

**NATURAL HERITAGE TRUST  
FINANCIAL REPORT  
MARCH 31, 2013**

# NATURAL HERITAGE TRUST

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Natural Heritage Trust

### Report on the Financial Statements

We have audited the accompanying financial statements of the Natural Heritage Trust, a component unit of the State of New York, as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the Natural Heritage Trust's basic financial statements as listed in the table of contents.

### 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 the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves 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 Natural Heritage Trust as of March 31, 2013, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, budgetary comparison information on page 21 and the schedule of funding progress for the retiree health plan on page 22, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2013 on our consideration of Natural Heritage Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Natural Heritage Trust's internal control over financial reporting and compliance.

*Marvin and Company, P.C.*

Latham, New York  
June 17, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the financial statements of the Natural Heritage Trust (the "Trust") the Trust's management provides narrative discussion and analysis of the financial activities of the Trust for the fiscal year ended March 31, 2013. The Trust's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. We encourage readers to consider the information on pages 3 to 8 in conjunction with the Trust's financial statements (presented on pages 9 to 20) to enhance their understanding of the Trust's financial performance. This discussion and analysis is intended to serve as an introduction to the Trust's basic financial statements for the fiscal year ended March 31, 2013.

### **Overview of the Financial Statements**

The Trust's basic financial statements include: 1) governmental fund financial statements, 2) fiduciary fund financial statements, 3) notes to the financial statements, and 4) supplementary information.

### ***Government-wide Financial Statements***

The Trust categorizes the programs and projects it operates as fiduciary activities. These activities include holding and actively managing the net assets of the programs in accordance with trust agreements or other operational agreements entered into by the Trust with the sponsoring organization. In accordance with GASB No. 34, Paragraph 13, government-wide statements should exclude fiduciary activities. Accordingly, the Trust's basic financial statements do not include government-wide financial statements.

### ***Fund Financial Statements***

A fund is an accountability unit to maintain control over resources segregated for specific activities or objectives. The Trust has two kinds of funds, a governmental fund and a fiduciary fund.

The *Governmental Fund* is reported in the fund financial statements. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financial requirements of Trust operations and the commitment of spendable resources for the near-term.

The governmental fund represents the general operating fund of the Trust. Revenue is derived principally from interest earned from checking and money market accounts, interest and returns on investments and administrative fees charged to certain programs for which the Trust employs staff. Information on this fund is reported in the Governmental Fund Revenues, Expenditures, and Changes in Fund Balance statement and the Governmental Fund Balance Sheet.

The *Governmental Fund Revenues, Expenditures, and Changes in Fund Balance* statement shows the Trust's change in fund balance during the year. It accounts for all of the current year's revenues and expenses, measures the financial results of the Trust's operations over the past year and can be used to determine how the Trust has funded its costs.

The *Governmental Fund Balance Sheet* provides information about the nature and amounts of investments in resources and the obligations of the Trust, with the difference between the two reported as fund balance.

The *Fiduciary Fund* is reported in the fiduciary fund financial statements. Fiduciary fund financial statements report resources that are not available to fund Trust administrative expenses. The fund is used to account for assets held by the Trust in a trustee capacity for specific projects and programs.

The fiduciary fund represents monies held in trust for restricted purposes in concert with the Trust's partner agencies and other organizations. Revenue is principally derived from gifts, grants, program activity fees, sponsorships, fundraising activity and investment income. Expenditures are project and program specific and support specific purposes under gift agreements, contracts, grant agreements and other arrangements.

Information on this fund is reported in the Statement of Changes in Fiduciary Net Assets and the Statement of Fiduciary Net Assets.

The *Statement of Changes in Fiduciary Net Assets* shows the fiduciary fund change in net assets during the year. It accounts for all of the current year additions and deductions, and measures the financial results of fiduciary fund operations over the past year.

The *Statement of Fiduciary Net Assets* provides information about the amounts due from the general fund and the obligations of the fiduciary fund accounts, with the difference between the two reported as net assets.

### ***Notes to the Financial Statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

### ***Supplementary Information***

The *General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual* provides a comparison of budget and actual information for the Trust's general fund.

The Schedule of Funding Progress for Retiree Health Plan provides information on actuarial accrued liability and the unfunded actuarial accrued liability relating to the Trust's Other Postemployment Benefit Obligation.

Supplementary information begins immediately following the notes to the financial statements.

## Financial Analysis of the Governmental Fund

The governmental fund consists of the Trust's general fund, which is the Trust's operating fund. Below is a summary of the fund balance and the revenues, expenditures and change in fund balance for the years ended March 31, 2013 and 2012.

### Governmental Fund

#### SUMMARY OF ASSETS, LIABILITIES AND FUND BALANCE

	<u>2013</u>	<u>2012</u>
Assets	\$ 25,050,612	\$ 25,047,734
Liabilities	<u>23,450,281</u>	<u>23,209,528</u>
Fund Balance		
Assigned	524,015	524,015
Unassigned	<u>1,076,316</u>	<u>1,314,191</u>
Total Fund Balance	<u>1,600,331</u>	<u>1,838,206</u>
	<u>\$ 25,050,612</u>	<u>\$ 25,047,734</u>

The Trust's assets consist primarily of cash, money market funds, certificates of deposits, fixed income debt obligations and equity exchange traded funds. Funds received from the various fiduciary fund program accounts are deposited into the general fund and invested until they are subsequently disbursed for project and program purposes. For internal accounting purposes transactions from the fiduciary program accounts are tracked on a specific basis and a recorded in accordance with established requirements relating to each project or program.

Each fixed income debt obligation in the Trust's portfolio bears interest at a fixed rate. At March 31, 2013 the market yield ranged from 1.3% to 5.6% for fixed income debt obligations, and 1.3% to 3.0% for equities. The market value of fixed income debt obligations fluctuates between purchase date and maturity date based on changes in market interest rates. For the year ended March 31, 2013 market fluctuations resulted in unrealized losses on the general fund investments and unrealized gains on the fiduciary fund investments.

Nearly all of the governmental fund liabilities reflect the amount due to the fiduciary fund.

The Board of Directors of the Trust has approved assigning a portion of the governmental fund balance to support future liabilities related to the Trust's postemployment healthcare benefit plan. This reserve is expressed as "Assigned" on the Trust's balance sheet. The assigned funds represent funds available in addition to the annual required contribution which the Trust supports on an ongoing basis.

Current year expenditures decreased approximately \$74,000 from the prior year.

## SUMMARY OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

	<u>2013</u>	<u>2012</u>
<b>Revenues</b>		
Investment income	\$ 299,318	\$ 352,807
Indirect fringe benefit income	228,780	223,899
Administrative income	227,072	191,057
Realized gains (losses) on investments	27,307	27,866
Unrealized gains (losses) on investments	<u>(40,227)</u>	<u>(103,765)</u>
	<u>742,250</u>	<u>691,864</u>
<b>Expenditures</b>		
Salary and payroll related costs	384,531	459,014
Fringe benefit and retirement costs	174,948	188,861
OPEB cost	344,712	339,578
Bank investment fees and service charges	28,716	30,359
Office supplies and postage	17,635	21,650
Professional fees	20,319	10,316
Travel	2,130	2,924
Award expenses	6,350	-
Miscellaneous	<u>784</u>	<u>1,429</u>
	<u>980,125</u>	<u>1,054,131</u>
 Deficiency of revenues over expenditures	 (237,875)	 (362,267)
 Fund balance at beginning of year	 <u>1,838,206</u>	 <u>2,200,473</u>
Fund balance at end of year	<u>\$ 1,600,331</u>	<u>\$ 1,838,206</u>

Revenues are derived primarily from investment income, administrative income and indirect fringe benefit income. The increase in revenue is primarily due to administrative income assessed on those program accounts with payroll expense and net investment income.

### General Fund Budgetary Highlights

The general fund revenue budget for the fiscal year was \$596,000 with a projected budget deficit of \$125,000 to be supported with funds from the unrestricted fund balance, as shown on page 20 (Supplementary Information). Actual governmental fund revenue totaled \$742,250. The higher revenue amount is due to indirect fringe benefit income assessed on those program accounts with payroll expense, over the actual fringe benefits paid out by the Trust, and realized and unrealized gain/losses on investments that are not included in the annual operating budget of the Trust. The administrative income was greater than the budgeted amount by approximately \$87,000.

For budgeting purposes, the Trust does not include the expense (approximately \$345,000) related to the Trust's 2013 Other Postemployment Benefit Obligation (OPEB) actuarially determined obligation as part of its operating budget. Therefore, the actual governmental fund expenses of approximately \$980,000 were higher than the budgeted expenditures of \$721,000.

## Financial Analysis of the Fiduciary Fund

The fiduciary fund represents monies held in trust for restricted purposes in concert with the Trust's partner agencies and other organizations. Below is a summary of the fund balance and the revenues, expenditures and change in fund balance for the years ended March 31, 2013 and 2012.

### Fiduciary Fund

#### SUMMARY OF ASSETS, LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u>
Assets	\$ <u>22,031,281</u>	\$ <u>22,274,336</u>
Liabilities	<u>279,354</u>	<u>389,142</u>
Net Assets Held in Trust	<u>21,751,927</u>	<u>21,885,194</u>
	<u>\$ 22,031,281</u>	<u>\$ 22,274,336</u>

Nearly all of the fiduciary fund assets reflect the amount due from the governmental fund.

Restricted gifts and grants received by the fiduciary fund, including earnings thereon, totaled approximately \$9.47 million for the fiscal year ended March 31, 2013. Program expenses related to fiduciary fund activities totaled approximately \$9.6 million, resulting in a decrease of the fiduciary fund net assets of approximately \$133,000. The number of program accounts the Trust manages, with account balances at year end, increased to 189 as of March 31, 2013, from 181 as of March 31, 2012.

## SUMMARY OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS

	<u>2013</u>	<u>2012</u>
<b>Revenues</b>		
Grants and contracts	\$ 3,366,595	\$ 4,148,737
Gifts, donations and private grants	2,290,342	2,328,270
Fringe benefit income	914,632	843,259
Activity and program income	673,342	606,043
Merchandise sales	642,495	588,587
Mitigation and environmental benefits	509,109	508,340
Sponsorship and advertising	270,204	239,438
Other revenue	79,012	40,923
Investment income	190,578	249,702
Realized gains (losses) on investments	12,619	57,780
Unrealized gains (losses) on investments	<u>521,200</u>	<u>65,330</u>
	<u>9,470,128</u>	<u>9,676,409</u>
<b>Expenditures</b>		
Program support and personnel	4,775,524	4,165,793
Gift reassignment	1,679,700	960,095
Activity and event support	1,458,583	1,413,968
Capital construction and maintenance	933,595	2,786,593
Promotional materials and merchandise for resale	464,780	646,288
Professional services	283,525	340,741
Miscellaneous	<u>7,689</u>	<u>8,586</u>
	<u>9,603,396</u>	<u>10,322,064</u>
Change in net assets	(133,268)	(645,655)
Net assets at beginning of year	<u>21,885,195</u>	<u>22,507,514</u>
Net assets at end of year	<u>\$21,751,927</u>	<u>\$21,861,859</u>

**NATURAL HERITAGE TRUST  
GOVERNMENTAL FUND BALANCE SHEET  
MARCH 31, 2013**

**ASSETS**

Cash and cash equivalents	\$ 2,344,282
Investments	22,657,147
Accounts receivable	1,521
Interest receivable	<u>47,662</u>
 TOTAL ASSETS	 <u><u>\$ 25,050,612</u></u>

**LIABILITIES AND FUND BALANCE**

<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 56,050
Due to fiduciary fund	22,030,818
OPEB	<u>1,363,413</u>
 TOTAL LIABILITIES	 <u><u>23,450,281</u></u>
 <b>FUND BALANCE</b>	
Assigned	524,015
Unassigned	<u>1,076,316</u>
 TOTAL FUND BALANCE	 <u><u>1,600,331</u></u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 25,050,612</u></u>

**NATURAL HERITAGE TRUST  
GOVERNMENTAL FUND REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED MARCH 31, 2013**

<b>REVENUES</b>	
Investment income	\$ 299,318
Indirect fringe benefit income	228,780
Administrative income	227,072
Realized gains on investments	27,307
Unrealized losses on investments	<u>(40,227)</u>
<b>TOTAL REVENUES</b>	<u>742,250</u>
<b>EXPENDITURES</b>	
Salary and payroll related costs	384,531
Fringe benefit and retirement costs	174,948
OPEB cost	344,712
Bank investment fees and service charges	28,716
Professional fees	17,635
Office supplies and postage	20,319
Travel	2,130
Award expenses	6,350
Miscellaneous	<u>784</u>
<b>TOTAL EXPENDITURES</b>	<u>980,125</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	(237,875)
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>1,838,206</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u><u>\$ 1,600,331</u></u>

**NATURAL HERITAGE TRUST**  
**STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND**  
**MARCH 31, 2013**

<b>ASSETS</b>		
Accounts receivable		\$ 463
Due from governmental fund		<u>22,030,818</u>
<b>TOTAL ASSETS</b>		<b><u>\$ 22,031,281</u></b>
 <b>LIABILITIES AND NET ASSETS HELD IN TRUST</b>		
<b>LIABILITIES</b>		
Accounts payable		\$ 53,479
Accrued payroll and related items		<u>225,875</u>
<b>TOTAL LIABILITIES</b>		<b>279,354</b>
<b>NET ASSETS HELD IN TRUST</b>		<b><u>21,751,927</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS HELD IN TRUST</b>		<b><u>\$ 22,031,281</u></b>

**NATURAL HERITAGE TRUST**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUND**  
**FOR THE YEAR ENDED MARCH 31, 2013**

<b>ADDITIONS</b>	
Grants and contracts	\$ 3,366,595
Gifts, donation and private grants	2,290,342
Fringe benefit Income	914,632
Activity and program income	673,342
Merchandise sales	642,495
Mitigation and environmental benefits	509,109
Sponsorship and advertising	270,204
Other revenue	79,012
Investment income	190,578
Realized gains on investments	12,619
Unrealized gains on investments	<u>521,200</u>
<b>TOTAL ADDITIONS</b>	<u><b>9,470,128</b></u>
<b>PROGRAM EXPENSES</b>	
Promotional materials and merchandise for resale	464,780
Program support and personnel	4,775,524
Activity and event support	1,458,583
Professional services	283,525
Miscellaneous	7,689
Gift reassignment	1,679,700
Capital construction and maintenance	<u>933,595</u>
<b>TOTAL EXPENSES</b>	<u><b>9,603,396</b></u>
<b>CHANGE IN NET ASSETS HELD IN TRUST</b>	<b>(133,268)</b>
<b>NET ASSETS HELD IN TRUST AT BEGINNING OF YEAR</b>	<u><b>21,885,195</b></u>
<b>NET ASSETS HELD IN TRUST AT END OF YEAR</b>	<u><u><b>\$ 21,751,927</b></u></u>

**NATURAL HERITAGE TRUST  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013**

**A. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Organization

Natural Heritage Trust ("Trust"), a public benefit corporation, was created in 1968 under Article 55 of the Arts and Cultural Affairs Law to receive and administer private gifts, grants, devices and bequests of real and personal property donated to further conservation, outdoor recreation and historic preservation and to cooperate with other public and private organizations with interests in appropriate projects intended to preserve and improve the natural and historic preservation of resources of the State and advance public understanding, revitalization and restoration of New York's waterfronts. The Trust is administered at the direction of its Board of Directors comprised of the Commissioner of the New York State Office of Parks, Recreation and Historic Preservation, Chair of the State Council of Parks, Commissioner of the New York State Department of Environmental Conservation and Secretary of State. The Trust is a component unit of the State of New York for financial reporting purposes and is included in the State's basic financial statements.

The Trust has been granted tax -exempt status under Section 501(c)(3) of the Internal Revenue Code. The Trust qualifies for the charitable contribution deduction and has been classified as an organization other than a private foundation. The tax-exempt status of a tax-exempt entity is an uncertain tax position, since events could potentially occur that jeopardize their tax exempt status. Management is not aware of any events that could jeopardize their tax exempt status. Therefore, no liability or provision for income tax has been reflected in the financial statements.

Information returns filed by the Trust are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. The returns filed by Trust are no longer subject to examination for the years ended March 31, 2009 and prior.

A summary of the Trust's significant accounting policies follows:

Basis of Presentation

The financial statements of the Trust are prepared in accordance with generally accepted accounting principles (GAAP). The Trust applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Fund financial statements are provided for governmental and fiduciary funds. As the Trust has only fiduciary activities, government-wide financial statements are not presented.

Governmental Fund

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Trust considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the liability is incurred. The Trust reports the following governmental fund:

**NATURAL HERITAGE TRUST  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013**

**A. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Governmental Fund

**General Fund**

This fund represents the general operating fund of the Trust. Revenues are derived principally from interest earned from checking and money market accounts, interest and investment returns earned on fixed income debt obligations, and administrative fees charged to certain programs for which the Trust hires personnel. Disbursements from this fund cover the general administrative expenses of the Trust.

The L.L. Huttleston Fund, also included in the governmental fund, represents general operating fund monies set aside by the Board of Directors to support and sustain, in perpetuity, annual awards for outstanding performance by employees of New York State Office of Parks, Recreation and Historic Preservation. Investment earnings on such funds are available to finance the L.L. Huttleston awards.

**Fund Balance Classification:** The governmental fund financial statements present fund balance based on classifications that comprise a hierarchy that is based primarily on the extent to which the Trust is bound to honor constraints on the specific purposes for which amounts in the respective governmental fund can be spent. The classifications used in the governmental fund financial statements are as follows:

**Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Trust did not have any nonspendable resources as of March 31, 2013.

**Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Trust did not have any restricted resources as of March 31, 2013.

**Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Trust's governance board. These amounts cannot be used for any other purpose unless the Trust's governance board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Trust did not have any committed resources as of March 31, 2013.

**Assigned:** This classification includes amounts that are constrained by the Trust's intent to be used for a specific purpose but are neither restricted nor committed. The Trust has assigned funds for the purpose of funding amounts payable in future years related to the Trust's postemployment healthcare benefit plan as discussed in Note F.

**NATURAL HERITAGE TRUST  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013**

**A. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Governmental Fund

**General Fund**

Unassigned: This classification includes the residual fund balance for the governmental fund.

The Trust would typically use restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Fiduciary Fund

This fund is used to account for assets held by the Trust in a trustee capacity for individuals, private organizations, and other governmental units. Fiduciary fund financial statements are presented using accrual basis of accounting. The Trust reports the following fiduciary fund:

**Fiduciary Trust Funds**

Fiduciary trust funds represent grants and programs and activities established for a definite purpose in concert with the Trust's partner agencies and other organizations. These trust funds generate revenue and expenditures that are administered by the Trust, and are subject to oversight by the Trust. As of March 31, 2013 the Trust held funds received through relationships with its partner agencies and other organizations for over 139 different programs and projects. The five (5) largest trust fund accounts in terms of revenue accounted for approximately 27% of all restricted funds for the year ended March 31, 2013. The five (5) largest trust fund accounts in terms of expenditures incurred 31% of program expenses for the same period.

Restricted Gifts, Grants and Other Funds

The Trust receives gifts, grants and other raised funds from outside organizations, including government entities that are restricted for specific purposes.

Investments

Investments are recorded at market value. Investments received by gift are recorded at market value at the date of gift.

Use of Estimates

Management of the Trust has made estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities to prepare these financial statements in accordance with generally accepted accounting principles. Actual results could differ from those estimates.

**NATURAL HERITAGE TRUST  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013**

**B. CASH, CASH EQUIVALENTS AND INVESTMENTS**

The Trust has adopted an investment policy in accordance with the NYS Public Authorities Law and rules and regulations of the State of New York Office of the State Comptroller ("OSC"). The Trusts' written investment policy has been approved by the Board of Directors. Cash, cash equivalents and investments in the Trust's investment accounts consist of the following at March 31, 2013:

	<u>Cost</u>	<u>Market</u>
U.S. Government Agencies	\$ 1,948,811	\$ 1,964,971
Corporate and Foreign Bonds	2,516,326	2,544,039
Cash and Money Market Funds	3,181,099	3,181,099
Corporate Bond Funds	11,416,038	11,555,742
Closed-end Mutual Funds	3,629,585	4,927,322
International Closed-end Funds	774,350	828,256
	<u>\$ 23,466,209</u>	<u>\$ 25,001,429</u>

The Corporate and Foreign Bonds consist of the following at March 31, 2013.

	<u>Cost</u>	<u>Market</u>
General Electric Capital Corporation	\$ 754,213	\$ 780,703
Coca-Cola Company	252,207	257,648
Morgan Chase & Company	331,022	330,941
BP Capital Markets PLC	325,318	325,432
Wellpoint Inc.	329,110	329,163
Wells Fargo & Company	325,957	324,324
Fedex Corporation	49,420	49,128
Baxter International Inc.	49,298	48,932
Dow Chemical Company	50,094	49,140
Apache Corporation	49,689	48,628
	<u>\$ 2,516,328</u>	<u>\$ 2,544,039</u>

Nearly all cash and cash equivalents needed for short-term check writing purposes are maintained at one financial institution.

The Trust has established individual investment policy statements for Operating Accounts, Capital Project/Reserve Accounts and Long-Term Investment Accounts. The investment policy statements have the following credit quality ratings from a nationally recognized statistical rating organization (NRSRO) for the following investment categories:

**NATURAL HERITAGE TRUST  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013**

**B. CASH, CASH EQUIVALENTS AND INVESTMENTS**

	<u>Operating Accounts</u>	<u>Capital Project/ Reserve Accounts</u>	<u>Long-Term Investment Accounts</u>
Corporate Bonds	A	BBB/Baa	BBB/Baa
Commercial Paper	A1/P1	A1/P1	A1/P1
Taxable Municipal Bonds	A	BBB/Baa	BBB/Baa
Money Market Funds	AAAm	AAAm	AAAm
Mutual Funds and Exchange Traded Funds	A	BBB/Baa	BBB/Baa

The individual investment policy statements establish minimums and maximums that may be invested in fixed income, equities and cash holdings. The policy statements also establish limits within the fixed income investments for concentration of investments within the portfolio.

**C. DUE TO/FROM OTHER FUNDS**

All fiduciary trust fund revenue is deposited into general fund cash and investment accounts. These monies are held and invested in the general fund accounts until disbursements are requested by the authorized signatory. Accordingly, outstanding balances between the governmental fund and the fiduciary fund are reported as "due to/from" the respective funds.

**D. PENSION PLAN**

***Funding Policy***

The Trust is a participating employer in the New York State Employees' Retirement System (NYSERS). Employee contributions vary both in terms of rate and duration based on tiers which are based on date of eligibility. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates, expressed as proportions of members' payroll which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Trust is required to contribute at an actuarially determined rate. The current rate of annual covered payroll is 12.4% for Tier 1 and 18.4% for Tier 3 and Tier 4 and 14.9% for Tier 5 and 9.9% for Tier 6 employees.

The required contributions for the current year and two preceding years were:

2012-2013	\$ 374,044
2011-2012	415,900
2010-2011	364,867

**NATURAL HERITAGE TRUST  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013**

**D. PENSION PLAN**

Contributions made to the NYSERS were equal to 100% of the contributions required for each year.

**E. UNINSURED CASH BALANCES**

Cash and cash equivalents are carried at cost plus accrued interest.

At March 31, 2013, the book amount of the Trust's deposits was \$2,343,782 and the bank balances was \$2,603,525. The insured and collateral status of the year-end bank balance was as follows:

**Status of Bank Balances**

Covered by federal deposit insurance	\$ <u>456,044</u>
Collateralized	\$ <u>1,951,113</u>
Uncollateralized	\$ <u>196,369</u>

**F. OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION**

The Trust provides postemployment healthcare benefits as a participating employer in The New York State Health Insurance Program (NYSHIP). NYSHIP was established by the New York State Legislature in 1957 to provide health insurance for New York State Employees, retirees and their eligible dependents. The NYSHIP is an agent multiple-employer plan and financial information is reported in an agency fund of the State of New York.

The Trust's OPEB obligation under the plan is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers/or Postemployment Benefits Other Than Pensions*. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to provide sufficient resources to fund both the normal cost each year and to amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed thirty years.

The Trust supports the ARC on an ongoing basis with indirect fringe benefit income assessed on those programs accounts with payroll expenses, over the actual fringe benefit amounts paid out by the Trust. The Trust has also assigned a portion of its fund balance for the purpose of supporting future liabilities.

**NATURAL HERITAGE TRUST  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013**

**F. OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION**

Information related to the Trust's annual OPEB cost, ARC, actual contributions and changes in net OPEB Obligation for the year ending March 31, 2013 is as follows:

Normal cost	\$ 253,598
Amortization of unfunded actuarial liability	<u>140,666</u>
ARC	394,264
Interest on OPEB obligation	30,561
Adjustment to ARC	<u>(51,973)</u>
OPEB Expense	<u>\$ 372,852</u>
Net OPEB Obligation at the beginning of the year	\$ 1,018,701
OPEB Expense	372,852
Net OPEB Contributions made during the fiscal year	<u>(28,140)</u>
Net OPEB Obligation at the end of the year	<u>\$ 1,363,413</u>
Percentage of Expense Contributed	7.5%
<b>Funded Status</b>	
Accrued liability at end of year	\$ 2,757,108
Plan assets at end of year	<u>-</u>
Unfunded Accrued Liability	<u>\$ 2,757,108</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation used the projected unit credit actuarial cost method. The actuarial assumptions include a 3% investment rate of return and an annual healthcare cost trend rate of 7% initially, reduced in decrements to an ultimate rate of 5% by the year 2019. Both rates include a 3% inflation assumption. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period used for the April 2011 valuation was 30 years.

**NATURAL HERITAGE TRUST  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013**

**G. SUBSEQUENT EVENTS**

The Trust has evaluated all events subsequent to the balance sheet date of March 31, 2013 through June 17, 2013, which is the date these financial statements were issued, and has determined there are no subsequent events that require disclosure.

**NATURAL HERITAGE TRUST  
REQUIRED SUPPLEMENTARY INFORMATION  
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED MARCH 31, 2013**

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual Budgeted</u>	<u>Total Actual Unbudgeted</u>	<u>Total Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
<b>REVENUES</b>							
Investment income	\$ 456,000	\$ -	\$ 456,000	\$ 299,318	\$ -	\$ 299,318	\$ (156,682)
Indirect fringe benefit income	-	-	-	-	228,780	228,780	228,780
Administrative income	140,000	-	140,000	227,072	-	227,072	87,072
Realized gains on investments	-	-	-	-	27,307	27,307	27,307
Unrealized losses on investments	-	-	-	-	(40,227)	(40,227)	(40,227)
Miscellaneous income	-	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<u>596,000</u>	<u>-</u>	<u>596,000</u>	<u>526,390</u>	<u>215,860</u>	<u>742,250</u>	<u>146,250</u>
<b>EXPENDITURES</b>							
Salary and payroll related costs	470,000	-	470,000	384,531	-	384,531	85,469
Fringe benefit and retirement costs	175,000	-	175,000	174,948	-	174,948	52
OPEB cost	-	-	-	-	344,712	344,712	(344,712)
Bank investment fees and service charges	40,000	-	40,000	28,716	-	28,716	11,284
Professional fees	20,000	-	20,000	17,635	-	17,635	2,365
Office supplies and postage	10,000	-	10,000	20,319	-	20,319	(10,319)
Travel	4,000	-	4,000	2,130	-	2,130	1,870
Award expenses	-	-	-	6,350	-	6,350	(6,350)
Miscellaneous	2,000	-	2,000	784	-	784	1,216
<b>TOTAL EXPENDITURES</b>	<u>721,000</u>	<u>-</u>	<u>721,000</u>	<u>635,413</u>	<u>344,712</u>	<u>980,125</u>	<u>(259,125)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>\$ (125,000)</u>	<u>\$ -</u>	<u>\$ (125,000)</u>	<u>\$ (109,023)</u>	<u>\$ (128,852)</u>	<u>\$ (237,875)</u>	<u>\$ (112,875)</u>

**NATURAL HERITAGE TRUST  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
MARCH 31, 2013**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
04/01/2011	\$ -	\$ 2,757,108	\$ 2,757,108	0%	\$ 2,297,093	120.00%
04/01/2011	\$ -	\$ 2,757,108	\$ 2,757,108	0%	\$ 2,418,547	114.00%
04/01/2008	\$ -	\$ 1,798,468	\$ 1,798,468	0%	\$ 2,882,247	63.24%

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## 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

To the Board of Directors  
Natural Heritage Trust

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 Natural Heritage Trust (Trust) as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 17, 2013.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Natural Heritage Trust'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 Natural Heritage Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of Natural Heritage Trust'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 Trust'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 instance 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Marvin and Company, P.C.*

Latham, New York  
June 17, 2013