

NORTH CAROLINA COASTAL FEDERATION, INC.

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
North Carolina Coastal Federation, Inc.
Newport, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina Coastal Federation, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, and cash flows for the year then 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 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 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Coastal Federation, Inc. as of December 31, 2015, 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 Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2016, on our consideration of North Carolina Coastal Federation, Inc.'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Carolina Coastal Federation, Inc.'s internal control over financial reporting and compliance.

Williams Scarborough Smith Gray, LLP

Williams · Scarborough · Smith · Gray, LLP
Jacksonville, NC
March 31, 2016

North Carolina Coastal Federation, Inc.
STATEMENT OF FINANCIAL POSITION
December 31, 2015

ASSETS

Current Assets	
Cash and cash equivalents	\$ 2,768,198
Investments	746,805
Accounts receivable	21,780
Prepaid expenses	2,619
Inventory	<u>8,021</u>
Total current assets	3,547,423
Endowment Investments	919,604
Property and Equipment	
Property and equipment	1,799,760
Accumulated depreciation	<u>(491,567)</u>
Total property and equipment	1,308,193
Land/conservation easements	<u>29,381,068</u>
TOTAL ASSETS	<u><u>\$ 35,156,288</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 2,293
Accrued liabilities	<u>63,294</u>
Total current liabilities	65,587
NET ASSETS	
Unrestricted:	
Operating	2,625,704
Fixed assets	1,308,193
Temporarily restricted	1,077,029
Permanently restricted	<u>30,079,775</u>
Total net assets	<u>35,090,701</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 35,156,288</u></u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

North Carolina Coastal Federation, Inc.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Grants and Revenues				
Donations	\$ 212,788	\$ 33,617	\$ 10,000	\$ 256,405
Grants	1,317,000	1,594,780	-	2,911,780
Events	199,418	-	-	199,418
Cost of events	(100,780)	-	-	(100,780)
Realized and unrealized investment income	-	(17,118)	(9,397)	(26,515)
Memberships	204,017	-	-	204,017
Gift shop sales	5,822	-	-	5,822
Cost of goods sold	(2,519)	-	-	(2,519)
Rental income	4,460	-	-	4,460
Donation of easement	-	-	300	300
Net assets released from restrictions due to satisfaction of purpose	1,628,396	(1,356,375)	(272,021)	-
Gain / (loss) on disposal of fixed assets	871	-	-	871
Total grants and revenues	3,469,472	254,904	(271,118)	3,453,258
Expenses				
Headquarters	1,089,871	-	-	1,089,871
Development	165,205	-	-	165,205
Administration	66,545	-	-	66,545
Central	163,165	-	-	163,165
Southeast	284,850	-	-	284,850
Northeast	216,465	-	-	216,465
Special projects	1,852,955	-	42,000	1,894,955
Total expenses	3,839,055	-	42,000	3,881,055
Change in net assets	(369,583)	254,904	(313,118)	(427,797)
Net Assets, beginning of year	3,671,039	233,362	31,614,097	35,518,498
Reallocation of net assets	632,441	588,763	(1,221,204)	-
Net Assets, end of year	\$ 3,933,897	\$ 1,077,029	\$ 30,079,775	\$ 35,090,701

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

North Carolina Coastal Federation, Inc.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets \$ (427,797)

Adjustments to reconcile change in net assets to
net cash used by operating activities:

Depreciation	72,789
Gain on the disposal of assets	(871)
(Increase) decrease in operating assets	
Accounts receivable	3,200
Prepaid expenses	(2,619)
Investments	40,424
Inventory	(973)
Endowment investments	9,397
Increase (decrease) in operating liabilities	
Accounts payable	(3,257)
Accrued liabilities	<u>6,105</u>

Net cash used by operating activities (303,602)

CASH FLOWS FROM INVESTING ACTIVITIES

Change in easement	41,700
Acquisition of capital assets	<u>(154,611)</u>

Net cash used by investing activities (112,911)

Net decrease in cash and cash equivalents (416,513)

Beginning cash and cash equivalents 3,184,711

Ending cash and cash equivalents \$ 2,768,198

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North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

DESCRIPTION OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Activities

North Carolina Coastal Federation, Inc. (the Federation) was incorporated on September 3, 1982, as a nonprofit corporation. It operates primarily in the coastal counties of North Carolina to restore and protect the coast through habitat restoration and protection, environmental education, and the encouragement of enforcement of sound environmental rules and regulations. The Federation is a membership organization and is supported by dues, donations, special projects and grants. For the year ending December 31, 2015, the Federation received many private, state and federal grants.

Basis of Accounting

The financial statements are reported on the accrual basis in conformity with generally accepted accounting principles and accordingly reflect all significant receivables, payables and other liabilities.

Financial Statement Presentation

The Federation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash Equivalents

For purposes of reporting cash flows, the Federation considers its checking, CDs, and money market accounts to be cash and cash equivalents.

Use of Estimates

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

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect and consists primarily of amounts due from grant agencies for work completed by the Federation during the year and reimbursed by the agencies after December. Management has not provided for uncollectible amounts as all balances are expected to be received in full.

Investments

Investments are composed of mutual funds in debt and equity securities, cash and equivalents, fixed income funds, and alternative investments valued at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets.

Inventory

Inventory consists primarily of clothing, books and sundry items that are available for sale to the public and are valued at the lower of cost (first-in, first-out method) or market.

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

DESCRIPTION OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Public Support and Revenue

Annual contributions are generally available for unrestricted use in the year received unless specifically restricted by the donor. Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions with donor imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Endowment contributions and endowment investments are permanently restricted by the donors. Investment earnings available for distribution are recorded in unrestricted net assets. Investment earnings with donor restrictions are recorded in temporarily or permanently restricted net assets based on the nature of the restrictions.

Contributions of donated non-cash assets are recorded at their fair value in the period received. The Federation considers the impact on the financial statements prior to recording these items due to life span and use in operations. Some items are not recorded in the financial statements due to the lack of availability of an objective basis of valuation. Management has determined that these items have no material impact on the financial statements.

Income Taxes

North Carolina Coastal Federation, Inc., a nonprofit organization operating under Section 501(c)(3) of the Internal Revenue Code, is generally exempt from federal, state and local income taxes and accordingly, no provision for income taxes is included in the financial statements.

The Federation's Form 990, *Return of Organization Exempt from Income Tax*, for the years ending 2012, 2013, and 2014 are subject to examination by the IRS, generally for three years after they were filed.

Land/Conservation Easements

Land/conservation easements represent the historical cost of acquiring the property. Some of the properties have specific conservation easement covenants. All are held by the Federation for conservation purposes in accordance with its mission. Once such properties are acquired and conservation easements are established, their market values decline. The difference between the acquisition cost and the market value after the conservation easements are established is deemed to be the value of the conservation easement. Due to the long-term restrictions on use of the properties, they are included in Permanently Restricted Net Assets.

Conservation easements represent the historical cost of acquiring the easement or, in the event of a gift received by the Federation, the fair market value of the easement at the time of the gift. These conservation easements contain covenants by which the Federation controls the activities on the land in accordance with its mission, but the Federation does not own the land. As with acquired land/conservation easements, the value is the difference in the fair market value of the subject property before and after placing the conservation easement upon it.

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

DESCRIPTION OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Contributed Services

No amounts have been reflected in the financial statements for donated services. The Federation receives a substantial amount of services donated by volunteers in carrying out its mission, but these services do not meet the criteria for recognition as contributed services.

Property and Equipment

The Federation capitalizes all property and equipment acquisitions in excess of \$500. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Federation reports expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Federation reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method. Depreciation expense for the year is \$72,789.

Compensated Absences

The Federation has accrued vacation pay in the amount of \$62,790. The expense has been charged on the Statement of Activities according to each employee's program. The liability is shown in accrued liabilities in the Statement of Financial Position. This balance is recalculated and adjusted annually.

Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity for the Federation and is presented in accordance with the requirements of *Government Auditing Standards* and the Federation. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CONCENTRATIONS OF RISK

Credit Risk

The Federation maintains its cash balances in four financial institutions located in North Carolina. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2015, the Federation's uninsured cash balances totaled \$1,850,909. By policy, the Federation places its cash deposits with high credit quality financial institutions.

Market Value Risk

The Federation's investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is reasonably possible that such changes in the values of investments will occur in the near-term and that changes could materially affect the amounts reported in the accompanying statements of financial position.

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

INVESTMENTS/ENDOWMENTS

Investments as of December 31, 2015, are summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fair Value				
Investments	\$ -	\$ 805,008	\$ -	\$ 805,008
Endowments	-	272,021	698,707	970,728
Carrying Value	<u>\$ -</u>	<u>\$ 1,077,029</u>	<u>\$ 698,707</u>	<u>\$ 1,775,735</u>

Of the above investment and endowment balances, \$58,203 and \$51,124 are being shown as cash and cash equivalents, respectively.

The following schedule summarizes the investment and endowment return and its classification in the Statement of Activities for the year ended December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Realized and Unrealized				
Investment Income	<u>\$ -</u>	<u>\$ (17,118)</u>	<u>\$ (9,397)</u>	<u>\$ (26,515)</u>

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2015, at cost is summarized as follows:

Furniture and equipment	\$ 268,744
Trucks and cars	142,181
Boats	110,231
Buildings and land (exclusive of conservation properties)	<u>1,278,604</u>
	1,799,760
Accumulated depreciation	<u>(491,567)</u>
Net property and equipment	<u>\$ 1,308,193</u>

LAND/CONSERVATION EASEMENTS

Hoop Pole Creek, Carteret County

In 1997, the Federation acquired approximately 30 acres of land in Carteret County identified as "Hoop Pole Creek." Funds for the acquisition were provided by a grant from the State of North Carolina Clean Water Management Fund in the amount of \$2,504,402.

\$ 2,504,402

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

LAND/CONSERVATION EASEMENTS (Continued)

Robinson/Tyrrell County

In 2007, the Federation received a perpetual conservation easement on approximately 86.93 acres of land in Tyrrell County. The easement is recorded at fair value at the date of the gift as established by a professional appraisal in the amount of \$621,000.

\$ 621,000

Eagle Point, New Hanover County

In 2003, Eagle Point Partners, LLC granted a conservation easement to the Federation for approximately 218 acres of land in New Hanover County, North Carolina. While the property is primarily a golf course with related facilities, the easement states in part that it is “to ensure that the property will be retained forever predominantly in a natural, scenic and open-space condition; to protect native plants, wildlife, or plant communities on the property.” Eagle Point golf course is located in a rapidly developing area. The conservation easement precludes any right to incorporate residential and commercial development and develop a golf course community as is a common practice in coastal North Carolina. An independent appraisal at the time of the gift reports the value of the easement at \$16,000,000.

\$ 16,000,000

Morris Landing, Onslow County

In 2004, the Federation acquired approximately 52 acres of land in Onslow County identified as “Morris Landing.” Funds for the acquisition were provided by a grant from the State of North Carolina Clean Water Management Fund in the amount of \$969,113 including \$88,500 for conservation stewardship.

\$ 873,435

North River Farms (#1), Carteret County

In 2000, the Federation acquired approximately 1,991 acres of land in Carteret County identified as “North River Farms #1.” Funds for the acquisition were provided by a grant from the State of North Carolina Clean Water Management Fund in the amount of \$1,094,318.

\$ 1,094,318

North River Farms (#2), Carteret County

In 2002, the Federation acquired approximately 2,168 acres of land in Carteret County identified as “North River Farms #2.” Funds for the acquisition were provided by a grant from the State of North Carolina Clean Water Management Fund in the amount of \$3,033,019.

\$ 3,033,019

North River Farms (#3), Carteret County

In 2005, the Federation received a perpetual conservation easement on approximately 1,435 acres of land in Carteret County identified as “North River Farms #3.” The easement is recorded at the fair value at the date of the gift as established by a professional appraisal in the amount of \$1,430,000. The Federation then acquired this whole parcel of approximately 4,159 acres in 2013 for \$1,949,274. Funds for the acquisition were provided by the sale of an easement on North River Farms #2.

\$ 3,379,274

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

LAND/CONSERVATION EASEMENTS (Continued)

Stella Conservation Easement, Carteret County

In 2009, the Federation purchased a conservation easement on approximately 59 acres of land in Carteret County identified as the “Pelletier Tract.” The acquisition of the easement was made by a grant from the U.S. Department of the Interior–Fish and Wildlife Services in the amount of \$214,463.

\$ 214,463

Queens Creek Natural Area, Onslow County

In 1999, the Federation acquired approximately 142 acres of land in Onslow County identified as “Queens Creek Natural Area.” Funds for the acquisition were provided by a grant from the State of North Carolina Clean Water Management Fund in the amount of \$732,746.

\$ 732,746

Van Dorpe Property, Tyrrell County

In 2006, the Federation received a perpetual conservation easement on approximately 159 acres of land in Tyrrell County. The easement is recorded at the fair value at the date of the gift as established by a professional appraisal in the amount of \$712,000.

\$ 712,000

Wal-Mart/McCotter, Carteret County

In 2009, the Federation acquired approximately 218 acres of land in Carteret County identified as “McCotter Property.” This property was received as restitution from Wal-Mart in order to protect and maintain the land. The easement is recorded at tax value because the land was obtained as a result of litigation against Wal-Mart in the amount of \$216,111.

\$ 216,111

Minor Easement, Carteret County

Since 2008, the Federation has acquired multiple “minor” conservation easements. Easements have been donated to the Federation for the following properties: (1) Business Drive Extension – 6 parcels of property for a total of 16.47 acres of mainly wetland habitat; (2) North River Farm – 3 acres of prior converted farmland that will be restored to wetlands by the Federation. The total value of these easements is recorded at \$300.

\$ 300

Total

\$ 29,381,068

RETIREMENT CONTRIBUTION

The Federation has established a SEP-IRA retirement account for eligible participants. The Federation contributes 3% of compensation of all employees with at least two years’ experience with the Federation. Additionally, eligible employees may benefit from tax deferred contributions to a cafeteria plan implemented under section 403(b) of the Internal Revenue Code. Contributions to the Plan by the Federation amounted to \$ 45,449 for the year ended December 31, 2015.

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

ENDOWMENT FUNDS

Three endowment funds have been established by the Federation for gifts received that are specifically restricted by the donors.

The Kathleen Bryan Edwards Endowment Fund is held by the North Carolina Community Foundation. Interest earned on the fund may be used annually for general support of the Federation.

The L. Richard Preyer Endowment Fund is held by the Triangle Community Foundation. Interest earned on the fund may be used annually for Federation headquarters building repairs and maintenance.

The H. Smith Richardson Jr. Fund for Environmental Stewardship is held by the Federation. Earnings equal to five percent may be used for general operating support per management policy for the fund. The earnings can only be used after the fund has had an investment review.

The composition and changes in the endowment's net assets for these funds as of December 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Kathleen Bryan Edwards Endowment:				
Endowment net assets, January 1, 2015	\$ (5,656)	\$ 15,489	\$ 30,869	\$ 40,702
Contributions	-	-	-	-
Investment income	-	945	-	945
Net depreciation	-	-	(2,058)	(2,058)
Administrative fees	-	-	(396)	(396)
Program expenditures	-	-	(1,800)	(1,800)
Released from temporarily restricted	5,656	(5,656)	-	-
Endowment net assets, December 31, 2015	<u>\$ -</u>	<u>\$ 10,778</u>	<u>\$ 26,615</u>	<u>\$ 37,393</u>
L. Richardson Preyer Endowment:				
Endowment net assets, January 1, 2015	\$ (2,814)	\$ 3,026	\$ 12,980	\$ 13,192
Contributions	-	-	-	-
Investment income	-	-	(393)	(393)
Net depreciation	-	-	-	-
Administrative fees	-	-	(549)	(549)
Program expenditures	-	-	(400)	(400)
Released from temporarily restricted	2,814	(2,814)	-	-
Endowment net assets, December 31, 2015	<u>\$ -</u>	<u>\$ 212</u>	<u>\$ 11,638</u>	<u>\$ 11,850</u>
H. Smith Richardson Endowment:				
Endowment net assets, January 1, 2015	\$ (20,442)	\$ 307,603	\$ 639,070	\$ 926,231
Contributions	-	-	21,384	21,384
Investment income	-	46,983	-	46,983
Net depreciation	-	(60,991)	-	(60,991)
Administrative fees	-	(12,122)	-	(12,122)
Released from temporarily restricted	20,442	(20,442)	-	-
Endowment net assets, December 31, 2015	<u>\$ -</u>	<u>\$ 261,031</u>	<u>\$ 660,454</u>	<u>\$ 921,485</u>

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

TEMPORARILY RESTRICTED NET ASSETS

The Federation maintains temporarily restricted net assets in a separate fund managed by their investment manager. The temporarily restricted net assets consist of Stewardship fund, the NCCF Campaign Reserve, and the earnings earned on the endowments. These funds had a total combined value as of December 31, 2015 of \$1,077,029.

PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at December 31, 2015 consisted of the following:

Endowment investments (current market value)	\$	698,707
Land/Conservation easements (at historic cost or fair market value at the time of the gift)		29,381,068
Total	\$	30,079,775

REALLOCATION OF NET ASSETS

The Federation reviewed and reevaluated the restrictions on net assets during 2015. Adjustments were made to better classify the net assets based on the facts and circumstances into Unrestricted, Temporarily Restricted, and Permanently Restricted, as shown on the Statement of Activities.

FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 820, Fair Value Measurement and Disclosures, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritized the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Federation has the ability to access.
- Level 2 – Inputs to the valuation methodology include: Quoted prices for similar assets or liabilities in active markets; Quoted prices for identical or similar assets or liabilities in inactive markets; Inputs other than quoted prices that are observable for the asset or liability; Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2015.

Mutual funds, money market funds, fixed income funds and alternative funds: Valued at the net asset value ('NAV') of share held by the Federation at year end.

Equities: Valued at the closing price reported on the active market on which the individual securities are traded.

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 Federation 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.

All investments and endowments in the Statement of Financial Position are reported at fair value. The following table sets forth by level within the fair value hierarchy the Federation's assets at fair value as of December 31, 2015.

	2015			Total
	Level 1	Level 2	Level 3	
Investments*				
Equities	\$ 451,514	\$ -	\$ -	\$ 451,514
Money Market Funds	58,203	-	-	58,203
Fixed Income	219,279	-	-	219,279
Alternative Funds	76,012	-	-	76,012
Total	\$ 805,008	\$ -	\$ -	\$ 805,008
Endowments				
Equities	\$ 624,040	\$ -	\$ -	\$ 624,040
Money Market Funds	51,124	-	-	51,124
Fixed Income	208,561	-	-	208,561
Alternative Funds	87,003	-	-	87,003
Total	\$ 970,728	\$ -	\$ -	\$ 970,728

*Certificates of deposits are excluded from the fair value hierarchy and accordingly are not part of investments.

IMPAIRMENT OF PROPERTY AND EQUIPMENT

Long-lived assets held and used by the Federation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed. No impairments were recorded in the current year.

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 31, 2016, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

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WILLIAMS · SCARBOROUGH · SMITH · GRAY, LLP
Certified Public Accountants

Christopher K. Williams, CPA
Steven N. Scarborough, CPA
Charles S. Smith, CPA
W. Randall Gray, CPA

INDEPENDENT AUDITOR'S 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*

To the Board of Directors of
North Carolina Coastal Federation, Inc.
Newport, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Carolina Coastal Federation, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Carolina Coastal Federation, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 North Carolina Coastal Federation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Carolina Coastal Federation, Inc.'s financial statements are free from 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 instances of noncompliance or other matters that required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Williams Scarborough Smith Gray, LLP

Williams · Scarborough · Smith · Gray, LLP
Jacksonville, North Carolina
March 31, 2016

North Carolina Coastal Federation, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended December 31, 2015

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State/Pass- Through Grantor's Number	Federal Expenditures	State Expenditures
Federal Awards:				
<u>U.S. Department of Agriculture</u>				
<u>National Resource Conservation Service</u>				
Marsh and Shoreline Restoration	10.072	65-4532-12-012	\$ 219,777	\$ -
North River Farm Restoration	10.072	WRP 661300Z23LT	31,134	-
North River Farm Restoration	10.072	WRP 661400Z23LT	264,324	-
<u>U.S. Department of Commerce</u>				
<u>University of New Hampshire</u>				
Removing Stormwater	11.419	14-023	65,992	-
<u>National Fish and Wildlife Foundation</u>				
North River Farm Restoration	11.463	0901.13.040249	37	-
<u>National Oceanic and Atmospheric Administration</u>				
Coastal Marsh	11.463	NCCF 2012-01	6,386	-
Marine Debris	11.463	NA 15NOS4630056	3,103	-
Stump Sound	11.469	15-0404	1,322	-
Crab Pot Project	11.463	NA 13NMF4630030	14,232	-
<u>U.S. Department of Defense</u>				
<u>U.S. Army Corps of Engineers</u>				
Lockwood Folly	12.130	W912HP-13-2-0001	26,120	-
<u>U.S. Department of the Interior</u>				
<u>U.S. Fish and Wildlife Service</u>				
Atlantic White Cedar	15.631	F11AP00152	-	-
Oyster Reef/Salt Marsh	15.608	F14AP00889	3,171	-
Monarch Butterfly	15.608	F11AP00581NCCLT-004	2,328	-
<u>U.S. Environmental Protection Agency</u>				
Restore America's Estuaries	66.462	83578701	22,322	-
Environmental Education	66.951	G0381	776	-
Wetlands	66.461	8957	26	-
<u>N.C. Dept. of Environment and Natural Resources</u>				
White Oak	66.460	5675	45,997	-
LID319	66.460	5039	2,587	-
White Oak Implementation	66.460	6191	5,226	-
NCCAT	66.456	6307	4,000	-
Oyster Summit	66.456	6378	2,250	-
Mano el Hermano	66.456	6567	1,555	-

North Carolina Coastal Federation, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended December 31, 2015

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State/Pass- Through Grantor's Number	Federal Expenditures	State Expenditures
State Grants:				
<u>N.C. Clean Water Management Trust Fund</u>				
Lux Farm		2010-415	-	6,004
LID		2014-1006	-	242
<u>N.C. Department of Justice</u>				
Gray to Blue		NCCF 011	-	29,902
North River Farm		NCCF 012	-	198,254
Hyde County		NCCF 013	-	13,049
White Oak		NCCF 014	-	84,000
<u>N.C. Dept. of Agriculture and Consumer Services</u>				
Soil and Water Conservation		28-2015-001	-	4,290
Total expenditures of federal and state awards			\$ 722,663	\$ 335,740