

NATURAL HERITAGE TRUST

Financial Statements

March 31, 2015

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NATURAL HERITAGE TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The Natural Heritage Trust (the “Trust”) is a New York State Public Benefit Corporation and State Authority. The Trust’s mission is to receive and administer gifts, grants and contributions to further public programs for parks, recreation, cultural, land and water conservation and historic preservation purposes of the State of New York.

The Management Discussion and Analysis (MD&A) of the Trust is an introduction to the major activities affecting the operation of the Trust and an overview and analysis of the financial statements of the Trust for the fiscal year ended March 31, 2015. The information contained in the MD&A should be considered in connection with the information contained in the financial statements and footnotes to the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Trust's 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 the 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 Statement of Revenues, Expenditures and Changes in Fund Balance* and the *Governmental Fund Balance Sheet*.

The *Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance* 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 financial statements report resources that are not available to fund Trust administrative expenses. The fiduciary 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 the fiduciary fund is reported in the *Statement of Changes in Fiduciary Net Position-Fiduciary Fund* and the *Statement of Fiduciary Net Position – Fiduciary Fund*.

The *Statement of Changes in Fiduciary Net Position* shows the fiduciary fund change in net position 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 Position – Fiduciary Fund* 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 position held in trust.

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 the Retiree Health Plan* provides information on the 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, 2015 and 2014.

SUMMARY OF ASSETS, LIABILITIES AND FUND BALANCE

	<u>2015</u>	<u>2014</u>
Assets	<u>\$ 32,316,700</u>	<u>\$ 28,196,993</u>
Liabilities	31,130,273	26,931,147
Assigned	524,015	524,015
Unassigned	<u>662,412</u>	<u>741,831</u>
Total Fund Balance	<u>1,186,427</u>	<u>1,265,846</u>
	<u>\$ 32,316,700</u>	<u>\$ 28,196,993</u>

The Trust's assets consist primarily of cash, money market funds, 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 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, 2015 the market yield ranged from 0.8% to 5.2% for fixed income debt obligations, and 1.6% to 3.5% 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, 2015, market fluctuations resulted in

unrealized gains 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.

SUMMARY OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

	2015	2014
Investment income	\$ 188,066	\$ 195,936
Indirect fringe benefit income	318,012	349,751
Administrative income	292,709	172,572
Realized gains on investments	18,817	52,811
Unrealized gains on investments	178,960	33,907
Miscellaneous	10,854	-
Total Revenues	1,007,418	804,977
Salary and payroll related costs	353,891	399,252
Fringe benefit and retirement costs	202,919	268,469
Other postemployment benefits expense	405,416	388,914
Bank investment fees and service charges	33,739	25,182
Professional fees	64,106	21,575
Office supplies and postage	20,056	21,587
Travel	3,508	2,394
Award expenses	3,050	6,700
Miscellaneous	152	5,389
Total Expenditures	1,086,837	1,139,462
Deficiency of revenues over expenditures	(79,419)	(334,485)
Fund balance at beginning of year	1,265,846	1,600,331
Fund balance at end of year	\$ 1,186,427	\$ 1,265,846

The increase in revenue is primarily due to higher administrative income and unrealized gains on investments. Salary and fringe benefit costs were lower; professional fees were higher which represent a mid-year reorganization of the Trust's administrative functions.

General Fund Budgetary Highlights

The general fund revenue budget for the fiscal year was \$510,000 with a projected budget deficit of \$100,000 to be supported with funds from the unrestricted fund balance, as shown on page 23 (Supplementary Information). Actual governmental fund revenue totaled \$1,007,418. 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 net realized and unrealized gains on investments that are not included in the annual operating budget of the Trust.

Governmental fund expenses of approximately \$1,087,000 were higher than the budgeted expenditures of \$610,000. For budgeting purposes, the Trust does not include the expense (approximately \$405,000) related to the Trust's 2015 Other Postemployment Benefit Obligation (OPEB) as part of its operating budget. This expense is an actuarially determined amount and is considered a non-cash expense.

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, 2015 and 2014.

SUMMARY OF ASSETS, LIABILITIES AND NET POSITION – FIDUCIARY FUND

	<u>2015</u>	<u>2014</u>
Assets	<u>\$ 29,101,588</u>	<u>\$ 25,343,899</u>
Liabilities	489,994	523,334
Net Assets Held in Trust	<u>28,611,594</u>	<u>24,820,565</u>
	<u>\$ 29,101,588</u>	<u>\$ 25,343,899</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, project sponsorships, project activity fees and investment earnings, totaled approximately \$11,600,000 for the fiscal year ended March 31, 2015. Program expenses related to fiduciary fund activities totaled approximately \$7,900,000, resulting in an increase of the fiduciary fund net position of approximately \$3,700,000. This increase is largely due to the addition of two new large endowment accounts established this year. The total number of program accounts the Trust manages, with account balances at year end, increased to 189 as of March 31, 2015, from 180 as of March 31, 2014.

**SUMMARY OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION - FIDUCIARY FUND**

	<u>2015</u>	<u>2014</u>
Additions		
Gifts, donations and private grants	\$ 5,420,638	\$ 3,982,386
Grants and contracts	3,360,832	3,528,895
Merchandise sales	977,074	711,839
Activity and program income	772,473	651,934
Sponsorship and advertising	266,600	383,421
Mitigation and environmental benefits	0	373,738
Other revenue	60,004	51,017
Investment income	224,992	185,830
Realized gains on investments	167,830	246,962
Unrealized gains on investments	398,774	580,893
	<u>11,649,217</u>	<u>10,696,915</u>
 Expenditures		
Program support and personnel	3,726,863	3,771,687
Activity and event support	1,600,245	1,611,505
Capital construction and maintenance	1,080,373	1,056,481
Promotional materials and merchandise for resale	706,821	628,493
Professional services	377,420	262,939
Gift reassignment	363,080	290,249
Miscellaneous	3,386	6,923
	<u>7,858,188</u>	<u>7,628,277</u>
 Change in net position	 3,791,029	 3,068,638
 Net position at beginning of year	 <u>24,820,565</u>	 <u>21,751,927</u>
Net position at end of year	<u>\$28,611,594</u>	<u>\$24,820,565</u>

Requests for Information

The accompanying financial statements are designed to provide readers with a general overview of the Trust's finances and to demonstrate the Trust's accountability for the revenue it receives. Questions concerning any of the information provided in this report, or any request for additional information, should be addressed to the Executive Director, Natural Heritage Trust, Albany, NY 12238.



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees and Audit Committee
Natural Heritage Trust

We have audited the accompanying financial statements of the Natural Heritage Trust (the "Trust"), a component unit of the State of New York, as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the 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 respective financial position of the Natural Heritage Trust as of March 31, 2015, and the respective 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, budgetary comparison information, and the schedule of funding progress for the retiree health plan on pages 1-6, 23 and 24, respectively, to 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 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 29, 2015, 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 the Trust's internal control over financial reporting and compliance.

Wojcik & Co. CPAs, P.C.

East Greenbush, New York
June 29, 2015

NATURAL HERITAGE TRUST

Governmental Fund Balance Sheet

March 31, 2015

ASSETS	
Cash and cash equivalents	\$ 2,697,306
Investments	29,594,340
Accounts receivable	5,750
Interest receivable	19,304
	<hr/>
TOTAL ASSETS	\$ 32,316,700
	<hr/> <hr/>
 LIABILITIES AND FUND BALANCE	
 CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 43,386
Due to fiduciary fund	28,942,883
	<hr/>
TOTAL CURRENT LIABILITIES	28,986,269
 NET OPEB OBLIGATION	 2,144,004
	<hr/>
TOTAL LIABILITIES	31,130,273
 FUND BALANCE	
Assigned	662,412
Unassigned	524,015
	<hr/>
TOTAL FUND BALANCE	1,186,427
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TOTAL LIABILITIES AND FUND BALANCE	\$ 32,316,700
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See accompanying notes to financial statements.

NATURAL HERITAGE TRUST

Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended March 31, 2015

REVENUES

Indirect fringe benefit income	\$ 318,012
Administrative income	292,709
Investment income	188,066
Unrealized gains on investments	178,960
Realized gains on investments	18,817
Other revenue	<u>10,854</u>

TOTAL REVENUES 1,007,418

EXPENDITURES

Other postemployment benefits expense	405,416
Salary and payroll related costs	353,891
Fringe benefit and retirement costs	202,919
Professional fees	64,106
Bank investment fees and service charges	33,739
Office supplies and postage	20,056
Travel	3,508
Award expenses	3,050
Miscellaneous	<u>152</u>

TOTAL EXPENDITURES 1,086,837

DEFICIENCY OF REVENUES OVER EXPENDITURES (79,419)

FUND BALANCE AT BEGINNING OF YEAR 1,265,846

FUND BALANCE AT END OF YEAR \$ 1,186,427

See accompanying notes to financial statements.

NATURAL HERITAGE TRUST

Statement of Fiduciary Net Position - Fiduciary Fund

March 31, 2015

ASSETS

Accounts receivable	\$ 158,705
Due from governmental fund	<u>28,942,883</u>

TOTAL ASSETS \$ 29,101,588

LIABILITIES AND NET POSITION HELD IN TRUST

LIABILITIES

Accounts payable	\$ 234,014
Accrued payroll and related items	<u>255,980</u>

TOTAL LIABILITIES 489,994

NET POSITION HELD IN TRUST 28,611,594

TOTAL LIABILITIES AND NET POSITION HELD IN TRUST \$ 29,101,588

See accompanying notes to financial statements.

NATURAL HERITAGE TRUST

Statement of Changes in Fiduciary Net Position - Fiduciary Fund

For the Year Ended March 31, 2015

ADDITIONS	
Gifts, donations and private grants	\$ 5,420,638
Grants and contracts	3,360,832
Merchandise sales	977,074
Activity and program income	772,473
Unrealized gains on investments	398,774
Sponsorship and advertising	266,600
Investment income	224,992
Realized gains on investments	167,830
Other revenue	<u>60,004</u>
TOTAL ADDITIONS	11,649,217
PROGRAM EXPENSES	
Program support and personnel	3,726,863
Activity and event support	1,600,245
Capital construction and maintenance	1,080,373
Promotional materials and merchandise for resale	706,821
Professional services	377,420
Gift reassignment	363,080
Miscellaneous	<u>3,386</u>
TOTAL PROGRAM EXPENSES	<u>7,858,188</u>
CHANGE IN NET POSITION HELD IN TRUST	3,791,029
Net position held in trust at beginning of year	<u>24,820,565</u>
NET POSITION HELD IN TRUST AT END OF YEAR	<u><u>\$ 28,611,594</u></u>

See accompanying notes to financial statements.

NATURAL HERITAGE TRUST

Notes to Financial Statements

March 31, 2015

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Natural Heritage Trust (the "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, devises 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 New York State and advance public understanding, revitalization, and restoration of New York's waterfronts. The Trust is administered at the direction of the 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.

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

Basis of Presentation

The financial statements of the Trust are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Trust applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Fund financial statements are provided for government 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. 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--Continued

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Governmental Fund--Continued

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 government 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 a 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 purpose 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, 2015.

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, 2015.

NATURAL HERITAGE TRUST

Notes to Financial Statements--Continued

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Government Fund--Continued

General Fund--Continued

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, 2015.

Assigned: This classification includes amounts that are constrained by the Trust's intent to be used for 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.

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 the flow of economic resources measurement focus and the accrual basis of accounting. The Trust reports the following fiduciary fund:

NATURAL HERITAGE TRUST

Notes to Financial Statements--Continued

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Private-Purpose Trust Funds

Private-purpose 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, 2015 the Trust held funds received through relationships with its partner agencies and organizations for over 185 different programs and projects. The five (5) largest trust fund accounts in terms of revenue accounted for approximately 38% of all restricted funds for the year ended March 31, 2015. The five (5) largest trust fund accounts in terms of expenditures incurred 25% of program expenses for the same period.

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.

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 the gift.

Tax Status

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 for individual donors. The Trust does not conduct unrelated business income activities and, therefore, has made no provision for income taxes in the accompanying financial statements.

NATURAL HERITAGE TRUST

Notes to Financial Statements--Continued

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Tax Status--Continued

Management has evaluated the Trust's tax positions, including interest and penalties attributable thereto, and concluded that the Trust has taken no tax positions that required adjustment in its financial statements as of March 31, 2015.

The Trust's information return filings are subject to examinations by the Internal Revenue Service. The Trust is no longer subject to examinations for the years ending before March 31, 2012, and currently, there are no examinations in process nor has the Trust been informed of any pending examinations.

Accounting Pronouncements Issued Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governments about financial support for pensions that is provided by other entities. The provisions of this statement are effective for periods beginning after June 15, 2014. The Trust has not yet completed the process of evaluating the impact of GASB No. 68 on its financial statements.

Subsequent Events

The Trust evaluates transactions that occur subsequent to year end for potential recognition or disclosure in the financial statements through the date on which the financial statements are available to be issued. The financial statements were approved by management and available to be issued on June 29, 2015.

NOTE B--CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried at cost plus accrued interest. Nearly all cash and cash equivalents needed for short-term check writing purposes are maintained at one financial institution

Cash and cash equivalents are maintained in Federal Deposit Insurance Corporation (FDIC) insured accounts and may at times exceed FDIC insurance limits. The Trust has written agreements with the financial institutions for the collateralization of funds in excess of FDIC insurance coverage limits.

NATURAL HERITAGE TRUST

Notes to Financial Statements--Continued

NOTE B--CASH AND CASH EQUIVALENTS--Continued

At March 31, 2015, the book amount of the Trust's deposits was \$2,697,306 and the related bank balance was \$2,889,988. The insured and collateral status of the year-end bank balance was as follows:

<u>Status of Bank Balances</u>	
Covered by FDIC insurance	\$ 475,875
Collateralized	2,414,113
Uncollateralized	<u>-</u>
	<u>\$ 2,889,988</u>

NOTE C--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 Trust's written investment policy has been approved by the Board of Directors. Cash, cash equivalents and investments in the Trust's investment accounts consists of the following at March 31, 2015:

	<u>Cost</u>	<u>Market</u>
Corporate and Government Bond Funds	\$ 14,187,640	\$ 14,273,935
Closed-end Equity Mutual Funds	5,268,390	7,732,575
Corporate and Foreign Bonds	3,589,536	3,605,327
U.S. Government Agencies	1,579,292	1,597,807
International Closed-end Funds	1,406,129	1,529,043
Cash and Money Market Funds	514,749	514,749
U.S. Treasury Obligations	<u>339,907</u>	<u>340,904</u>
	<u>\$ 26,885,643</u>	<u>\$ 29,594,340</u>

NATURAL HERITAGE TRUST

Notes to Financial Statements--Continued

NOTE C--INVESTMENTS--Continued

Corporate and Foreign Bonds Consist of the following at March 31, 2015:

	<u>Cost</u>	<u>Market</u>
American Express	\$ 300,747	\$ 300,180
Apache Corp.	215,521	215,596
Apple Inc.	267,895	268,734
AT&T Inc.	77,273	82,159
Baxter International Inc.	299,248	298,680
BP Capital Markets PLC	325,181	324,847
Caterpillar Financial Inc.	60,462	60,584
Dow Chemical Company	50,080	50,431
FedEx Corporation	49,420	50,218
General Electric Capital Corporation	277,503	280,491
Goldman Sachs	250,084	253,467
Illinois Tool Works	109,958	110,312
JP Morgan Chase & Company	328,324	329,817
Medtronic Inc.	250,564	250,155
Viacom Inc.	74,252	76,292
WellPoint Inc.	327,446	326,807
Wells Fargo & Company	325,578	326,557
	<u>\$ 3,589,536</u>	<u>\$ 3,605,327</u>

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

	<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

NATURAL HERITAGE TRUST

Notes to Financial Statements--Continued

NOTE C--INVESTMENTS--Continued

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.

NOTE D--DUE TO/FROM OTHER FUNDS

All private purpose trust fund revenue is deposited into the 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.

NOTE E--PENSION PLAN

The Trust provides a pension benefit to employees through New York State Employees' Retirement System (“ERS”). The ERS is a cost-sharing multiple-employer defined benefit plan administered by the New York State and Local Retirement Systems. Plan benefits, including retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries are provided under the provisions of the New York State Retirement and Social Security Law and are guaranteed under the State Constitution. The ERS issues a financial report that includes financial statements and required supplementary information for the ERS that is available to the public.

Salary and benefits for Trust staff supported through the general fund and staff supported through private-purpose trust fund accounts are required to contribute annually to ERS based on a percentage rate of salary and payroll. The rates, which vary according to the employees' date of hire, include normal, administrative, supplemental pension contributions and prior service cost. Substantially all Trust employees are covered by this pension plan.

Total pension contributions were approximately \$495,000 for the year ended March 31, 2015 and were equal to 100% of the required contributions for the year.

NATURAL HERITAGE TRUST

Notes to Financial Statements--Continued

NOTE 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. 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 No. 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.

Information related to the Trust's annual OPEB cost, ARC, actual contributions and changes in net OPEB Obligation for the year ending March 31, 2015 is as follows:

Normal cost	\$ 269,042
Amortization of unfunded actuarial liability	<u>172,403</u>
Annual Required Contribution (ARC)	441,445
Interest on OPEB Obligation	51,422
Adjustment to ARC	<u>(87,451)</u>
OPEB Expense	<u>\$ 405,416</u>
Net OPEB Obligation at the beginning of the year	\$ 1,745,602
OPEB Expense	405,416
Net OPEB Contributions made during the year	<u>(7,014)</u>
Net OPEB Obligation at the end of the year	<u>\$ 2,144,004</u>
Percent of Expense Contributed	1.7%

NATURAL HERITAGE TRUST

Notes to Financial Statements--Continued

NOTE F--OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION-- Continued

Funded Status	
Actuarial Accrued Liability at end of year	\$ 3,379,190
Plan assets at end of year	<u>-</u>
Unfunded Actuarial Accrued Liability	<u>\$ 3,379,190</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 2012 valuation was 30 years.

REQUIRED SUPPLEMENTARY INFORMATION

NATURAL HERITAGE TRUST

Required Supplementary Information

General Fund Statement of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual

For the Year Ended March 31, 2015

	<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>
REVENUES							
Investment income	\$ 460,000	\$ (260,000)	\$ 200,000	\$ 188,066	\$ -	\$ 188,066	\$ (11,934)
Indirect fringe benefit income	-	-	-	-	318,012	318,012	318,012
Administrative income	210,000	100,000	310,000	292,709	-	292,709	(17,291)
Realized gains on investments	-	-	-	-	18,817	18,817	18,817
Unrealized gains on investments	-	-	-	-	178,960	178,960	178,960
Other revenue	-	-	-	-	10,854	10,854	10,854
	<u>670,000</u>	<u>(160,000)</u>	<u>510,000</u>	<u>480,775</u>	<u>526,643</u>	<u>1,007,418</u>	<u>497,418</u>
EXPENDITURES							
Salaries and payroll related costs	480,000	(175,000)	305,000	353,891	-	353,891	(48,891)
Fringe benefit and retirement costs	200,000	(20,000)	180,000	202,919	-	202,919	(22,919)
OPEB costs	-	-	-	-	405,416	405,416	(405,416)
Bank investment fees and service charges	40,000	-	40,000	33,739	-	33,739	6,261
Professional fees	25,000	38,000	63,000	64,106	-	64,106	(1,106)
Office supplies and postage	15,000	-	15,000	20,056	-	20,056	(5,056)
Travel	8,000	(3,000)	5,000	3,508	-	3,508	1,492
Award expense	-	-	-	-	3,050	3,050	(3,050)
Miscellaneous	2,000	-	2,000	152	-	152	1,848
	<u>770,000</u>	<u>(160,000)</u>	<u>610,000</u>	<u>678,371</u>	<u>408,466</u>	<u>1,086,837</u>	<u>(476,837)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (100,000)</u>	<u>\$ -</u>	<u>\$ (100,000)</u>	<u>\$ (197,596)</u>	<u>\$ 118,177</u>	<u>\$ (79,419)</u>	<u>\$ 20,581</u>

See Independent auditors' report

NATURAL HERITAGE TRUST

**Required Supplementary Information
Schedule of Funding Progress for the Retiree Health Plan**

March 31, 2015

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
4/1/2012	\$ -	\$ 3,379,190	\$ 3,379,190	0.00%	\$ 2,626,717	128.65%
4/1/2012	\$ -	\$ 3,064,857	\$ 3,064,857	0.00%	\$ 2,684,385	114.17%
4/1/2012	\$ -	\$ 2,757,108	\$ 2,757,108	0.00%	\$ 2,297,093	120.03%

See Independent auditors' report

COMPLIANCE REPORT



**INDEPENDENT AUDITORS' 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
Albany, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Natural Heritage Trust (the "Trust") as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements and have issued our report thereon dated June 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Trust'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 Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wojcik & Co. CPAs, P.C.

East Greenbush, New York
June 29, 2015