

NATURAL HERITAGE TRUST

**Financial Statements, Compliance Report
and Supplementary Information**

March 31, 2010

NATURAL HERITAGE TRUST

Financial Statements, Compliance Report and Supplementary Information

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of Natural Heritage Trust's (the "Trust") financial statements, the Trust's management provides narrative discussion and analysis of the financial activities of the Trust for the fiscal year ended March 31, 2010. The Trust's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. This discussion and analysis is intended to serve as an introduction to Natural Heritage Trust's basic financial statements for the fiscal year ended March 31, 2010.

Overview of the Financial Statements

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

Government-wide Financial Statements

The activities of a general-purpose government can be categorized into the following three types of activities (a) governmental activities (financed through taxes, intergovernmental revenues, and other non-exchange revenues), (b) business-type activities (financed in whole or in part by fees charged to those external parties who use the goods or services) and (c) fiduciary activities (involve holding and managing net assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements). In accordance with GASB No. 34, Paragraph 13, the government-wide statements should report only the *governmental activities* and *business-type activities* of the primary government. The government-wide statements should *exclude* any *fiduciary activities* or component units that are fiduciary in nature. Accordingly, the Trust's basic financial statements do not include government-wide financial statements.

Fund Financial Statements

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

The *Governmental Fund* is reported in the fund financial statements. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financial requirements of Trust programs 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 investment returns on fixed income debt obligations and administrative fees charged to certain programs for which the Trust hires staff. Information on this fund is reported in the Governmental Fund Revenues, Expenditures, and Changes in Fund Balance statement and the Governmental Fund Balance Sheet.

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

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

The *Fiduciary Fund* is reported in the fiduciary fund financial statements. Fiduciary fund financial statements report resources that are not available to fund Trust administrative expenses.

The fiduciary fund represents grants and programs established for a definite purpose in concert with the Trust's partner agencies and other organizations (i.e. private-purpose trust funds). Information on these funds is reported in the Statement of Changes in Fiduciary Net Assets and the Statement of Fiduciary Net Assets.

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

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

Notes to the Financial Statements

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

Supplementary Information

The *General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual* provides a comparison of budget and actual information for the Trust's general fund. 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, 2010 and 2009.

Governmental Fund

	<u>3/31/10</u>	<u>3/31/09</u>
Assets	\$ 23,993,922	\$ 27,577,603
Liabilities	21,527,492	24,927,622
Fund Balance	2,466,430	2,649,981
	<u>\$ 23,993,922</u>	<u>\$ 27,577,603</u>

The Trust's assets consist primarily of cash, money market funds, certificates of deposits, fixed income debt obligations and equity exchange traded funds. Funds received from various private-purpose trust funds (i.e. "program accounts") are deposited into the general fund and invested until they are subsequently disbursed for program purposes. As the program accounts' receipts and expenses fluctuate and the number of accounts fluctuate, the investment balances will fluctuate.

Restricted gifts and grants received by private-purpose trust funds, including earnings thereon, totaled approximately \$13 million for the fiscal year ended March 31, 2010. Program expenses related to private-purpose trust fund activities totaled approximately \$16 million, resulting in a reduction of private-purpose trust fund net assets of approximately \$3 million. The number of program accounts the Trust serves, with account balances at year end, increased to 181 as of March 31, 2010, from 173 as of March 31, 2009.

Nearly all of the Trust's liabilities reflect the amount owed to the various private-purpose trust funds.

In the current year, the Board of Directors of the Trust approved funding a reserve to support the Trust's postemployment healthcare benefit plan. This reserve is expressed as "Board designated" on the Trust's balance sheet.

Governmental Fund

	<u>3/31/10</u>	<u>3/31/09</u>
Revenues		
Investment income	\$ 536,104	\$ 649,265
Indirect fringe benefit income	320,281	203,734
Administrative income	185,738	48,449
Contributed goods and services	510	77,086
Realized losses	(798)	6,263
Unrealized gains (losses)	(184,628)	138,920
Miscellaneous	11,696	13,301
	<u>868,903</u>	<u>1,137,018</u>
Expenditures	<u>1,052,454</u>	<u>758,040</u>
Excess (deficiency) of revenues over expenditures	(183,551)	378,978
Fund balance at beginning of year	<u>2,649,981</u>	<u>2,271,003</u>
Fund balance at end of year	<u>\$ 2,466,430</u>	<u>\$ 2,649,981</u>

Revenues are derived primarily from investment income, administrative income and indirect fringe benefit income. The overall decrease in revenues is primarily due to the decrease in contributed goods and services (a non-cash item) and investment income. The overall revenue decrease is offset, in part, by indirect fringe benefit income, and administrative income assessed on those program accounts with payroll expense.

Each fixed income debt obligation in the Trust's portfolio bears interest at a fixed rate. At March 31, 2010 the market yield ranged from 1.5% to 5.4% for fixed income debt obligations, 0.9% to 2.6% for equities and 1.5% for certificates of deposit. 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, 2010 market fluctuations resulted in unrealized losses on the general fund investments and on the fiduciary fund investments.

The overall increase in expenditures is primarily due to the implementation of new accounting policies related to postemployment healthcare benefits (i.e. GASB 45). The overall expenditures increase is offset, in part, by a decrease in contributed goods and services, actuarial expense and office supplies.

General Fund Budgetary Highlights

The general fund revenue budget (revised) for the fiscal year was \$653,000 (excluding in-kind contributed goods and services), with a projected budget deficit of \$71,500, to be supported with funds from the unrestricted fund balance, as shown on page 22 (Supplementary Information).

Total general fund revenue (excluding in-kind contributed goods and services and miscellaneous revenue) was higher than budget. This is primarily 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 unrealized losses on investments, that was not budgeted for by the Trust.

Total general fund expenses (excluding in-kind contributed goods and services) of approximately \$1,052,000, was higher than budget as the budget did not include the expense (approximately \$334,000) related to the Trust's implementation of GASB 45.



INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Audit Committee
Natural Heritage Trust

We have audited the accompanying balance sheet and the related statement of revenues, expenditures and changes in fund balance, and the fiduciary fund information of Natural Heritage Trust, a component unit of the State of New York, as of and for the year ended March 31, 2010, which collectively comprise Natural Heritage Trust's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Natural Heritage Trust's management. 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Natural Heritage Trust as of March 31, 2010, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note F to the financial statements, the Trust implemented Governmental Accounting Standards Board (GASB Statement) No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, related to its postemployment healthcare benefit plan in the current year.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2010, 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 including compliance with investment guidelines. 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 1 through 5 and page 22, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Wojcik & Co. CPAs, P.C.

East Greenbush, New York
June 30, 2010

NATURAL HERITAGE TRUST

Governmental Fund Balance Sheet

March 31, 2010

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 965,918
Certificates of deposit	3,500,000
Investments	19,332,039
Accounts receivable	14,383
Interest receivable	<u>181,582</u>
TOTAL ASSETS	<u><u>\$ 23,993,922</u></u>
LIABILITIES AND FUND BALANCE	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 49,590
Due to fiduciary fund	<u>21,143,987</u>
TOTAL CURRENT LIABILITIES	21,193,577
NET OPEB OBLIGATION	<u>333,915</u>
TOTAL LIABILITIES	21,527,492
FUND BALANCE	
Unreserved	1,942,415
Board designated	<u>524,015</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 23,993,922</u></u>

See accompanying notes to financial statements.

NATURAL HERITAGE TRUST

Governmental Fund Revenues, Expenditures, and Changes in Fund Balance

For the Year Ended March 31, 2010

	<u>General Fund</u>
REVENUES	
Investment income	\$ 536,104
Indirect fringe benefit income	320,281
Administrative income	185,738
Contributed goods and services (in-kind)	510
Realized losses on investments	(798)
Unrealized losses on investments	(184,628)
Miscellaneous income	<u>11,696</u>
TOTAL REVENUES	868,903
EXPENDITURES	
Salary and payroll related costs	463,550
Fringe benefit and retirement costs	157,022
OPEB cost	333,915
Bank investment fees and service charges	56,951
Professional fees	21,080
Office supplies and postage	7,793
Travel	4,917
Award expenses	4,037
Contributed goods and services (in-kind)	510
Miscellaneous	<u>2,679</u>
TOTAL EXPENDITURES	<u>1,052,454</u>
EXCESS OF REVENUES OVER EXPENDITURES	(183,551)
FUND BALANCE AT BEGINNING OF YEAR	<u>2,649,981</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 2,466,430</u></u>

See accompanying notes to financial statements.

NATURAL HERITAGE TRUST

Statement of Fiduciary Net Assets - Fiduciary Fund

March 31, 2010

ASSETS

Due from governmental fund	\$ 21,143,987
Receivables	<u>1,014,013</u>

TOTAL ASSETS	<u><u>\$ 22,158,000</u></u>
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LIABILITIES

Accounts payable	\$ 341,873
Accrued payroll and related items	140,764
Accrued compensated absences	<u>122,200</u>

TOTAL LIABILITIES	604,837
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NET ASSETS HELD IN TRUST	<u>21,553,163</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 22,158,000</u></u>
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See accompanying notes to financial statements.

NATURAL HERITAGE TRUST

Statement of Changes in Fiduciary Net Assets - Fiduciary Fund

For the Year Ended March 31, 2010

ADDITIONS

Restricted gifts, grants and other funds	\$ 12,900,434
Investment income	186,906
Realized gains on investments	63,160
Unrealized losses on investments	<u>(146,012)</u>
TOTAL ADDITIONS	13,004,488
PROGRAM EXPENSES	<u>16,072,520</u>
CHANGE IN NET ASSETS	(3,068,032)
NET ASSETS AT BEGINNING OF YEAR	<u>24,621,195</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 21,553,163</u></u>

See accompanying notes to financial statements.

NATURAL HERITAGE TRUST

Notes to Financial Statements

March 31, 2010

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Natural Heritage Trust ("Trust"), a public benefit corporation, was created in 1968 under Article 55 of the Arts and Cultural Affairs Law to receive and administer private gifts, grants, 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 the State and advance public understanding, revitalization and restoration of New York's waterfronts. The Trust is administered at the direction of its Board of Directors comprised of the Commissioner of the New York State Office of Parks, Recreation and Historic Preservation, Chair of the State Council of Parks, Commissioner of the New York State Department of Environmental Conservation and Secretary of State. The Trust is a component unit of the State of New York for financial reporting purposes and is included in the State's basic financial statements.

The Trust has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for income taxes.

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

Basis of Presentation

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

Governmental Fund

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. 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 governmental fund, represents general operating fund monies set aside by the Board of Directors to support and sustain, in perpetuity, annual awards for outstanding performance by employees of New York State Office of Parks, Recreation and Historic Preservation. Investment earnings on such funds are available to finance the L.L. Huttleston awards.

The Board of Directors has also taken action to create a reserve for the purpose of funding amounts payable in future years related to the Trust's postemployment healthcare benefit plan discussed in Note F.

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 accrual basis of accounting. The Trust reports the following fiduciary fund:

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. Private-purpose trust funds generate revenue and fund expenditures that are administered by the Trust, and are subject to oversight by the Trust. As of March 31, 2010 the Trust held funds received through relationships with its partner agencies and other organizations designated for over 170 different programs and purposes. The five (5) largest trust fund accounts in terms of revenue accounted for approximately 45% of all restricted funds for the year ended March 31, 2010. The five (5) largest trust fund accounts in terms of expenditures incurred 45% of program expenses for the same period.

NATURAL HERITAGE TRUST

Notes to Financial Statements--Continued

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

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.

Certificates of Deposit

Certificates of deposit are interest-bearing accounts maintained in other financial institutions. All of the certificates as of March 31, 2010 mature within one year.

Investments

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

Contributed Goods and Services

Some office and administrative services are provided to the Trust by the Office of Parks, Recreation and Historic Preservation and vice versa. Such amounts are recorded as net contributions in the financial statements on the basis of equivalent hourly rates and allocated salaries for services.

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.

NOTE B--CASH, CASH EQUIVALENTS AND INVESTMENTS

The Trust has adopted an investment policy in accordance with the NYS Public Authorities Law and rules and regulations of the State of New York Office of the State Comptroller ("OSC"). The Trusts' written investment policy has been approved by the Board of Directors. Cash, cash equivalents and investments in the Trust's investment accounts consist of the following at March 31, 2010:

NATURAL HERITAGE TRUST

Notes to Financial Statements--Continued

NOTE B--CASH, CASH EQUIVALENTS AND INVESTMENTS--Continued

	<u>Cost</u>		<u>Market</u>
U.S. Government Agencies	\$ 10,632,312	\$	11,138,749
U.S. Treasury Obligations	3,938,323		4,038,987
Certificates of Deposit	3,500,000		3,500,000
Corporate Bonds	2,221,989		2,265,714
Cash and Money Market			
Funds	1,668,713		1,668,713
Closed-end Mutual Funds	994,190		989,864
Global Equity Mutual Funds	195,448		195,930
	<u>\$ 23,150,975</u>	<u>\$</u>	<u>23,797,957</u>

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

NOTE C--DUE TO/FROM OTHER FUNDS

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

NOTE D--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.

NATURAL HERITAGE TRUST

Notes to Financial Statements--Continued

NOTE D--PENSION PLAN--Continued

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 \$195,000 for the year ended March 31, 2010.

NOTE E--UNINSURED CASH BALANCES

Cash and cash equivalents needed for short-term check writing purposes, investments and certificates of deposit are maintained in Federal Deposit Insurance Corporation (FDIC) insured accounts. Natural Heritage Trust's balances in financial institutions may at times exceed federally insured limits. The Trust has written collateral agreements with the financial institutions that protect those balances in excess of FDIC insurance coverage limits.

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. The NYSHIP is an agent multiple-employer plan and financial information is reported in an agency fund of the State of New York. The Trust has not set aside any assets to fund the liabilities of this plan, however, the Trust has designated a portion of its fund balance for the purpose of funding amounts payable in future years.

The Trust's OPEB obligation under the plan is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for 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.

NATURAL HERITAGE TRUST

Notes to Financial Statements--Continued

NOTE F--OTHER POSTEMPLOYMENT BENEFITS OBLIGATION--Continued

Information related to the Trust's annual OPEB cost, ARC, actual contributions and changes in net OPEB Obligation for the year ending March 31, 2010 is as follows:

Annual Required Contribution	\$ 333,915
Interest on Net OPEB Obligation from prior year	0
Actuarial adjustment	0
Annual OPEB Cost	<u>\$ 333,915</u>
Net OPEB Obligation at the beginning of the year	\$ 0
Annual OPEB Cost	333,915
Current year contributions	0
Net OPEB Obligation at the end of the year	<u>\$ 333,915</u>

The Trust's annual OPEB costs, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for the year ending March 31, 2010 is as follows:

Annual OPEB Cost	\$ 333,915
Percentage of annual OPEB cost contributed	<u>0.00%</u>
Net OPEB Obligation at the end of the year	<u>\$ 333,915</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. The schedule of funding progress, which is presented below, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NATURAL HERITAGE TRUST

Notes to Financial Statements--Continued

NOTE F--OTHER POSTEMPLOYMENT BENEFITS OBLIGATION--Continued

The funded status of the plan as of March 31, 2010, is as follows:

Actuarial accrued liability (AAL)	\$ 2,094,580
Actuarial value of plan assets	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,094,580</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll	Not Available
UAAL as a percentage of covered payroll	Not Available

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.

In the April 1, 2008 actuarial valuation the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3% investment rate of return and an annual healthcare cost trend rate of 8% initially, reduced in decrements to an ultimate rate of 5% by the year 2016. 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 March 31, 2008 valuation was 30 years.

NOTE G--SUBSEQUENT EVENTS

In accordance with FASB ASC 855 (formerly Statement of Financial Accounting Standards No. 165, *Subsequent Events*), the Trust has evaluated for subsequent events between the balance sheet date of March 31, 2010 and June 30, 2010, the date the financial statements were issued.

COMPLIANCE REPORT



**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE, INCLUDING
COMPLIANCE WITH INVESTMENT GUIDELINES, AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors and Audit Committee
Natural Heritage Trust

We have audited the financial statements of Natural Heritage Trust as of and for the year ended March 31, 2010, and have issued our report thereon dated June 30, 2010. 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; and *Investment Guidelines for Public Authorities* issued by the Office of the State Comptroller, State of New York.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Natural Heritage Trust's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control over financial reporting.

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 Trust's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or

material weaknesses, as defined above. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Natural Heritage 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, including *Investment Guidelines for Public Authorities* and the Trust's investment guidelines, 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses.

We also noted certain matters that we reported to the management of Natural Heritage Trust in a separate letter dated June 30, 2010.

Natural Heritage Trust's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Natural Heritage Trust's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, the audit committee, management of the Trust, and the State of New York and is not intended to be and should not be used by anyone other than these specified parties.

Wojcik & Co. CPAs, P.C.

East Greenbush, New York
June 30, 2010

NATURAL HERITAGE TRUST

Schedule of Findings and Responses

For the Year Ended March 31, 2010

COMPLIANCE AND OTHER MATTERS

FINDING

The Trust's investment policy statements, as approved March 17, 2010 includes three managed account classifications: (1) capital projects/reserve accounts (the "capital accounts"), which includes four separate investment accounts, (2) endowment accounts, which includes three separate investment accounts and (3) operating account, which includes one investment account. Each policy states that investments in government sponsored agencies cannot exceed 35%, and of that, no more than 20% can be held in any one agency. Seven (7) of the eight (8) separate investment accounts were not in compliance with this requirement. In addition, the capital accounts policy states that investments in money market funds cannot exceed 50% of the total portfolio. One of the four separate investment accounts had 76% of the total assets in money market funds. Finally, the endowment account policy states that the asset allocation minimum for equity securities is 40%. The three investment accounts have 18%, 8% and 24% of the total assets in equity securities, respectively. The endowment policy also states that the maximum allocation for fixed income securities is 60%. The three investment accounts have 82%, 92% and 76% in fixed income securities, respectively.

RESPONSE (provided by Trust management)

The Trust made no new purchases of government agency debt obligations in 2009-10. Trust management and members of the Board are aware that seven (7) accounts currently exceed the maximum asset allocation for government sponsored agencies and a conscious decision by the Board and management has been made to allow these investments to mature. Due to historically low yields on fixed income products, selling these investments before maturity does not make sense financially as there are no comparable products yielding similar returns. The one capital project account with 76% of its funds in money market accounts is for a project which is currently out to bid and the funds need to be readily available. The asset allocation maximum for money market investments will be revisited in the future along with other provisions in the Investment Policy Statements. Finally, the endowment accounts which have not yet reached their minimum asset allocations for equities will soon reach these minimums as the existing fixed income holdings mature. It is management's intention to purchase equities with available cash from these maturing fixed income products.

SUPPLEMENTARY INFORMATION

NATURAL HERITAGE TRUST

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

March 31, 2010

	Original Budget	Revisions	Revised Budget	Total Actual Budgeted	Total Actual Unbudgeted	Total Actual	Variance Favorable/ (Unfavorable)
REVENUES							
Investment income	\$ 405,000	\$ 75,000	\$ 480,000	\$ 536,104	\$ -	\$ 536,104	\$ 56,104
Indirect fringe benefit income	-	-	-	-	320,281	320,281	320,281
Administrative income	-	167,000	167,000	185,738	-	185,738	18,738
Contributed goods and services (in-kind)	-	-	-	-	510	510	510
Realized gains on investments	-	-	-	-	(798)	(798)	(798)
Unrealized losses on investments	-	-	-	-	(184,628)	(184,628)	(184,628)
Miscellaneous income	6,000	-	6,000	11,696	-	11,696	5,696
TOTAL REVENUES	411,000	242,000	653,000	733,538	135,365	868,903	215,903
EXPENDITURES							
Salary and payroll related costs	390,000	80,000	470,000	463,550	-	463,550	6,450
Fringe benefit and retirement costs	140,000	35,000	175,000	157,022	-	157,022	17,978
OPEB cost	-	-	-	-	333,915	333,915	(333,915)
Bank investment fees and service charges	30,000	10,000	40,000	46,912	10,039	56,951	(16,951)
Professional fees	20,000	-	20,000	21,080	-	21,080	(1,080)
Office supplies and postage	10,000	-	10,000	7,793	-	7,793	2,207
Travel	2,000	1,000	3,000	4,917	-	4,917	(1,917)
Award expenses	3,500	-	3,500	4,037	-	4,037	(537)
Payroll service fees	1,000	-	1,000	-	-	-	1,000
Miscellaneous	2,000	-	2,000	2,679	-	2,679	(679)
	598,500	126,000	724,500	707,990	343,954	1,051,944	(327,444)
Contributed goods and services (in-kind)	-	-	-	-	510	510	(510)
TOTAL EXPENDITURES	598,500	126,000	724,500	707,990	344,464	1,052,454	(327,954)
EXCESS OF REVENUES OVER EXPENDITURES	\$ (187,500)	\$ 116,000	\$ (71,500)	\$ 25,548	\$ (209,099)	\$ (183,551)	\$ (112,051)

NATURAL HERITAGE TRUST

Investment Information for New York State

March 31, 2010

INVESTMENTS

At March 31, 2010, Trust investments consisted of money market funds, fixed income debt obligations, certificates of deposit and equity exchange traded funds held by an outside brokerage house. The total market value of investments, excluding money market funds and certificates of deposit, was \$18,629,244 at March 31, 2010.

INVESTMENT EARNINGS

General Fund and Fiduciary Fund investment earnings totaled \$350,678 and \$104,054, respectively, for the year ended March 31, 2010 and consisted of interest and realized and unrealized gains and losses.

INVESTMENT REPORT

The independent auditors' report on compliance and other matters, including compliance with *Investment Guidelines for Public Authorities*, for the year ended March 31, 2010 indicated that there was one instance of noncompliance that was required to be reported under *Government Auditing Standards*.

FEES AND COMMISSIONS

The direct fees, commissions or other charges paid for investment related services for the General Fund and Fiduciary Fund were \$54,003 and \$23,495, respectively, for the year ended March 31, 2010.