

**NATURAL HERITAGE TRUST
FINANCIAL REPORT
MARCH 31, 2012**

NATURAL HERITAGE TRUST

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-7
GOVERNMENTAL FUND BALANCE SHEET	8
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE	9
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND	10
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUND	11
NOTES TO FINANCIAL STATEMENTS	12-18
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL	19
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN	20
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLAINE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	21-22



Marvin and
company, p.c.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Kevin J. McCoy

Thomas W. Donovan

Frank S. Venezia

James E. Amell

Carol A. Hausamann

Benjamin R. Lasher

Daniel J. Litz

Karl F. Newton

Kevin P. O'Leary

Timothy A. Reynolds

To the Board of Directors
Natural Heritage Trust

We have audited the accompanying basic financial statements of Natural Heritage Trust, a component unit of the State of New York, as of and for the year ended March 31, 2012, 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 U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental 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, 2012, and the changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2012, 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* and should be considered in assessing the results of our audit.

11 British American Blvd.

Latham, NY 12110

Ph: 518-785-0134

Fx: 518-785-0299

Email:

webmaster@marvincpa.com

Web:

<http://www.marvincpa.com>



U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 7, budgetary comparison information on page 19 and the schedule of funding progress for the retiree health plan on page 20, 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 U.S. generally accepted auditing standards, 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.

Marvin and Company, P.C.

June 21, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the financial statements of the Natural Heritage Trust (the "Trust") the Trust's management provides narrative discussion and analysis of the financial activities of the Trust for the fiscal year ended March 31, 2012. The Trust's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. We encourage readers to consider the information on pages 3 to 7 in conjunction with the Trust's financial statements (presented on pages 8 to 18) to enhance their understanding of the Trust's financial performance. This discussion and analysis is intended to serve as an introduction to the Trust's basic financial statements for the fiscal year ended March 31, 2012.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

Fund Financial Statements

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

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

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

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

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

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

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

Information on 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 fiduciary fund change in net assets during the year. It accounts for all of the current year additions and deductions, and measures the financial results of fiduciary fund operations over the past year.

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

Notes to the Financial Statements

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

Supplementary Information

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

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

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

Financial Analysis of the Governmental Fund

The governmental fund consists of the Trust's general fund, which is the Trust's operating fund. Below is a summary of the fund balance and the revenues, expenditures and change in fund balance for the years ended March 31, 2012 and 2011.

Governmental Fund

SUMMARY OF ASSETS, LIABILITIES AND FUND BALANCE

	<u>2012</u>	<u>2011</u>
Assets	\$ <u>25,047,734</u>	\$ <u>25,883,429</u>
Liabilities	<u>23,209,528</u>	<u>23,682,956</u>
Fund Balance		
Assigned	524,015	524,015
Unassigned	<u>1,314,191</u>	<u>1,676,458</u>
Total Fund Balance	<u>1,838,206</u>	<u>2,200,473</u>
	\$ <u>25,047,734</u>	\$ <u>25,883,429</u>

Governmental Fund

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

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

Restricted gifts and grants received by the fiduciary fund, including earnings thereon, totaled approximately \$9.7 million for the fiscal year ended March 31, 2012. Program expenses related to fiduciary fund activities totaled approximately \$10.3 million, resulting in a decrease of the fiduciary fund net assets of approximately \$622,000. The number of program accounts the Trust manages, with account balances at year end, increased to 189 as of March 31, 2012, from 175 as of March 31, 2011.

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

	<u>2012</u>	<u>2011</u>
Revenues		
Investment income	\$ 352,807	\$ 515,339
Indirect fringe benefit income	223,899	254,232
Administrative income	191,057	194,793
Realized gains (losses) on investments	27,866	19,944
Unrealized gains (losses) on investments	<u>(103,765)</u>	<u>(202,228)</u>
	<u>691,864</u>	<u>782,080</u>
Expenditures		
Salary and payroll related costs	459,014	445,339
Fringe benefit and retirement costs	188,861	174,776
OPEB cost	339,578	345,209
Bank investment fees and service charges	30,359	32,871
Office supplies and postage	21,650	25,099
Professional fees	10,316	16,605
Travel	2,924	2,629
Award expenses	-	4,300
Miscellaneous	<u>1,429</u>	<u>1,209</u>
	<u>1,054,131</u>	<u>1,048,037</u>
Excess (deficiency) of revenues over expenditures	(362,267)	(265,957)
Fund balance at beginning of year	<u>2,200,473</u>	<u>2,466,430</u>
Fund balance at end of year	<u>\$ 1,838,206</u>	<u>\$ 2,200,473</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 indirect fringe benefit income and investment income. The overall revenue decrease is offset, in part, by administrative income assessed on those program accounts with payroll expense.

Governmental Fund

Each fixed income debt obligation in the Trust's portfolio bears interest at a fixed rate. At March 31, 2012 the market yield ranged from 1.5% to 5.0% for fixed income debt obligations, and 1.0% to 3.1% 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, 2012 market fluctuations resulted in unrealized losses on the general fund investments and unrealized gains on the fiduciary fund investments.

Current year expenditures increased approximately \$6,100 from the prior year.

General Fund Budgetary Highlights

The general fund revenue budget for the fiscal year was \$596,000 with a projected budget deficit of \$128,500 to be supported with funds from the unrestricted fund balance, as shown on page 19 (Supplementary Information). Actual governmental fund revenue totaled \$691,864. The higher revenue amount is due to indirect fringe benefit income assessed on those program accounts with payroll expense, over the actual fringe benefits paid out by the Trust, and realized and unrealized gain / losses on investments that are not included in the annual operating budget of the Trust.

For budgeting purposes the Trust does not include the expense (approximately \$339,600) related to the Trust's 2012 Other Postemployment Benefit Obligation (OPEB) actuarially determined obligation as part of its operating budget. Therefore, the actual governmental fund expenses of approximately \$1,054,000 were higher than the budgeted expenditures of \$724,500.

**NATURAL HERITAGE TRUST
GOVERNMENTAL FUND BALANCE SHEET
MARCH 31, 2012**

ASSETS

Cash and cash equivalents	\$ 1,484,593
Investments	23,488,620
Accounts receivable	1,521
Interest receivable	<u>73,000</u>
 TOTAL ASSETS	 <u>\$ 25,047,734</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable and accrued expenses	\$ 57,810
Due to fiduciary fund	22,133,017
OPEB	<u>1,018,701</u>

TOTAL LIABILITIES 23,209,528

FUND BALANCE

Assigned	524,015
Unassigned	<u>1,314,191</u>

TOTAL FUND BALANCE 1,838,206

TOTAL LIABILITIES AND FUND BALANCE \$ 25,047,734

**NATURAL HERITAGE TRUST
GOVERNMENTAL FUND REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 2012**

REVENUES	
Investment income	\$ 352,807
Indirect fringe benefit income	223,899
Administrative income	191,057
Realized gains on investments	27,866
Unrealized losses on investments	<u>(103,765)</u>
TOTAL REVENUES	<u>691,864</u>
EXPENDITURES	
Salary and payroll related costs	459,014
Fringe benefit and retirement costs	188,861
OPEB cost	339,578
Bank investment fees and service charges	30,359
Professional fees	21,650
Office supplies and postage	10,316
Travel	2,924
Miscellaneous	<u>1,429</u>
TOTAL EXPENDITURES	<u>1,054,131</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(362,267)
FUND BALANCE AT BEGINNING OF YEAR	<u>2,200,473</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 1,838,206</u></u>

NATURAL HERITAGE TRUST
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND
MARCH 31, 2012

ASSETS		
Accounts receivable		\$ 141,319
Due from governmental fund		<u>22,133,017</u>
TOTAL ASSETS		<u>\$ 22,274,336</u>
 LIABILITIES AND NET ASSETS HELD IN TRUST		
LIABILITIES		
Accounts payable		\$ 135,958
Accrued payroll and related items		<u>253,184</u>
TOTAL LIABILITIES		389,142
NET ASSETS HELD IN TRUST		<u>21,885,194</u>
TOTAL LIABILITIES AND NET ASSETS HELD IN TRUST		<u>\$ 22,274,336</u>

NATURAL HERITAGE TRUST
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUND
FOR THE YEAR ENDED MARCH 31, 2012

ADDITIONS	
Restricted gifts, grants, and other funds	\$ 9,303,597
Investment income	249,702
Realized gains on investments	57,780
Unrealized gains on investments	<u>65,330</u>
TOTAL ADDITIONS	9,676,409
PROGRAM EXPENSES	<u>10,298,729</u>
CHANGE IN NET ASSETS HELD IN TRUST	(622,320)
NET ASSETS HELD IN TRUST AT BEGINNING OF YEAR	<u>22,507,514</u>
NET ASSETS HELD IN TRUST AT END OF YEAR	<u><u>\$ 21,885,194</u></u>

**NATURAL HERITAGE TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012**

A. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

Information returns filed by the Trust are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. The returns filed by Trust are no longer subject to examination for the years ended March 31, 2008 and prior.

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

Basis of Presentation

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

Governmental Fund

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

**NATURAL HERITAGE TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012**

A. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Governmental Fund

General Fund

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

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

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

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Trust did not have any nonspendable resources as of March 31, 2012.

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, 2012.

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, 2012.

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

**NATURAL HERITAGE TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012**

A. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Governmental Fund

General Fund

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

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

Fiduciary Fund

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

Fiduciary Trust Funds

Fiduciary trust funds represent grants and programs and activities established for a definite purpose in concert with the Trust's partner agencies and other organizations. These trust funds generate revenue and expenditures that are administered by the Trust, and are subject to oversight by the Trust. As of March 31, 2012 the Trust held funds received through relationships with its partner agencies and other organizations for over 123 different programs and projects. The five (5) largest trust fund accounts in terms of revenue accounted for approximately 33% of all restricted funds for the year ended March 31, 2012. The five (5) largest trust fund accounts in terms of expenditures incurred 32% of program expenses for the same period.

Restricted Gifts, Grants and Other Funds

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

Investments

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

Use of Estimates

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

**NATURAL HERITAGE TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012**

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, 2012:

	<u>Cost</u>	<u>Market</u>
U.S. Government Agencies	\$ 4,556,908	\$ 4,693,743
U.S. Treasury Obligations	1,502,434	1,525,680
Corporate and Foreign Bonds	1,445,138	1,506,372
Cash and Money Market Funds	1,973,378	1,973,378
Corporate Bond Funds	10,151,991	10,239,293
Closed-end Mutual Funds	3,566,103	4,305,314
Global Equity Mutual Funds	738,194	729,433
	<u>\$ 23,934,146</u>	<u>\$ 24,973,213</u>

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

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

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

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

**NATURAL HERITAGE TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012**

C. DUE TO/FROM OTHER FUNDS

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

D. PENSION PLAN

Funding Policy

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

The Trust is required to contribute at an actuarially determined rate. The current rate of annual covered payroll is 10.5% for Tier 1 and 15.6% for Tier 3 and Tier 4 and 12.6% for Tier 5 employees.

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

2011-2012	\$ 415,900
2010-2011	365,000
2009-2010	195,000

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

E. UNINSURED CASH BALANCES

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

At March 31, 2012, the book amount of the Trust's deposits was \$1,484,593 and the bank balances was \$1,731,345. The insured and collateral status of the year-end bank balance was as follows:

<u>Status of Bank Balances</u>	
Covered by federal deposit insurance	<u>\$ 533,272</u>
Collateralized	<u>\$ 1,198,073</u>
Uncollateralized	<u>\$ -</u>

**NATURAL HERITAGE TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012**

F. OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

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

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

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

Information related to the Trust's annual OPEB cost, ARC, actual contributions and changes in net OPEB Obligation for the year ending March 31, 2012 is as follows:

Normal cost	\$ 246,212
Amortization of unfunded actuarial liability	<u>125,252</u>
ARC	371,464
Interest on OPEB obligation	20,370
Adjustment to ARC	<u>(34,642)</u>
OPEB Expense	<u>\$ 357,192</u>
Net OPEB Obligation at the beginning of the year	\$ 679,123
OPEB Expense	357,192
Net OPEB Contributions made during the fiscal year	<u>(17,614)</u>
Net OPEB Obligation at the end of the year	<u>\$ 1,018,701</u>
Percentage of Expense Contributed	4.9%
Funded Status	
Accrued liability at end of year	\$ 2,757,108
Plan assets at end of year	<u>-</u>
Unfunded Accrued Liability	<u>\$ 2,757,108</u>

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

**NATURAL HERITAGE TRUST
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012**

F. OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

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

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

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

G. SUBSEQUENT EVENTS

The Trust has evaluated all events subsequent to the balance sheet date of March 31, 2012 through June 21, 2012, which is the date these financial statements were issued, and has determined there are no subsequent events that require disclosure.

**NATURAL HERITAGE TRUST
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2012**

	Original Budget	Revisions	Revised Budget	Total Actual Budgeted	Total Actual Unbudgeted	Total Actual	Variance Favorable/ (Unfavorable)
REVENUES							
Investment income	\$ 450,000	\$ -	\$ 450,000	\$ 352,807	\$ -	\$ 352,807	\$ (97,193)
Indirect fringe benefit income	-	-	-	-	223,899	223,899	223,899
Administrative income	140,000	-	140,000	191,057	-	191,057	51,057
Realized gains on investments	-	-	-	-	27,866	27,866	27,866
Unrealized losses on investments	-	-	-	-	(103,765)	(103,765)	(103,765)
Miscellaneous income	6,000	-	6,000	-	-	-	(6,000)
TOTAL REVENUES	<u>596,000</u>	<u>-</u>	<u>596,000</u>	<u>543,864</u>	<u>148,000</u>	<u>691,864</u>	<u>95,864</u>
EXPENDITURES							
Salary and payroll related costs	470,000	-	470,000	459,014	-	459,014	10,986
Fringe benefit and retirement costs	175,000	-	175,000	188,861	-	188,861	(13,861)
OPEB cost	-	-	-	-	339,578	339,578	(339,578)
Bank investment fees and service charges	40,000	-	40,000	30,359	-	30,359	9,641
Professional fees	20,000	-	20,000	21,650	-	21,650	(1,650)
Office supplies and postage	10,000	-	10,000	10,316	-	10,316	(316)
Travel	3,000	-	3,000	2,924	-	2,924	76
Award expenses	3,500	-	3,500	-	-	-	3,500
Payroll service fees	1,000	-	1,000	-	-	-	1,000
Miscellaneous	2,000	-	2,000	1,429	-	1,429	571
TOTAL EXPENDITURES	<u>724,500</u>	<u>-</u>	<u>724,500</u>	<u>714,553</u>	<u>339,578</u>	<u>1,054,131</u>	<u>(329,631)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ (128,500)</u>	<u>\$ -</u>	<u>\$ (128,500)</u>	<u>\$ (170,689)</u>	<u>\$ (191,578)</u>	<u>\$ (362,267)</u>	<u>\$ (233,767)</u>

**NATURAL HERITAGE TRUST
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
MARCH 31, 2012**

Actuarial Valuation Date	Actuarial Value of 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)
04/01/2011	\$ -	\$ 2,757,108	\$ 2,757,108	0%	\$ 2,418,547	114.00%
04/01/2008	\$ -	\$ 1,798,468	\$ 1,798,468	0%	\$ 2,882,247	63.24%
04/01/2008	\$ -	\$ 2,094,580	\$ 2,094,580	0%	\$ 2,879,750	72.73%



**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**

Kevin J. McCoy

Thomas W. Donovan

Frank S. Venezia

James E. Amell

Carol A. Hausamann

Benjamin R. Lasher

Daniel J. Litz

Karl F. Newton

Kevin P. O'Leary

Timothy A. Reynolds

To the Board of Directors
Natural Heritage Trust

We have audited the financial statements of Natural Heritage Trust (Trust) as of and for the year ended March 31, 2012, and have issued our report thereon dated June 21, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Natural Heritage Trust is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

11 British American Blvd.

Latham, NY 12110

Ph: 518-785-0134

Fx: 518-785-0299

Email:

webmaster@marvincpa.com

Web:

http://www.marvincpa.com



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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Marvin and Company, P.C.

June 21, 2012