

STEEP ROCK ASSOCIATION, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2011 AND SEPTEMBER 30, 2010



For personal and corporate growth
Fiorita, Kornhaas & Company, P.C.
Certified Public Accountants

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For personal and corporate growth

Fiorita, Kornhaas & Company, P.C. *Certified Public Accountants*

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Steep Rock Association, Inc.
Washington, Connecticut

We have audited the accompanying balance sheets of the Steep Rock Association, Inc. (a non-profit organization) as of September 30, 2011 and September 30, 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Steep Rock Association, Inc. as of September 30, 2011 and September 30, 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Fiorita, Kornhaas & Company, PC

Fiorita, Kornhaas, & Company, P.C.
Certified Public Accountants

Danbury, Connecticut
February 8, 2012

STEEP ROCK ASSOCIATION, INC.
BALANCE SHEETS
AS OF SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 205,924	\$ 95,618
Prepaid expense	1,928	2,255
Investments, at market	1,384,050	1,428,536
Preservation land	10,450,650	9,121,879
Land improvements and equipment - net	168,942	183,439
Other assets	1,500	1,000
	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	<u>\$ 12,212,994</u>	<u>\$ 10,832,727</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 458	\$ 2,460
Accrued payroll taxes	6,139	8,175
	<hr/>	<hr/>
<u>TOTAL LIABILITIES</u>	<u>6,597</u>	<u>10,635</u>
 <u>NET ASSETS</u>		
Unrestricted	12,161,593	10,807,075
Temporarily restricted	44,804	15,017
	<hr/>	<hr/>
<u>TOTAL NET ASSETS</u>	<u>12,206,397</u>	<u>10,822,092</u>
	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 12,212,994</u>	<u>\$ 10,832,727</u>

See auditor's report and notes to financial statements.

STEEP ROCK ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>TOTALS</u>	
			<u>2011</u>	<u>2010</u>
<u>REVENUE</u>				
Contributions	\$ 296,374	\$ 1,480,063	\$ 1,776,437	\$ 301,154
Contributions - land	-	-	-	610,000
Stewardship Fund Contributions	46,842	-	46,842	-
Interest and dividends	33,020	-	33,020	27,242
Grant revenue	27,405	-	27,405	23,962
Realized gain (loss) on sale of securities	(12,391)	-	(12,391)	28,721
Unrealized gain (loss) on securities	(48,657)	-	(48,657)	64,865
Miscellaneous income	7,581	-	7,581	18,479
<u>TOTAL REVENUE</u>	<u>350,174</u>	<u>1,480,063</u>	<u>1,830,237</u>	<u>1,074,423</u>
Net assets released from restrictions	<u>1,450,276</u>	<u>(1,450,276)</u>	<u>-</u>	<u>-</u>
Total revenues and net assets released	1,800,450	29,787	1,830,237	1,074,423
<u>EXPENSES</u>				
Program services	360,606	-	360,606	224,759
Management and general	76,041	-	76,041	74,082
Fundraising	9,285	-	9,285	3,295
<u>TOTAL EXPENSES</u>	<u>445,932</u>	<u>-</u>	<u>445,932</u>	<u>302,136</u>
Increase in net assets	1,354,518	29,787	1,384,305	772,287
Net assets, beginning of year	<u>10,807,075</u>	<u>15,017</u>	<u>10,822,092</u>	<u>10,049,805</u>
Net assets, end of year	<u>\$ 12,161,593</u>	<u>\$ 44,804</u>	<u>\$ 12,206,397</u>	<u>\$ 10,822,092</u>

See auditor's report and notes to financial statements.

STEEP ROCK ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ 1,384,305	772,287
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	14,497	14,497
Realized (gain) loss on sale of investments	12,391	(28,721)
Unrealized (gain) loss on investments	48,657	(64,865)
Contributions - land	-	(610,000)
Changes in:		
Prepaid expenses	327	-
Accounts payable	(2,002)	(10,685)
Accrued expenses	(2,036)	5,096
Other assets	(500)	(1,000)
Net cash provided by operating activities	<u>1,455,639</u>	<u>76,609</u>
Cash flows from investing activities		
Proceeds on sale of investments	359,653	102,625
Purchases of investments	(376,215)	(143,361)
Purchase of Bronson Fields	<u>(1,328,771)</u>	<u>-</u>
Net cash used in investing activities	<u>(1,345,333)</u>	<u>(40,736)</u>
Net increase in cash and cash equivalents	110,306	35,873
Cash and cash equivalents, beginning of year	<u>95,618</u>	<u>59,745</u>
Cash and cash equivalents, end of year	<u>\$ 205,924</u>	<u>\$ 95,618</u>

See auditor's report and notes to financial statements.

STEEP ROCK ASSOCIATION, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011				2010
	<u>Program Services</u>	<u>General and Management</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
<u>EXPENSES:</u>					
Audit Fees	\$ -	\$ 6,675	\$ -	\$ 6,675	\$ 5,750
Easement monitoring	5,075	-	-	5,075	4,583
Depreciation	14,079	418	-	14,497	14,497
Development	-	-	9,285	9,285	3,295
Fees, dues, and permits	4,008	-	-	4,008	3,296
General/Vehicle Mainten.	5,776	-	-	5,776	7,254
Insurance Expense	10,485	4,494	-	14,979	18,739
Investment Management	-	14,618	-	14,618	13,148
Legal Fees	5,450	-	-	5,450	1,003
Camp House	625	-	-	625	665
Membership Services	-	5,612	-	5,612	7,619
Occupancy Expenses	10,374	10,374	-	20,747	20,968
Payroll and Benefits	119,627	28,061	-	147,688	138,935
Payroll Taxes	9,860	2,313	-	12,173	11,082
Printing, Postage & Office	3,102	3,102	-	6,203	3,405
Professional Education	1,899	-	-	1,899	50
Other Professional fees	744	-	-	744	335
Stewardship-General	21,850	-	-	21,850	7,628
Stewardship-WHIP Grants	20,270	-	-	20,270	21,329
Stewardship-Ten Year Plan	5,879	-	-	5,879	4,358
Hidden Valley Bridge Project	121,505	-	-	121,505	9,983
Land Appraisal Fees	-	-	-	-	3,494
Travel expense	-	374	-	374	718
<u>TOTAL EXPENSES</u>	<u>\$ 360,606</u>	<u>\$ 76,041</u>	<u>\$ 9,285</u>	<u>\$ 445,932</u>	<u>\$ 302,134</u>

See auditor's report and notes to financial statements.

Note 1: NATURE OF ACTIVITIES

Steep Rock Association, Inc. is a 501(c)(3) not-for-profit corporation organized under the laws of the State of Connecticut. Its primary mission is to accept, receive, acquire, hold, manage, maintain, preserve, and improve land and real property, including conservation easements and interests in land and real property, in the Town of Washington, and towns adjacent thereto for the use and enjoyment by the general public for conservation and recreational purposes.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of Steep Rock Association, Inc. have been prepared utilizing the accrual basis of accounting, which recognizes revenue when earned and expenses when incurred.

(b) Basis of Presentation

The financial statements of Steep Rock Association, Inc. have been prepared in accordance with the Financial Accounting Standards Board's ASC 958-205 "Not-for-Profit Entities-Presentation of Financial Statements" (formerly SFAS 117). This standard requires that resources be classified for accounting and reporting purposes into three classes of net assets - permanently restricted, temporarily restricted, and unrestricted. These classes of net assets are defined as follows:

Permanently Restricted - The portion of net assets derived from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization.

Temporarily Restricted - The portion of net assets derived from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that expire by passage of time, is fulfilled by occurrence of events, or can be removed by actions of the organization. Net assets temporarily restricted to acquire or develop capital assets are deemed to be released (unrestricted) when related assets are recorded. Donor-restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted sources.

Unrestricted Net Assets - The portion of net assets that is neither permanently restricted or temporarily restricted by donor-imposed stipulations.

(c) Exemption from Income Taxes

Steep Rock Association, Inc. is a non-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for income taxes.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Functional Expenses

Expenses are charged directly to program, management and general, and fundraising categories based on specific identification. Indirect expenses are allocated by various statistical basis.

(e) Cash and Cash Equivalents

The Association considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents for purposes of cash flows exclude cash and cash equivalents held for investment purposes. The Association maintains deposits in federally insured institutions which, at times, can be in excess of federally insured limits. Management believes the Association is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held. At September 30, 2011, amounts deposited do not exceed the federally insured limits.

(f) Land, Land Improvements and Equipment

Land, land improvements and equipment are recorded at cost if purchased or fair value if donated. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets which range from 7 to 30 years.

(g) Conservation Easements

Conservation easements are perpetual agreements between the Association and private landowners through which the landowners agree to abide by certain restrictions designed to preserve the open space or conservation value of their land. Conservation easements are real property rights but possess no market value due to a resale market that is limited to the owner of the fee title of the restricted property. Because of this limited market and obligations in easement ownership, conservation easements are not reflected in the accompanying financial statements.

(h) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(i) Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value in the period received.

(j) Subsequent Events

Management has evaluated subsequent events through February 8, 2012, the date the financial statements were issued. Through that date, there were no material events that would require recognition or additional disclosure in the financial statements.

See auditor's report.

STEEP ROCK ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

Note 3: PRIOR-YEAR COMPARATIVE INFORMATION

The statements of activities, cash flows, and functional expenses include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with financial statements for the year ended September 30, 2010 from which the summarized information was derived.

Note 4: LAND, LAND IMPROVEMENTS, AND EQUIPMENT

The Association acquires land for its Preserves through donations and purchases. Land and equipment are recorded at cost if purchased and fair market value at the date of gift if donated. Acquisitions of land, improvements, and equipment in excess of \$500 with utility greater than one year, are capitalized. Expenses for land maintenance and repairs are expense as incurred.

Equipment, land, and land improvements consist of the following:

	<u>2011</u>	<u>2010</u>	<u>Estimated Useful Life</u>
Equipment	\$ 81,922	\$ 81,922	7 - 10 years
Land improvements	202,325	202,325	30 years
	<u>284,247</u>	<u>284,247</u>	
Less: Accumulated depreciation	(115,305)	(100,808)	
	<u>\$ 168,942</u>	<u>\$ 183,439</u>	
Preservation land	<u>\$ 10,450,650</u>	<u>\$ 9,121,879</u>	

Note 5: INVESTMENTS

The Association accounts for its investments in marketable securities under guidelines established by ASC 958-320 "Not-for-Profit Entities-Investments-Debt and Equity Securities" (formerly SFAS No. 124). Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values. Unrealized gains and losses are included in changes in net assets.

Investments are composed of the following:

	<u>September 30, 2011</u>		<u>September 30, 2010</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash held for investment	\$ 50,859	\$ 51,453	\$ 12,850	\$ 12,885
Fixed Income Mutual Funds	431,481	443,025	437,224	450,172
Stock Mutual Funds and ETFs	286,994	295,960	213,346	236,480
Common stock	518,885	593,612	620,628	728,999
	<u>\$ 1,288,219</u>	<u>\$ 1,384,050</u>	<u>\$ 1,284,048</u>	<u>\$ 1,428,536</u>

See auditor's report.

STEEP ROCK ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

Note 5: INVESTMENTS (continued)

The following tabulation summarizes the relationship between cost and fair values of investment assets.

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Balance at end of period	\$ 1,288,219	\$ 1,384,050	\$ 95,831
Balance at beginning of period	\$ 1,284,048	\$ 1,428,536	144,488
Unrealized depreciation			<u>\$ (48,657)</u>

Note 6: TEMPORARILY RESTRICTED NET ASSETS

The Association received a \$125,000 donation from the Gould Family Foundation designated for preliminary design expenses associated with a new pedestrian bridge over the Shepaug River at Hidden Valley Preserve. Of this amount, \$121,505 was used toward the project during the year with \$18,512 remaining as Temporarily Restricted New Assets at September 30, 2011. This bridge project was conceived as a more aesthetically appealing alternative to the proposed CT-DOT pedestrian walkway associated with the replacement highway bridge on Hwy 47. The Gould Family Foundation has agreed to fund the design and construction costs up to \$500,000. The Town of Washington has committed, through a public approval process, to contribute its \$150,000 STEAP grant award from the State to this project. Although final cost estimates are still pending, it is anticipated that the total cost of the bridge will not exceed \$650,000.

The Association purchased approximately 68.9 acres of prime farmland and forest, now called "Bronson Fields", adjacent to the northern boundary of the Hidden Valley Preserve at a total cost of \$1,328,771, including purchase-related expenses in the amount of \$28,771. The purchase was funded by private contributions in the amount of \$855,063 and a \$500,000 Open Space and Watershed Land Acquisition Grant from the State of Connecticut's Department of Energy and Environmental Protection. The remaining \$26,292 is designated for future capital improvements on the property and is temporarily restricted until used. The Association will continue agricultural practices on the property, and has plans to create a hiking trail which will connect and provide public access to the existing trail system within Hidden Valley Preserve. As a condition of the open space grant, the Association conveyed a Conservation and Public Recreation Easement and Agreement to the State which restricts development and requires that the property be retained forever in its natural/open space condition and be accessible for public recreation. This easement is recorded in the Town of Washington Land Records and is referenced as Volume 218 at Page 615.

See auditor's report.

Note 7: STEWARDSHIP PLAN

During the fiscal year, the Association completed the framework of a new natural resources management plan which provides the vision and guidance for managing the Association's 2,500 acres of nature preserves owned in fee. The plan is an inter-active database which will eventually include links to associated documents such as deeds, leases, farming agreements and WHIP grants. The plan focuses on managing for biodiversity by establishing management units based on habitat characteristics, identifying species of conservation concern, addressing threats to these species and their natural communities, recommending conservation actions and monitoring ongoing maintenance/management initiatives. From this framework, annual work plans will be established to organize projects and guide management actions.

In May 2011, the Association's Board of Trustees unanimously approved the establishment of a Stewardship and Legal Defense Fund in accordance with best management practices established by the Land Trust Alliance. Contributions to this fund are specifically allocated to off-set monitoring costs and legal expenses associated with maintaining and/or defending the numerous conservation easements held in perpetuity by the Association. Donors of new easements are asked to contribute to this fund.

Note 8: LEASE COMMITMENTS

The Association leases office space at a fair market value under an operating lease with a former member of its Board of Trustees. The lease began on July 1, 2009 and expires June 30, 2012. Minimum lease payments for the year ended September 30, 2012 are \$9,900.

In addition to the lease of office space, the Association maintains the following leases/agreements:

An annual written lease with Estelle Bronson for use of a storage barn. The current lease expired during 2011 and is in process of being renewed. The lease is currently on a month to month basis. Payments are \$250 per month.

A written agricultural lease with Robert Seymour for farming a +/- 50 acre field at Macricostas Preserve. The current lease expired in 2011 and is in process of being renewed. The current lease payment to the Association is \$1 per year.

An annual written lease with the Town of Washington for the operation of the Judea Garden at Macricostas Preserve. The current lease expires in 2012 and is subject to renewal. The day-to-day operations of the Judea Garden are outlined in a Memorandum of Understanding between the Association and Board of Advisors of the Judea Garden. The Judea Garden is operated by volunteers and was established to provide locally grown vegetables to low income residents, and others in need, in the Town of Washington and to local food banks at no cost to the recipients.

Note 9: FAIR VALUE MEASUREMENTS

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities

Level 2 - quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 - inputs that are unobservable and significant to the fair value measurement

Following is a description of the valuation methodologies used for assets measured at fair value.

Common stocks and foreign equity: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds and Exchange-traded funds (ETFs): Valued at the net asset value (NAV) of shares held by the Association at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association 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.

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value as of September 30,:

	<u>2011</u>	<u>2010</u>
	<u>Level 1</u>	<u>Level 1</u>
Fixed Income Mutual Funds	\$ 443,025	\$ 450,172
Stock Mutual Funds and ETFs	295,960	236,480
Common stock	593,612	728,999
Total assets at FV	<u>\$ 1,332,597</u>	<u>\$ 1,415,651</u>

Note 10: COMMITMENTS AND CONTINGENCIES

In 1999, the Association purchased the first 238 acres of what is now known as Macricostas Preserve. The purchase was funded by private contributions, a \$500,000 contribution from the Town of Washington and a \$500,000 Protected Open Space and Watershed Land Acquisition Grant from the State of Connecticut's Department of Environmental Protection (now the Department of Energy and Environmental Protection). As a condition of the open space grant, the Association conveyed a Conservation and Public Recreation Easement and Agreement to the State which restricts development and requires that the property be retained forever in its natural/open space condition and be accessible for public recreation. This easement is recorded in the Town of Washington Land Records and is referenced as Volume 152 at Page 951.

See auditor's report.