STEEP ROCK ASSOCIATION, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

SEPTEMBER 30, 2012 AND SEPTEMBER 30, 2011
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Auditor's Report</td>
<td>1</td>
</tr>
<tr>
<td>Basic Financial Statements</td>
<td></td>
</tr>
<tr>
<td>Balance Sheets</td>
<td>2</td>
</tr>
<tr>
<td>Statements of Activities and Changes in Net Assets</td>
<td>3</td>
</tr>
<tr>
<td>Statements of Cash Flows</td>
<td>4</td>
</tr>
<tr>
<td>Statements of Functional Expenses</td>
<td>5</td>
</tr>
<tr>
<td>Notes to the Financial Statements</td>
<td>6 - 11</td>
</tr>
</tbody>
</table>
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, 2012 and September 30, 2011, 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, 2012 and September 30, 2011, 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, P.C.
Certified Public Accountants

Danbury, Connecticut
December 14, 2012
# Balance Sheets

**Steep Rock Association, Inc.**

**Balance Sheets**

**As of September 30, 2012 and 2011**

## Assets

### Current Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$217,155</td>
<td>$205,924</td>
</tr>
<tr>
<td>Prepaid expense</td>
<td>2,796</td>
<td>1,928</td>
</tr>
<tr>
<td>Investments, at market</td>
<td>1,635,980</td>
<td>1,384,050</td>
</tr>
</tbody>
</table>

**TOTAL CURRENT ASSETS**

|                        | 1,855,931  | 1,591,902  |

### Property and Equipment (Net)

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10,605,095</td>
<td>10,619,592</td>
</tr>
</tbody>
</table>

### Other Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,000</td>
<td>1,500</td>
</tr>
</tbody>
</table>

**TOTAL ASSETS**

|                        | $12,462,026 | $12,212,994 |

## Liabilities and Net Assets

### Current Liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$655</td>
<td>$458</td>
</tr>
<tr>
<td>Accrued payroll taxes</td>
<td>6,179</td>
<td>6,139</td>
</tr>
</tbody>
</table>

**TOTAL CURRENT LIABILITIES**

|                        | 6,834      | 6,597      |

### Net Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>12,414,126</td>
<td>12,161,593</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>41,066</td>
<td>44,804</td>
</tr>
</tbody>
</table>

**TOTAL NET ASSETS**

|                        | 12,455,192 | 12,206,397 |

**TOTAL LIABILITIES AND NET ASSETS**

|                        | $12,462,026 | $12,212,994 |

See auditor's report and notes to financial statements.
## Statements of Activities and Changes in Net Assets

For the Years Ended September 30, 2012 and 2011

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$284,543</td>
<td>$29,605</td>
<td>$314,148</td>
<td>$1,776,437</td>
</tr>
<tr>
<td>Stewardship / Legal Defense Fund Contributions</td>
<td>3,580</td>
<td>-</td>
<td>3,580</td>
<td>46,842</td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>28,819</td>
<td>-</td>
<td>28,819</td>
<td>33,020</td>
</tr>
<tr>
<td>Grant revenue</td>
<td>15,271</td>
<td>-</td>
<td>15,271</td>
<td>27,405</td>
</tr>
<tr>
<td>Realized gain (loss) on sale of securities</td>
<td>72,477</td>
<td>-</td>
<td>72,477</td>
<td>(12,391)</td>
</tr>
<tr>
<td>Unrealized gain (loss) on securities</td>
<td>183,987</td>
<td>-</td>
<td>183,987</td>
<td>(48,657)</td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>3,839</td>
<td>-</td>
<td>3,839</td>
<td>7,581</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$592,516</td>
<td>$29,605</td>
<td>$622,121</td>
<td>$1,830,237</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets released from restrictions</td>
<td>$33,343</td>
<td>(33,343)</td>
</tr>
<tr>
<td>Total revenues and net assets released</td>
<td>$625,859</td>
<td>(3,738)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Expenses</strong></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program services</td>
<td>$275,339</td>
<td>-</td>
</tr>
<tr>
<td>General and management</td>
<td>73,682</td>
<td>-</td>
</tr>
<tr>
<td>Fundraising</td>
<td>24,305</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$373,326</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase (decrease) in net assets</td>
<td>$252,533</td>
<td>(3,738)</td>
</tr>
<tr>
<td>Net assets, beginning of year</td>
<td>$12,161,593</td>
<td>44,804</td>
</tr>
<tr>
<td>Net assets, end of year</td>
<td>$12,414,126</td>
<td>$41,066</td>
</tr>
</tbody>
</table>

See auditor's report and notes to financial statements.
STEEP ROCK ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$ 248,795</td>
<td>1,384,305</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>14,497</td>
<td>14,497</td>
</tr>
<tr>
<td>Realized (gain) loss on sale of investments</td>
<td>(72,477)</td>
<td>12,391</td>
</tr>
<tr>
<td>Unrealized (gain) loss on investments</td>
<td>(183,987)</td>
<td>48,657</td>
</tr>
<tr>
<td>Changes in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(868)</td>
<td>327</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>197</td>
<td>(2,002)</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>40</td>
<td>(2,036)</td>
</tr>
<tr>
<td>Other assets</td>
<td>500</td>
<td>(500)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td><strong>6,697</strong></td>
<td><strong>1,455,639</strong></td>
</tr>
</tbody>
</table>

| Cash flows from investing activities |          |          |
| Proceeds on sale of investments   | 558,656  | 359,653  |
| Purchases of investments          | (554,122)| (376,215)|
| Purchase of Bronson Fields        | -        | (1,328,771)|
| **Net cash provided by (used in) investing activities** | **4,534** | **(1,345,333)** |

| Net increase in cash and cash equivalents | 11,231 | 110,306 |

| Cash and cash equivalents, beginning of year | 205,924 | 95,618 |
| Cash and cash equivalents, end of year       | $ 217,155 | $ 205,924 |

See auditor's report and notes to financial statements.
### STEEP ROCK ASSOCIATION, INC.

**STATEMENTS OF FUNCTIONAL EXPENSES**

**FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

<table>
<thead>
<tr>
<th></th>
<th>Program Services</th>
<th>General and Management</th>
<th>Fundraising</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXPENSES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Fees</td>
<td>$ -</td>
<td>$ 7,625</td>
<td>-</td>
<td>$ 7,625</td>
<td>$ 6,675</td>
</tr>
<tr>
<td>Easement Monitoring</td>
<td>358</td>
<td>-</td>
<td>-</td>
<td>358</td>
<td>5,075</td>
</tr>
<tr>
<td>Depreciation</td>
<td>14,079</td>
<td>418</td>
<td>-</td>
<td>14,497</td>
<td>14,497</td>
</tr>
<tr>
<td>Development</td>
<td>-</td>
<td>-</td>
<td>1,166</td>
<td>1,166</td>
<td>5,762</td>
</tr>
<tr>
<td>Fees, Dues, and Permits</td>
<td>374</td>
<td>4,691</td>
<td>-</td>
<td>5,065</td>
<td>4,724</td>
</tr>
<tr>
<td>Equipment/Vehicle Mainten.</td>
<td>3,864</td>
<td>255</td>
<td>-</td>
<td>4,119</td>
<td>6,070</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>5,331</td>
<td>12,440</td>
<td>-</td>
<td>17,771</td>
<td>14,979</td>
</tr>
<tr>
<td>Investment Management</td>
<td>-</td>
<td>14,816</td>
<td>-</td>
<td>14,816</td>
<td>14,619</td>
</tr>
<tr>
<td>Legal Fees</td>
<td>3,907</td>
<td>523</td>
<td>-</td>
<td>4,430</td>
<td>8,247</td>
</tr>
<tr>
<td>Camp House</td>
<td>281</td>
<td>-</td>
<td>-</td>
<td>281</td>
<td>625</td>
</tr>
<tr>
<td>Membership Services</td>
<td>2,469</td>
<td>-</td>
<td>-</td>
<td>2,469</td>
<td>4,362</td>
</tr>
<tr>
<td>Occupancy Expenses</td>
<td>3,613</td>
<td>17,209</td>
<td>-</td>
<td>20,822</td>
<td>20,747</td>
</tr>
<tr>
<td>Payroll and Benefits</td>
<td>150,305</td>
<td>7,966</td>
<td>19,507</td>
<td>177,778</td>
<td>147,688</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>12,212</td>
<td>652</td>
<td>1,579</td>
<td>14,443</td>
<td>12,173</td>
</tr>
<tr>
<td>Printing, Postage &amp; Office</td>
<td>16,677</td>
<td>4,535</td>
<td>2,053</td>
<td>23,265</td>
<td>17,415</td>
</tr>
<tr>
<td>Professional Education</td>
<td>215</td>
<td>89</td>
<td>-</td>
<td>304</td>
<td>1,899</td>
</tr>
<tr>
<td>Other Professional fees</td>
<td>18,100</td>
<td>2,464</td>
<td>-</td>
<td>20,564</td>
<td>24,557</td>
</tr>
<tr>
<td>Stewardship-General</td>
<td>4,065</td>
<td>-</td>
<td>-</td>
<td>4,065</td>
<td>10,260</td>
</tr>
<tr>
<td>Stewardship-WHIP Grants</td>
<td>5,920</td>
<td>-</td>
<td>-</td>
<td>5,920</td>
<td>3,680</td>
</tr>
<tr>
<td>Hidden Valley Bridge Project</td>
<td>33,343</td>
<td>-</td>
<td>-</td>
<td>33,343</td>
<td>121,505</td>
</tr>
<tr>
<td>Travel Expense</td>
<td>225</td>
<td>-</td>
<td>-</td>
<td>225</td>
<td>374</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>$ 275,339</td>
<td>$ 73,682</td>
<td>$ 24,305</td>
<td>$ 373,326</td>
<td>$ 445,932</td>
</tr>
</tbody>
</table>

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 protect the region's biodiversity and natural heritage for its intrinsic value and to enhance the rural landscape of the Town of Washington and adjacent towns by acquiring, preserving and managing open space, scenic vistas, natural communities, a diversity of wildlife habitats, farmlands that conserve the region's agricultural legacy and, where appropriate, other lands that support the public's pursuit of educational and passive recreational experiences.

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.

See auditor's report.
Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Functional Expenses
Expenses are charged directly to program services, general and management, 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, 2012, 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 December 14, 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.
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, 2011 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 at September 30:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>Estimated Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>$81,922</td>
<td>$81,922</td>
<td>7 - 10 years</td>
</tr>
<tr>
<td>Land improvements</td>
<td>202,325</td>
<td>202,325</td>
<td>30 years</td>
</tr>
<tr>
<td></td>
<td>284,247</td>
<td>284,247</td>
<td></td>
</tr>
<tr>
<td>Less: Accumulated depreciation</td>
<td>(129,802)</td>
<td>(115,305)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$154,445</td>
<td>$168,942</td>
<td></td>
</tr>
<tr>
<td>Preservation land</td>
<td>$10,450,650</td>
<td>$10,450,650</td>
<td></td>
</tr>
</tbody>
</table>

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 at:

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2012</th>
<th>September 30, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Cash held for investment</td>
<td>$89,475</td>
<td>$89,475</td>
</tr>
<tr>
<td>Fixed Income Mutual Funds</td>
<td>509,058</td>
<td>528,736</td>
</tr>
<tr>
<td>Stock Mutual Funds and ETFs</td>
<td>185,006</td>
<td>230,065</td>
</tr>
<tr>
<td>Common stock</td>
<td>573,218</td>
<td>787,704</td>
</tr>
<tr>
<td></td>
<td>$1,356,757</td>
<td>$1,635,980</td>
</tr>
</tbody>
</table>

See auditor's report.
Note 5: INVESTMENTS (continued)

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
<th>Fair Value</th>
<th>Unrealized Appreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at end of period</td>
<td>$1,356,757</td>
<td>$1,635,980</td>
<td>$279,223</td>
</tr>
<tr>
<td>Balance at beginning of period</td>
<td>$1,288,219</td>
<td>$1,384,050</td>
<td>$95,831</td>
</tr>
<tr>
<td>Unrealized appreciation</td>
<td>$183,392</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note 6: TEMPORARILY RESTRICTED NET ASSETS

In the current fiscal year, the Association received a $20,000 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. As of September 30, 2012, the Association has received a total of $170,000 from the Gould Family Foundation for the project. Of this amount, $164,831 has been used for preliminary project expenses, with $5,169 remaining as Temporarily Restricted Net Assets. The 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. Final cost estimates are still pending.

In the fiscal year ended September 30, 2011, 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, including construction of a hiking trail and boardwalk that will connect and provide public access to the existing Hidden Valley Preserve trail system. These funds are temporarily restricted until used. The Association will continue agricultural practices on the property, and is in the process of developing a new agricultural lease. 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.

During 2012, the Association received contributions in the amount of $9,605 in memory of Elisha Dyer. The funds are designated for a capital project (a small satellite parking area below Bronson Fields) that will be implemented in 2013.

See auditor's report.
Note 7: STEWARDSHIP PLAN
In fiscal year 2011, 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 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. During fiscal year 2012, the Association began implementing the plan and in April launched a two-year inventory of critical habitats. The purpose of this inventory is to document and map natural communities within the preserve system which are designated by the State as critical habitat for rare, threatened and endangered species (species of "Greatest Conservation Need"). Once completed, this inventory will help guide future management actions and provide the foundation for additional biological surveys. The cost of the inventory is $15,000 which is spread equally over three (3) fiscal years (FY 2012 - 2014).

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 fair market value under an operating lease with a current member of its Board of Trustees. The lease began on July 1, 2009 and has been renewed through June 30, 2014. Minimum lease payments for the year ended September 30, 2013 are $13,200.

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 will expire on June 1, 2016. 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 expired in May 2012 and will likely be replaced with a new multi-year lease. 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,:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 1</td>
</tr>
<tr>
<td>Fixed Income Mutual Funds</td>
<td>$528,736</td>
<td>$443,025</td>
</tr>
<tr>
<td>Stock Mutual Funds and ETFs</td>
<td>230,065</td>
<td>295,960</td>
</tr>
<tr>
<td>Common stock</td>
<td>787,704</td>
<td>593,612</td>
</tr>
<tr>
<td><strong>Total assets at FV</strong></td>
<td><strong>$1,546,505</strong></td>
<td><strong>$1,332,597</strong></td>
</tr>
</tbody>
</table>

See auditor's report.