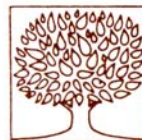


STEEP ROCK ASSOCIATION, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2013 AND SEPTEMBER 30, 2012



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

TABLE OF CONTENTS

	<u>Page</u>
<u>Independent Auditor's Report</u>	1-2
<u>Basic Financial Statements</u>	
Balance Sheets	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Statements of Functional Expenses	6
<u>Notes to the Financial Statements</u>	7 - 13



For personal and corporate growth

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Steep Rock Association, Inc. (a nonprofit organization) which comprise the statement of financial position as of September 30, 2013, and the related statements of activities and cash flows for the year ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

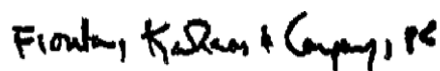
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Steep Rock Association, Inc. as of September 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses on page 6 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Steep Rock Association's 2012 financial statements, and our report dated December 14, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.



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

Danbury, Connecticut
December 12, 2013



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

STEEP ROCK ASSOCIATION, INC.
BALANCE SHEETS
AS OF SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 311,596	\$ 217,155
Prepaid expense	2,977	2,796
Investments, at market	1,810,633	1,635,980
<u>TOTAL CURRENT ASSETS</u>	<u>2,125,206</u>	<u>1,855,931</u>
<u>PROPERTY AND EQUIPMENT (NET)</u>	10,603,209	10,605,095
<u>OTHER ASSETS</u>	<u>1,655</u>	<u>1,000</u>
<u>TOTAL ASSETS</u>	<u>\$ 12,730,070</u>	<u>\$ 12,462,026</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 3,582	\$ 655
Accrued payroll taxes	4,658	6,179
<u>TOTAL CURRENT LIABILITIES</u>	<u>8,240</u>	<u>6,834</u>
 <u>NET ASSETS</u>		
Unrestricted	12,664,245	12,414,126
Temporarily restricted	57,585	41,066
<u>TOTAL NET ASSETS</u>	<u>12,721,830</u>	<u>12,455,192</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 12,730,070</u>	<u>\$ 12,462,026</u>

See auditor's report and notes to financial statements.

STEEP ROCK ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>TOTALS</u>	
			<u>2013</u>	<u>2012</u>
<u>REVENUE</u>				
Contributions	\$ 407,149	\$ 39,000	\$ 446,149	\$ 314,148
Stewardship / Legal Defense Fund Contributions	7,800	-	7,800	3,580
Interest and dividends	31,124	-	31,124	28,819
Grant revenue	13,240	-	13,240	15,271
Realized gain (loss) on sale of securities	74,769	-	74,769	72,477
Unrealized gain (loss) on securities	78,720	-	78,720	183,987
Miscellaneous income	5,673	-	5,673	3,839
<u>TOTAL REVENUE</u>	<u>618,475</u>	<u>39,000</u>	<u>657,475</u>	<u>622,121</u>
Net assets released from restrictions	<u>22,481</u>	<u>(22,481)</u>	<u>-</u>	<u>-</u>
Total revenues and net assets released	640,956	16,519	657,475	622,121
<u>EXPENSES</u>				
Program services	268,885	-	268,885	275,339
General and management	80,950	-	80,950	73,682
Fundraising	41,001	-	41,001	24,305
<u>TOTAL EXPENSES</u>	<u>390,837</u>	<u>-</u>	<u>390,837</u>	<u>373,326</u>
Increase in net assets	250,119	16,519	266,638	248,795
Net assets, beginning of year	<u>12,414,126</u>	<u>41,066</u>	<u>12,455,192</u>	<u>12,206,397</u>
Net assets, end of year	<u>\$ 12,664,245</u>	<u>\$ 57,585</u>	<u>\$ 12,721,830</u>	<u>\$ 12,455,192</u>

See auditor's report and notes to financial statements.

STEEP ROCK ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ 266,638	248,795
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	16,371	14,497
Realized gain on sale of investments	(74,769)	(72,477)
Unrealized gain on investments	(78,720)	(183,987)
Changes in:		
Prepaid expenses	(181)	(868)
Accounts payable	2,927	197
Accrued expenses	(1,521)	40
Other assets	(655)	500
Net cash provided by operating activities	<u>130,090</u>	<u>6,697</u>
Cash flows from investing activities		
Capital Expenditures	(14,485)	-
Net proceeds from sale (purchases) of investments	<u>(21,164)</u>	<u>4,534</u>
Net cash provided by (used in) investing activities	<u>(35,649)</u>	<u>4,534</u>
Net increase in cash and cash equivalents	94,441	11,231
Cash and cash equivalents, beginning of year	<u>217,155</u>	<u>205,924</u>
Cash and cash equivalents, end of year	<u>\$ 311,596</u>	<u>\$ 217,155</u>

See auditor's report and notes to financial statements.

STEEP ROCK ASSOCIATION, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013				2012
	<u>Program Services</u>	<u>General and Management</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
<u>EXPENSES:</u>					
Audit Fees	\$ -	\$ 6,850	\$ -	\$ 6,850	\$ 7,625
Easement Monitoring	3,215	-	-	3,215	358
Depreciation	15,900	471	-	16,371	14,497
Development	-	-	13,430	13,430	1,166
Fees, Dues, and Permits	157	5,529	-	5,686	5,068
Equipment/Vehicle Mainten.	7,733	28	-	7,761	4,120
Insurance Expense	5,929	13,835	-	19,764	17,771
Investment Management	-	15,797	-	15,797	14,816
Legal Fees	5,732	800	-	6,532	4,430
Camp House	473	-	-	473	281
Membership Services	4,351	-	-	4,351	2,470
Occupancy Expenses	4,113	17,810	-	21,923	20,821
Payroll and Benefits	154,535	8,577	21,348	184,460	177,777
Payroll Taxes	12,505	694	1,727	14,926	12,173
Printing, Postage & Office	11,479	6,456	4,496	22,431	23,265
Professional Education	-	2,144	-	2,144	304
Other Professional fees	10,671	1,959	-	12,630	20,564
Stewardship-General	6,882	-	-	6,882	4,065
Stewardship-WHIP Grants	6,662	-	-	6,662	5,920
Hidden Valley Bridge Project	18,333	-	-	18,333	33,343
Travel Expense	216	-	-	216	225
<u>TOTAL EXPENSES</u>	<u>\$ 268,885</u>	<u>\$ 80,950</u>	<u>\$ 41,001</u>	<u>\$ 390,837</u>	<u>\$ 371,059</u>

See auditor's report and notes to financial statements.

Note 1: NATURE OF ACTIVITIES

Steep Rock Association, Inc. is a 501(c)(3) not-for-profit corporation organized under the laws of the State of Connecticut. Its primary mission is to protect the region's biodiversity and natural heritage for its intrinsic value and to enhance the rural landscape of the Town of Washington and adjacent towns by acquiring, preserving and managing open space, scenic vistas, natural communities, a diversity of wildlife habitats, farmlands that conserve the region's agricultural legacy and, where appropriate, other lands that support the public's pursuit of educational and passive recreational experiences.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

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

(b) Basis of Presentation

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

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

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

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

(c) Exemption from Income Taxes

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

See auditor's report.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Functional Expenses

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

(e) Cash and Cash Equivalents

The Association considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents for purposes of cash flows exclude cash and cash equivalents held for investment purposes. The Association maintains deposits in federally insured institutions which, at times, can be in excess of federally insured limits. Management believes the Association is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held. At September 30, 2013, amounts deposited exceed the federally insured limits by \$54,456.

(f) Property and Equipment

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

(g) Conservation Easements

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

(h) Use of Estimates

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

(i) Contributions

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

(j) Subsequent Events

Management has evaluated subsequent events through December 12, 2013, the date the financial statements were issued. Through that date, there were no material events that would require recognition or additional disclosure in the financial statements.

See auditor's report.

Note 3: PRIOR-YEAR COMPARATIVE INFORMATION

The statements of activities, cash flows, and functional expenses include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with financial statements for the year ended September 30, 2012 from which the summarized information was derived.

Note 4: PROPERTY AND EQUIPMENT

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

Equipment, land, and land improvements consist of the following at September 30,:

	<u>2013</u>	<u>2012</u>	<u>Estimated Useful Life</u>
Equipment	\$ 92,259	\$ 81,922	7 - 10 years
Land improvements	206,473	202,325	30 years
	<u>298,732</u>	<u>284,247</u>	
Less: Accumulated depreciation	(146,173)	(129,802)	
	<u>\$ 152,559</u>	<u>\$ 154,445</u>	
 Preservation land	 <u>\$ 10,450,650</u>	 <u>\$ 10,450,650</u>	

Note 5: INVESTMENTS

The Association accounts for its investments in marketable securities under guidelines established by ASC 958-320 "Not-for-Profit Entities-Investments-Debt and Equity Securities". Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values. Unrealized gains and losses are included in changes in net assets.

Investments are composed of the following at:

	<u>September 30, 2013</u>		<u>September 30, 2012</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash held for investment	\$ 78,102	\$ 78,102	\$ 89,475	\$ 89,475
Fixed Income Mutual Funds	424,533	420,834	509,058	528,736
Stock Mutual Funds and ETFs	293,589	381,059	185,006	230,065
Common stock	656,466	930,638	573,218	787,704
	<u>\$ 1,452,690</u>	<u>\$ 1,810,633</u>	<u>\$ 1,356,757</u>	<u>\$ 1,635,980</u>

See auditor's report.

Note 5: INVESTMENTS (continued)

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

	Cost	Fair Value	Unrealized Appreciation
Balance at end of period	\$ 1,452,690	\$ 1,810,633	\$ 357,943
Balance at beginning of period	\$ 1,356,757	\$ 1,635,980	279,223
Unrealized appreciation			\$ 78,720

Note 6: TEMPORARILY RESTRICTED NET ASSETS

In the current fiscal year, the Association received a \$20,000 donation from the Gould Family Foundation designated for preliminary design expenses associated with a new pedestrian bridge over the Shepaug River at Hidden Valley Preserve. As of September 30, 2013, the Association has received a total of \$190,000 from the Gould Family Foundation for the project. Of this amount, \$183,164 has been used for preliminary project expenses, with \$6,836 remaining as Temporarily Restricted Net Assets. The bridge project was conceived as a more aesthetically appealing alternative to the proposed CT-DOT pedestrian walkway associated with the replacement highway bridge on Hwy 47. The Gould Family Foundation has agreed to fund the design and construction costs up to \$500,000. The Town of Washington has committed, through a public approval process, to contribute its \$150,000 STEAP grant award from the State to this project. Final cost estimates are still pending.

In the fiscal year ended September 30, 2011, the Association purchased approximately 68.9 acres of prime farmland and forest, now called "Bronson Fields", adjacent to the northern boundary of the Hidden Valley Preserve at a total cost of \$1,328,771, including purchase-related expenses in the amount of \$28,771. The purchase was funded by private contributions in the amount of \$855,063 and a \$500,000 Open Space and Watershed Land Acquisition Grant from the State of Connecticut's Department of Energy and Environmental Protection. The remaining \$26,292 is designated for future capital improvements on the property, including construction of a hiking trail and boardwalk that will connect and provide public access to the existing Hidden Valley Preserve trail system. These funds are temporarily restricted until used. The Association will continue agricultural practices on the property, and is in the process of developing a new agricultural lease. As a condition of the open space grant, the Association conveyed a Conservation and Public Recreation Easement and Agreement to the State which restricts development and requires that the property be retained forever in its natural/open space condition and be accessible for public recreation. This easement is recorded in the Town of Washington Land Records and is referenced as Volume 218 at Page 615.

During 2012, the Association received contributions in the amount of \$9,605 in memory of Elisha Dyer. The funds are designated for capital projects. During 2013, the Association received additional contributions in the amount of \$4,000. The Association used \$4,148 during 2013 for approved capital projects, leaving \$9,457 in this fund.

See auditor's report.

Note 6: TEMPORARILY RESTRICTED NET ASSETS (continued)

In the current fiscal year, the Association received a total donation of \$15,000 from two Board members to fund Steep Rock's purchase of a conservation easement from the Washington Community Housing Trust on property located at Bee Brook Road and the Shepaug River. This land transaction is anticipated to close before the end of the calendar year 2013.

Note 7: STEWARDSHIP

In fiscal year 2011, the Association completed the framework of a new natural resources management plan which provides the vision and guidance for managing the Association's 2,500 acres of nature preserves owned in fee. The plan focuses on managing for biodiversity by establishing management units based on habitat characteristics, identifying species of conservation concern, addressing threats to these species and their natural communities, recommending conservation actions and monitoring ongoing maintenance/management initiatives. During fiscal year 2012, the Association began implementing the plan and in April launched a two-year inventory of critical habitats. The purpose of this inventory is to document and map natural communities within the preserve system which are designated by the State as critical habitat for rare, threatened and endangered species (species of "Greatest Conservation Need"). Upon completion, this inventory will help guide future management actions and provide the foundation for additional biological surveys. The final season of fieldwork/data collection was completed during 2013, with the final report expected in January or February 2014. The cost of the inventory is \$15,000 which is spread equally over three (3) fiscal years (FY 2012 - 2014).

In May 2011, the Association's Board of Trustees unanimously approved the establishment of a Stewardship and Legal Defense Fund in accordance with best management practices established by the Land Trust Alliance. Contributions to this fund are specifically allocated to off-set monitoring costs and legal expenses associated with maintaining and/or defending the numerous conservation easements held in perpetuity by the Association. Donors of new easements are asked to contribute to this fund. During fiscal year 2013, the Association received the Stewardship fee associated with the Doran Conservation Easement on River Road which was donated in 2011.

Note 8: LEASE COMMITMENTS

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

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

An annual written lease with Estelle Bronson for use of a storage barn. The lease is currently on a month to month basis. Payments are \$250 per month. A multi-year lease is being prepared for implementation beginning in 2014.

Note 8: LEASE COMMITMENTS (continued)

A written agricultural lease is in effect with Robert Seymour for farming a +/- 50 acre field at Macricostas Preserve. The current lease will expire on June 1, 2016. The current lease payment to the Association is \$1 per year.

Written multi-year agricultural leases with Mark Maynard for farming and/or pasturing animals on several Association properties are being prepared for implementation beginning in 2014 . The anticipated lease payment to the Association is \$1 per year.

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

Note 9: FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 9: FAIR VALUE MEASUREMENTS (continued)

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

	2013		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed Income Mutual Funds	\$ 420,834	\$ -	\$ -
Stock Mutual Funds and ETFs	381,059	-	-
Common stock	930,638	-	-
Total assets at FV	\$ 1,732,531	\$ -	\$ -
	2012		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed Income Mutual Funds	\$ 528,736	\$ -	\$ -
Stock Mutual Funds and ETFs	230,065	-	-
Common stock	787,704	-	-
Total assets at FV	\$ 1,546,505	\$ -	\$ -

See auditor's report.