

CATAWBA LANDS CONSERVANCY

Financial Statements
and Accompanying Information
For the Years Ended December 31, 2004 and 2003

CATAWBA LANDS CONSERVANCY

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Report of Independent Auditors

The Board of Directors
Catawba Lands Conservancy
Charlotte, North Carolina

We have audited the accompanying statements of financial position of Catawba Lands Conservancy (the "Conservancy") as of December 31, 2004 and 2003, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Conservancy'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 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 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 the Conservancy as of December 31, 2004 and 2003, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2005 on our consideration of the Conservancy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information, as identified in the table of contents, as well as the schedule of receipts and expenditures of state awards as required by the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, the information contained therein is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cherry, Bekant & Holland, L.L.P.

Charlotte, North Carolina
May 13, 2005

CATAWBA LANDS CONSERVANCY

Statements of Financial Position

	December 31,	
	2004	2003
Assets		
Current assets		
Cash and cash equivalents	\$ 774,559	\$ 664,454
Grants and other receivables	47,996	36,102
Other current assets	6,800	32,717
Total current assets	829,355	733,273
Property and equipment		
Office equipment	53,582	57,379
Property improvements	30,905	30,905
Total property and equipment	84,487	88,284
Less accumulated depreciation	(48,923)	(56,559)
Net property and equipment	35,564	31,725
Other assets		
Investments	560,525	362,390
Land held for sale	255,000	97,030
Property acquired for preservation	7,955,598	6,306,501
Easements acquired for preservation	16,354,753	15,715,346
Total other assets	25,125,876	22,481,267
Total assets	\$ 25,990,795	\$ 23,246,265
Liabilities and Net Assets		
Current liabilities		
Line of credit	\$ -	\$ 85,000
Accounts payable	12,834	1,855
Deferred revenue	245,603	155,000
Total current liabilities	258,437	241,855
Net assets		
Unrestricted:		
Undesignated	683,037	331,385
Designated by Board for specific purposes	512,374	499,631
Designated for preservation of property	24,310,351	22,021,847
Total unrestricted net assets	25,505,762	22,852,863
Temporarily restricted	226,596	151,547
Total net assets	25,732,358	23,004,410
Total liabilities and net assets	\$ 25,990,795	\$ 23,246,265

The accompanying notes are an integral part of the financial statements.

CATAWBA LANDS CONSERVANCY

Statements of Activities and Changes in Net Assets

	Years Ended December 31,					
	2004		2003			
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Grants	\$ 1,970,666	\$ 76,228	\$ 2,046,894	\$ 2,517,801	\$ 57,387	\$ 2,575,188
Contributions of property to be preserved	866,340	-	866,340	1,998,598	-	1,998,598
Other contributions	199,514	-	199,514	245,932	-	245,932
In-kind contributions	31,746	-	31,746	4,340	-	4,340
Fundraising	290,866	-	290,866	238,745	-	238,745
Investment income	10,142	-	10,142	51,295	-	51,295
Other income	33,175	-	33,175	-	-	-
Net assets released from donor restriction	1,179	(1,179)	-	3,841	(3,841)	-
Total support and revenue	<u>3,403,628</u>	<u>75,049</u>	<u>3,478,677</u>	<u>5,060,552</u>	<u>53,546</u>	<u>5,114,098</u>
Expenses						
Salaries and benefits	445,838	-	445,838	336,888	-	336,888
Public activities	64,787	-	64,787	52,517	-	52,517
Professional fees	83,018	-	83,018	27,336	-	27,336
Conservation easement facilitation	-	-	-	209,227	-	209,227
Communications	31,797	-	31,797	43,652	-	43,652
Operations and maintenance	14,882	-	14,882	14,977	-	14,977
Insurance	11,237	-	11,237	6,393	-	6,393
Office supplies and expenses	54,185	-	54,185	43,426	-	43,426
Travel	6,178	-	6,178	8,938	-	8,938
Depreciation	13,916	-	13,916	14,420	-	14,420
Other expenses	24,891	-	24,891	12,085	-	12,085
Total expenses	<u>750,729</u>	<u>-</u>	<u>750,729</u>	<u>769,859</u>	<u>-</u>	<u>769,859</u>
Change in net assets	2,652,899	75,049	2,727,948	4,290,693	53,546	4,344,239
Net assets						
Beginning of year	<u>22,852,863</u>	<u>151,547</u>	<u>23,004,410</u>	<u>18,562,170</u>	<u>98,001</u>	<u>18,660,171</u>
End of year	<u>\$ 25,505,762</u>	<u>\$ 226,596</u>	<u>\$ 25,732,358</u>	<u>\$ 22,852,863</u>	<u>\$ 151,547</u>	<u>\$ 23,004,410</u>

The accompanying notes are an integral part of the financial statements.

CATAWBA LANDS CONSERVANCY

Statements of Cash Flows

	Years Ended December 31,	
	2004	2003
Cash flows from operating activities		
Change in net assets	\$ 2,727,948	\$ 4,344,239
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	13,916	14,420
Donated easements and land	(611,340)	(1,998,598)
Donated equipment and land for sale	(256,158)	(2,000)
Change in beneficial trust and reinvestment of earnings	(13,249)	(13,113)
Net realized losses on land held for sale	36,430	-
Net unrealized gains on investments	(29,023)	(34,642)
Property and easements acquired for preservation	(1,838,720)	(2,373,893)
Change in operating assets and liabilities:		
Grants and other receivables	(11,894)	19,509
Other current assets	25,917	(10,943)
Accounts payable	10,979	(8,285)
Deferred revenue	90,603	155,000
Net cash provided by operating activities	145,409	91,694
Cash flows from investing activities		
Purchase of property and equipment	(16,597)	(2,304)
Purchase of investments	(163,363)	(393,251)
Proceeds from sale of investments and land	229,656	246,101
Net cash provided (used) by investing activities	49,696	(149,454)
Cash flows from financing activities		
Repayment of principal on line of credit	(85,000)	-
Net cash used in financing activities	(85,000)	-
Net increase (decrease) in cash and cash equivalents	110,105	(57,760)
Cash and cash equivalents		
Beginning of year	664,454	722,214
End of year	\$ 774,559	\$ 664,454
<u>Supplemental cash flow information</u>		
Interest paid	\$ 732	\$ 4,552

The accompanying notes are an integral part of the financial statements.

CATAWBA LANDS CONSERVANCY

Notes to Financial Statements
Years Ended December 31, 2004 and 2003

Note 1 – Summary of significant accounting policies

Nature of operations - Catawba Land Conservancy (the “Conservancy”) is a nonprofit organization dedicated to acquiring and preserving environmentally, historically, or culturally significant lands for open space, recreation, or protection of natural resources. The Conservancy principally preserves land tracts located in the North Carolina Catawba River Basin and the Southern Piedmont of North Carolina. The Conservancy is also responsible for the perpetual management and stewardship of properties owned and the monitoring and enforcement of conservation easements. The Conservancy is also involved in facilitating the acquisition of conservation easements that are deeded to other parties, such as the State of North Carolina.

Basis of presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are both undesignated and designated in nature. Unrestricted, undesignated net assets are those currently available for use in the day-to-day operations of the Conservancy and those resources invested in property and equipment. From time to time, the Board of Directors will designate appropriate amounts to assure adequate funds are available to assist in estimated future monetary requirements. Such amounts are presented as unrestricted, designated net assets in the accompanying statements of financial position as well as property and easements acquired for preservation.

Temporarily restricted net assets are those subject to donor-imposed restrictions that may or will be met by specific actions of the Conservancy and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions whose restrictions are satisfied in the same reporting period in which the contribution was received are reported as unrestricted support.

Permanently restricted net assets consist solely of assets contributed to the Conservancy in which the corpus is to be held in perpetuity.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

CATAWBA LANDS CONSERVANCY

Notes to Financial Statements (continued)
Years Ended December 31, 2004 and 2003

Note 1 – Summary of significant accounting policies (continued)

Public support and grant revenue - The Conservancy relies heavily upon various grants and public contributions to assist in the accomplishment of its preservation mission. Changes in economic conditions may directly affect a grantor's ability and willingness to make future contributions. Generally, grant funds are made available to the Conservancy are utilized to accomplish specific objectives of the grantor and the Conservancy. Such grants contain specific criteria governing the expenditure of such funds. As a condition of the grant, the Conservancy agrees to utilize the funds in a manner as prescribed by the underlying grant agreement. Any non-compliance with the specific terms of the grant may result in funds being returned to the grantor and any reductions in grant funding could adversely affect the operations of the Conservancy.

Revenue is recognized for financial statement reporting purposes when the actual purchase of qualifying real estate has taken place. There were no grants awarded and available for the acquisition and preservation of real estate at December 31, 2004 and \$25,000 was available at December 31, 2003.

Donated property and easements - Property and easements received as a gift are recorded at their estimated fair market value on the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted the use of the donated asset to a specific purpose. Donated property and easements amounted to \$866,340 and \$1,998,598 for the years ended December 31, 2004 and 2003, respectively.

Donated services - In accordance with the Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, the Conservancy records contributed services if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A number of unpaid volunteers, who serve in the capacity of Board members and various other volunteer assistants, have made significant contributions of their time in the furtherance of the Conservancy's programs. The value of this contributed time is not reflected in these financial statements since it does not meet the above recognition criteria.

Income taxes - The Conservancy is exempt from federal and state income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code.

Cash and cash equivalents - The Conservancy considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, except for those short-term investments managed as part of investment management strategies.

Allowance for doubtful accounts - Management's assessment of the collectibility of receivables is based on a review of individual accounts, historical experience, and current economic conditions. Based on the underlying nature of the receivables at December 31, 2004 and 2003, management believes any allowance for uncollectible receivables is not material to the financial statements taken as a whole.

CATAWBA LANDS CONSERVANCY

Notes to Financial Statements (continued)
Years Ended December 31, 2004 and 2003

Note 1 – Summary of significant accounting policies (continued)

Property and equipment - Property and equipment is stated at cost. Depreciation of property is computed on the straight-line method over the estimated useful lives of the assets. The costs of major improvements are capitalized while the costs of maintenance and repairs, which do not improve or extend the useful life of the respective asset, are expensed when incurred. The cost and accumulated depreciation of property and equipment are eliminated from the accounts upon disposal and any resulting gain or loss is included in changes in net assets in the period during which the disposition occurred.

Investments - Investments are recorded in accordance with the provisions of SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued in the statement of financial position at their fair value. Fair value is determined by reference to exchange or dealer-quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities. Changes in the fair value of securities are reflected as investment gains or losses in the accompanying statements of activities and changes in net assets.

In accordance with SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, the Conservancy recognizes its interest in assets held by other non-profit organization (the Community Foundation of Gaston County, Inc. and Foundation for the Carolinas) for the sole benefit of the Conservancy. These assets are available to the Conservancy for acquisition and stewardship of property easements and are recorded as investments on the Statement of Financial Position.

Land held for sale - The Conservancy has received donations of land, which the Conservancy intends to sell. The proceeds from these sales will be available for the general operations of the Conservancy. The land held for sale is recorded at fair market value at the date of donation, which approximates fair market value at December 31, 2004.

Property and easements acquired for preservation - The Conservancy may acquire certain property and/or conservation easements through purchases as well as through donor contributions. Donors generally contribute deeds to property and/or conservation easements. Conservation easements are legal agreements in which the landowner gives up some of the rights to their land, such as development, but retains ownership and management of the property. The conservation easements are permanent and run with the land to successive owners. Contributions are recorded at the estimated fair market value of the property or easement taking into consideration the fact that the land's use may be severely limited based on the intent to preserve the property in its undeveloped state. Specifically, conservation easements are valued as the estimated change in the market value of the associated property before and after the imposition of the easement. Based on these facts, the values of property held for preservation reflected on the Statement of Financial Position are based on management estimates.

Deferred revenue - Deferred revenue represents grant funds received for expenditures and/or services are to be made/performed in future periods.

CATAWBA LANDS CONSERVANCY

Notes to Financial Statements (continued)
Years Ended December 31, 2004 and 2003

Note 1 – Summary of significant accounting policies (continued)

Functional allocation of expenses - The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain 2003 unrestricted net assets were reclassified to temporarily restricted net assets. The total amount of the reclassification between temporarily restricted net assets and unrestricted net assets was \$98,001 at January 1, 2003. Certain other 2003 amounts have been reclassified, where appropriate, to correspond to the 2004 financial statement presentation, such reclassifications had no effect on total net assets.

Note 2 – Grants and other receivables

Total grants and other receivables were as follows at December 31:

	<u>2004</u>	<u>2003</u>
Grants receivable	\$ 44,256	\$ 32,860
Other receivables	<u>3,740</u>	<u>3,242</u>
	<u>\$ 47,996</u>	<u>\$ 36,102</u>

A portion of grants receivable, \$33,126 in 2004 and \$16,000 in 2003, are to be utilized specifically for the acquisition and preservation of real estate and are not available for general operations.

Note 3 – Investments

A summary of the investments at December 31, 2004 and 2003 are as follows:

	<u>Cost</u>	<u>Fair Value</u>
December 31, 2004		
Money market funds	\$ 48,310	\$ 48,310
Mutual funds	433,706	497,366
Beneficial interest in trusts	<u>14,849</u>	<u>14,849</u>
	<u>\$ 496,865</u>	<u>\$ 560,525</u>

CATAWBA LANDS CONSERVANCY

Notes to Financial Statements (continued)
Years Ended December 31, 2004 and 2003

Note 3 – Investments (continued)

December 31, 2003

Money market funds	\$ 10,528	10,528
Mutual funds	295,964	330,606
Beneficial interest in trusts	<u>21,256</u>	<u>21,256</u>
	<u>\$ 327,748</u>	<u>\$ 362,390</u>

These investments are insured by the Securities Investor Protection Corporation up to \$500,000. The Conservancy invests in a variety of investments, which are subject to fluctuations in market values and expose the Conservancy to a certain degree of investment risk.

A summary of investment return for the year ended December 31, 2004 and 2003, is summarized below:

	<u>2004</u>	<u>2003</u>
Interest and dividend income	\$ 16,456	\$ 10,660
Change in beneficial interests	1,093	5,993
Unrealized gains on investments	29,023	34,642
Realized losses on land held for sale	<u>(36,430)</u>	<u>-</u>
	<u>\$ 10,142</u>	<u>\$ 51,295</u>

Note 4 – Line of Credit

In July 2001, the Conservancy entered into a secured line of credit agreement with a financial institution. The line of credit bears interest at the bank's prime rate plus 1% and is collateralized by an equal amount of cash accounts held by the Conservancy. Outstanding draws on this line of credit amounted to \$85,000 as of December 31, 2003. The Conservancy paid in full the outstanding balance on the line of credit in March 2004. The Conservancy has the entire \$100,000 line of credit available to utilize at December 31, 2004. The Conservancy incurred interest expense of \$732 and \$4,552 for the years ended December 31, 2004 and 2003, respectively.

Note 5 – Retirement plan

In July 2002, the Conservancy put in place a 408(p) Simple-IRA plan under which employees can make pretax contributions to the plan. The Conservancy makes matching contributions on behalf of its employees under this plan. Under this plan, the Conservancy can make discretionary nonelective contributions in lieu of the matching contributions. For the years ended December 31, 2004 and 2003, the Conservancy's contributions were 3% of eligible participants' salaries. Expense attributable to the plan amounted to \$6,064 and \$6,414 during 2004 and 2003, respectively.

CATAWBA LANDS CONSERVANCY

Notes to Financial Statements (continued)
Years Ended December 31, 2004 and 2003

Note 6 – Commitments and contingencies

The Conservancy routinely enters into agreements for the purchase of land and easements. At December 31, 2004, one letter of intent for \$315,000 was outstanding for the purchase of 63 acres in Lincoln County, North Carolina. Also at December 31, 2004, the Conservancy had two outstanding letters of intent to acquire approximately 200 acres, the purchase price for which had yet to be determined at year end.

Note 7 – Concentrations of credit risk

Financial instruments which potentially subject the Conservancy to concentrations of credit risk consist principally of cash and cash equivalents and grants receivables. The Conservancy places its cash and cash equivalents on deposit with a North Carolina financial institution. These deposits are federally insured up to \$100,000. From time to time, the Conservancy may have deposits in excess of these insured limits. Grants receivables arise from grant commitments received from organizations concentrated in North Carolina. The collection of these grants may be influenced by the general economic conditions of these areas.

Note 8 – Net assets

Board designated, unrestricted net assets

The Board of Directors of the Conservancy has elected to set aside certain contributions received for the future stewardship and legal defense of land and easements that it owns. These contributions have been invested with the intention of using only the earnings to fund stewardship and legal needs of the properties that it conserves. At December 31, 2004 and 2003, these funds totaled \$512,374 and \$499,631, respectively.

The Board of Directors has also set aside certain assets for its conservation efforts. These assets are comprised of land and easements for which the Conservancy has direct ownership. The value of these easements and land were \$24,310,351 and \$22,021,847 at December 31, 2004 and 2003, respectively.

Temporarily restricted net assets

Funds that have been received by the Conservancy for a particular purpose or period of time that have remaining restrictions at December 31, are detailed as follows:

	<u>2004</u>	<u>2003</u>
Stewardship and legal defense of Clear Water Management Trust Fund assisted properties	\$ 204,721	\$ 151,547
Grant funds for the education of professionals regarding the promotion of conservancy to their clients	<u>21,875</u>	<u>-</u>
	<u>\$ 226,596</u>	<u>\$ 151,547</u>

CATAWBA LANDS CONSERVANCY

Notes to Financial Statements (continued)
Years Ended December 31, 2004 and 2003

Note 9 – In-kind contributions

The Conservancy received non-cash contributions (other than land and easements) during the years ended December 31, 2004 and 2003, respectively, in the form of goods and services that are required to be recognized in the accompanying statement of activities. In-kind contributions are detailed as follows:

	<u>2004</u>	<u>2003</u>
Professional services included in land and easements	\$ 17,863	\$ -
Equipment received	1,158	2,000
Program services –		
Professional services received	9,085	645
Public activities - advertising services received	-	1,017
Communications - telephone services received	250	-
General and administrative –		
Public activities - advertising services received	-	339
Fundraising -		
Public activities - advertising services received	<u>3,390</u>	<u>339</u>
Total expenses	<u>\$ 31,746</u>	<u>\$ 4,340</u>

Note 10 – Functional expenses

The Conservancy's activities are focused in three functional areas. Program services represent the primary focus of the organization's activities. Supporting services are fundraising activities and general and administrative activities. The costs of providing the various programs and other activities for the years ended December 31, 2004 and 2003 are summarized on a functional basis below. Certain costs have been allocated among the program and supporting services benefited.

	<u>2004</u>	<u>2003</u>
Program services – public services	\$ 444,046	\$ 325,528
Supporting services –		
Fundraising	174,454	369,126
General and administrative	<u>132,229</u>	<u>75,205</u>
Total expenses	<u>\$ 750,729</u>	<u>\$ 769,859</u>

ACCOMPANYING INFORMATION



**Report on Internal Controls Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

The Board of Directors
Catawba Lands Conservancy
Charlotte, North Carolina

We have audited the financial statements of Catawba Lands Conservancy (the "Conservancy") as of and for the year ended December 31, 2004, and have issued our report thereon dated May 13, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Conservancy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Conservancy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 04-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weaknesses. We also noted other matters involving the internal controls over financial reporting, which we have reported to management of the Conservancy in a separate letter dated May 13, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Conservancy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances 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, management, others within the Conservancy and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Berkert & Holland, L.L.P.

Charlotte, North Carolina
May 13, 2005

CATAWBA LANDS CONSERVANCYSchedule of Findings and Questioned Costs
Year Ended December 31, 2004**04-01**

Condition: The Conservancy accounting staff is not large enough to permit an adequate segregation of duties for an effective system of internal accounting control in all respects.

Criteria: Internal controls should be evaluated to ensure the segregation of duties could not lead to fraudulent or improper reporting of financial statements amounts.

Effect: Lack of segregation of duties causes greater concern with regard to fraudulent or improper financial statements reporting.

Suggestion: We recognize that the costs and benefits must be considered in developing any internal control system. However to the extent possible, duties should be segregated to provide checks and balances and to reduce the likelihood of an error occurring and not being undetected in a timely manner. Ideally, the employee responsible for the bank reconciliation should not have any duties related to the cash receipt and disbursement functions. We recommend that the Conservancy consider implementing and/or assuring that the following mitigating controls are in place to help mitigate the risk of misappropriation:

- The unopened bank statements and completed bank reconciliations should be forwarded directly to the Executive Director who would then review the bank statements and canceled checks for any unusual items and investigate these matters, should any be identified. The review would also include assuring that other internal control policies and procedures over cash, such as authorized check signatures, are being followed as applicable.
- A senior management employee, who is independent of the payroll preparation duties, should review the W-2's and related payroll registers for overall reasonableness.

Management response: Management of the Conservancy recognized the inherent limitations in developing an internal control structure that would permit adequate segregation of duties with limited personnel resources. Management has taken certain measures to mitigate the impact of limited employees available to assign duties to ensure adequate checks and balances are in place. Nonetheless, this lack of resources does contribute to inadequate segregation of duties and responsibilities within the Conservancy's internal control environment.

CATAWBA LANDS CONSERVANCY**Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2004****Summary Schedule of Prior Audit Findings****03-01**

Condition: The Conservancy accounting staff is not large enough to permit an adequate segregation of duties for an effective system of internal accounting control in all respects.

Recommendation: Evaluate the internal control environment for additional checks and balances which would limit the segregation of duties issue.

Current status: The Conservancy does not believe it would be cost-effective to hire additional personnel to mitigate the segregation of duties issues. For this reason, it is again reported as a financial statement finding for the year ended December 31, 2004.

CATAWBA LANDS CONSERVANCY

Schedule of Receipts and Expenditures of State Awards For the Year Ended December 31, 2004

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
State Awards:			
North Carolina Department of Environment and Natural Resources:			
Clean Water Management Trust Fund:			
Acquire acquisition buffers - Anderholt tract	2002B-004	\$ 325,818	\$ 325,818
Minigrant - donated minigrant- Colt Thornburg	2003D-006	-	9,789
Minigrant - donated minigrant- Friday Farm	2003D-007	2,200	15,178
Minigrant - donated minigrant- Oakwood Farm	2003D-008	25,000	25,000
Acquire acquisition buffers - Rollins & Baker tracts	2003A-008	258,903	258,903
Total State Awards		_____	_____
Total State Awards		\$ 611,921	\$ 634,688

The accompanying note is an integral part of this schedule.

CATAWBA LANDS CONSERVANCY**Note to Schedule of Receipts and Expenditures of State Awards
Year Ended December 31, 2004****Note 1 – Basis of presentation**

The accompanying schedule of receipts and expenditures of state awards includes the state government activity of the Conservancy and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the *Audit Manual for Governmental Auditors in North Carolina*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements. The Conservancy received no federal awards and accordingly there were no expenditures of federal awards during the year ended December 31, 2004.