestry Assistance	10.664	17-CS-11091900-020	-	10,876
Cooperative Forestry Assistance	10.664	15-CS-11091900-016	-	15,330
Cooperative Forestry Assistance	10.664	16-DG-11420004-068	-	23,377
Total 10.664			-	49,583
Soil and Water Conservation	10.902	0603.16.053396	-	34,334
Environmental Quality Incentives Program	10.912	0407.17.058285	-	62,683
Environmental Quality Incentives Program	10.912	68-2D37-009	-	4,227
Total 10.912			-	66,910
National Forest Foundation	10.682	AK-906	-	11,150
Subtotal Passed through Forest Service			-	127,643
Conservation Reserve Program	10.069	WPC-TA-011	-	230,254
Conservation Reserve Program	10.069	WPC-TA-023	-	191,721
Total 10.069			-	421,975
Total U.S. Department of Agriculture			-	621,305
<u>U.S. Department of Transportation:</u>				
Highway Planning and Construction Cluster				
Recreational Trails Program	20.219	WPC TA-007	-	67,907
Recreational Trails Program	20.219	BRC-PRT-21-180	-	19,853
Total U.S. Department of Transportation			-	87,760
Total Expenditures of Federal Awards			\$ -	\$ 1,898,564

(Concluded)

See accompanying notes to schedule of expenditures of federal awards.

WESTERN PENNSYLVANIA CONSERVANCY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2018

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the Western Pennsylvania Conservancy (Conservancy) under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Conservancy, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Western Pennsylvania Conservancy.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. The Conservancy has elected to not use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

WESTERN PENNSYLVANIA CONSERVANCY

SCHEDULES OF OPERATING REVENUES AND PUBLIC SUPPORT WITHOUT DONOR RESTRICTIONS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	Amount		Percent of Total Operating Revenues and Public Support Without Donor Restrictions	
	2018	2017	2018	2017
	Contributions, Grants, and Memberships, Including Restrictions Met in Current Year:			
Individuals	\$ 2,646,211	\$ 2,265,381	11%	10%
Foundations	5,204,536	3,231,601	21%	12%
Business community	661,655	553,121	3%	3%
Government	5,826,392	5,030,549	23%	23%
	14,338,794	11,080,652	57%	51%
Earned Income:				
Fallingwater® admissions	4,992,199	5,088,987	20%	23%
Sales from Fallingwater museum shop and café	2,542,598	2,493,739	10%	11%
Rents, royalties, and miscellaneous	581,316	721,197	2%	3%
	8,116,113	8,303,923	32%	37%
Internal Income:				
Investment return designated for current operations	2,669,765	2,693,484	11%	12%
Total operating revenues and public support without donor restrictions	\$ 25,124,672	\$ 22,078,059	100%	100%

Western Pennsylvania Conservancy

Independent Auditor's Reports
Required by the Uniform Guidance

Year Ended December 31, 2018

**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, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 15, 2019.

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.

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

Compliance and Other Matters

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

Purpose of this Report

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

Mahe Duessel

Pittsburgh, Pennsylvania
May 15, 2019

Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

**Board of Directors
Western Pennsylvania
Conservancy**

Report on Compliance for Each Major Federal Program

We have audited the Western Pennsylvania Conservancy’s (Conservancy) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Conservancy’s major federal programs for the year ended December 31, 2018. The Conservancy’s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Conservancy’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 each major federal program. However, our audit does not provide a legal determination on the Conservancy’s compliance.

Opinion on Each 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 each of its major federal programs for the year ended December 31, 2018.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

Board of Directors
Western Pennsylvania Conservancy
Independent Auditor's Report on Compliance for
Each Major Program and on Internal control over Compliance

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mahe Duessel

Pittsburgh, Pennsylvania
May 15, 2019

WESTERN PENNSYLVANIA CONSERVANCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2018

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified, prepared in accordance with Generally Accepted Accounting Principles

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 2 CFR section 200.516(a)? yes no

7. Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
15.634	State Wildlife Grants
15.623	North American Wetlands Conservation Fund

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000

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, 2018

NONE