North Carolina Coastal Federation, Inc.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2009
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of North Carolina Coastal Federation, Inc. (a nonprofit organization) as of December 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Coastal Federation, Inc. as of December 31, 2009, and the changes in its net assets and its cash flows for the year 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 February 27, 2010, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls 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 read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of North Carolina Coastal Federation, Inc. taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements of the Organization. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

Williams · Scarborough · Smith · Gray, LLP
Jacksonville, North Carolina
February 27, 2010
ASSETS

Current Assets
  Cash and cash equivalents $ 1,179,152
  Investments 475,422
  Accounts receivable 106,686
  Inventory 6,621

  Total current assets 1,767,881

Endowment Investments 583,824

Property and Equipment
  Property and equipment 1,306,419
  Accumulated depreciation (306,430)

  Total property and equipment 999,989

Land/conservation easements 29,519,303

TOTAL ASSETS $ 32,870,997

LIABILITIES AND NET ASSETS

Current Liabilities
  Accounts payable $ 80,558
  Accrued liabilities 49,649

  Total current liabilities 130,207

NET ASSETS

Unrestricted:
  Operating 1,356,730
  Fixed assets 999,989
  Temporarily restricted 280,944
  Permanently restricted 30,103,127

  Total net assets 32,740,790

TOTAL LIABILITIES AND NET ASSETS $ 32,870,997

See Accompanying Notes to the Financial Statements
North Carolina Coastal Federation, Inc.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2009

<table>
<thead>
<tr>
<th>Grants and Revenues</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donations</td>
<td>$199,484</td>
<td>$21,625</td>
<td>$221,109</td>
</tr>
<tr>
<td>Capital campaign donations</td>
<td>-</td>
<td>105,000</td>
<td>422,015</td>
</tr>
<tr>
<td>Grants</td>
<td>-</td>
<td>1,165,448</td>
<td>1,165,448</td>
</tr>
<tr>
<td>Grants - land acquisitions</td>
<td>-</td>
<td>430,574</td>
<td>430,574</td>
</tr>
<tr>
<td>Investment income</td>
<td>60,632</td>
<td>43,340</td>
<td>140,388</td>
</tr>
<tr>
<td>Memberships</td>
<td>137,907</td>
<td>137,907</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>17,564</td>
<td>17,564</td>
<td></td>
</tr>
<tr>
<td>Less: cost of goods sold</td>
<td>(9,328)</td>
<td>(9,328)</td>
<td></td>
</tr>
<tr>
<td>Special projects</td>
<td>2,554,349</td>
<td>2,554,349</td>
<td></td>
</tr>
<tr>
<td>Net assets released from restrictions due to satisfaction of purpose</td>
<td>7,264,307</td>
<td>(3,229,021)</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>3,226</td>
<td>3,226</td>
<td></td>
</tr>
<tr>
<td>Total grants and revenues</td>
<td>7,673,792</td>
<td>(2,650,107)</td>
<td>5,083,252</td>
</tr>
</tbody>
</table>

| Expenses                                         |                        |                        |       |
| Headquarters                                     | 687,030                |                        | 687,030 |
| Development                                      | 59,026                 |                        | 59,026 |
| Administration                                   | 73,861                 |                        | 73,861 |
| Central                                          | 181,945                |                        | 181,945 |
| Southeast                                        | 230,472                |                        | 230,472 |
| Northeast                                        | 178,939                |                        | 178,939 |
| Land transferred                                 | 3,616,239              |                        | 3,616,239 |
| Special projects                                 | 2,598,167              |                        | 2,598,167 |
| Total expenses                                   | 7,625,679              |                        | 7,625,679 |

| Change in net assets                             | 48,113                 | 59,567                 | (2,542,427) |
| Net Assets, beginning of year                    | 2,308,606              | 221,377                | 35,283,217 |
| Net Assets, end of year                          | $2,356,719             | $280,944               | $32,740,790 |

See Accompanying Notes to the Financial Statements
CASH FLOWS FROM OPERATING ACTIVITIES
Change in net assets $ (2,542,427)

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

Depreciation 55,498
Transfer of conservation easements 3,616,239
(Increase) decrease in operating assets
  Accounts receivable 156,945
  Investments (90,938)
  Inventory 1,196
  Endowment investments (535,558)
Increase (decrease) in operating liabilities
  Accounts payable (47,065)
  Accrued liabilities (11,039)

Net cash provided by operating activities 602,851

CASH FLOWS FROM INVESTING ACTIVITIES
Purchase of land/conservation easement (430,574)
Acquisition of capital assets (25,361)

Net cash used by investing activities (455,935)

Net increase in cash and cash equivalents 146,916

Beginning cash and cash equivalents 1,032,236

Ending cash and cash equivalents $ 1,179,152

See Accompanying Notes to the Financial Statements
North Carolina Coastal Federation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

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 sound environmental rules and regulations and their enforcement. During the current year, the majority of the Federation’s funding comes through NOAA's National Marine Fisheries Service (NOAA Fisheries Service) and the N.C. Clean Water Management Trust Fund. These funds were obtained as part of a federal and state grant to purchase land and to provide for habitat restoration.

Basis of Accounting

The financial statements are reported on the accrual basis in conformity with generally accepted accounting principles and accordingly reflects 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 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 those estimates.
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 values in the period received.

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.

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, and fixed income funds and are valued at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets.
DESCRIPTION OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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.

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 the time. Property and equipment are depreciated using the straight-line method.

Land/Conservation Easements

Land/conservation easements represent the historic 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 historic 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.
DESCRIPTION OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Contributed Services

The Federation receives a substantial amount of services donated by volunteers in carrying out its mission. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under SFAS No. 116, "Accounting for Contributions Received and Contributions Made."

Compensated Absences

The Federation has accrued vacation pay in the amount of $49,649. The expense has been charged on the Statement of Activities according to each employees program. The liability is shown in accounts payable and accrued liabilities on 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 of the Federation and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations 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 CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

The Federation maintains its cash balances in one financial institution located in North Carolina. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000. At December 31, 2009, the Federation’s uninsured cash balances total $1,050,388. By policy, the Federation places its cash deposits with high credit quality financial institutions.
INVESTMENTS

Investments as of December 31, 2009, are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair Value</td>
<td>$32,113</td>
<td>$280,944</td>
<td>$583,824</td>
<td>$896,881</td>
</tr>
<tr>
<td>Carrying Value</td>
<td>$32,113</td>
<td>$280,944</td>
<td>$583,824</td>
<td>$896,881</td>
</tr>
</tbody>
</table>

Of the above balances $421,459 is being shown as cash and equivalents.

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended December 31, 2009:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividends</td>
<td>$60,632</td>
<td>$36,416</td>
<td>$43,340</td>
<td>$140,388</td>
</tr>
</tbody>
</table>

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2009, at cost is summarized as follows:

Furniture and equipment                     $161,797
Trucks and cars                              117,101
Boats                                         39,888
Buildings and land (exclusive of conservation properties) 987,633
                                      1,306,419

Accumulated depreciation                     (306,430)

Net property and equipment                  $999,989
LAND/CONSERVATION EASEMENTS

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

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

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
LAND/CONSERVATION EASEMENTS (Continued)

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.

$ 1,430,000

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 the fair value at the date of the gift as established by a professional appraisal.

$ 621,000

Thompson Property, Onslow County

In 2003, the Federation was assigned a conservation easement on approximately 57 acres of land in Onslow County, North Carolina identified as "Thompson Property". The acquisition of the easement was made by the State of North Carolina Clean Water Management Trust Fund and was immediately assigned to the Federation.

$ 42,000
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, North Carolina 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.

$ 732,746

Sloan Farm, Onslow County

In 2008, the Federation acquired approximately 200.23 acres of land in White Oak Township, Onslow County, North Carolina identified as "Morton Farm Tract (Sloan Farm)". Funds for the acquisition were provided by a grant from the State of North Carolina Clean Water Management Fund and the U.S. Fish and Wildlife Service.

$ 2,045,809

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.

$ 712,000
LAND/CONSERVATION EASEMENTS (Continued)

Wal-Mart/McCotter, Carteret County

In 2009, the Federation acquired approximately 218 acres of land in Carteret County, and is 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.

\[
\begin{array}{c}
$216,111 \\
\text{Total} & \underline{29,519,303}
\end{array}
\]

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.

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. Proceeds equal to five percent of the fund may be used annually for general support of the Federation.

The L. Richardson Preyer Endowment Fund is held by the Triangle Community Foundation. Proceeds equal to five percent of 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. Fund proceeds may be used for general operating support per management policy for the fund.
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2009 consisted of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eagle Point stewardship</td>
<td>$18,765</td>
</tr>
<tr>
<td>Morris Landing stewardship</td>
<td>$87,623</td>
</tr>
<tr>
<td>North River stewardship</td>
<td>$53,341</td>
</tr>
<tr>
<td>Wal-Mart stewardship</td>
<td>$19,889</td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$280,944</strong></td>
</tr>
</tbody>
</table>

PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at December 31, 2009 consisted of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment investments (current market value)</td>
<td>$583,824</td>
</tr>
<tr>
<td>Land/Conservation easements (at historic cost or fair market value at the time of the gift)</td>
<td>$29,519,303</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$30,103,127</strong></td>
</tr>
</tbody>
</table>

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Federation in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, receivables, investments, accounts payable and accrued expense carrying amounts are reported in the statement of financial position at their approximate fair values because of the short maturities of those instruments.

CAPITAL CAMPAIGN

In 2006, the Federation began a two year campaign called "Turning the Tide" Friends of the Coast Campaign to raise $3 million. The Capital Campaign was intended to raise $1 million for an endowment, $1 million for a reserve fund, and $1 million to expand programs. The Capital Campaign did not receive any pledges during 2009 as it ended in 2008. The Federation will continue to collect moneys that were pledged during previous years.
North Carolina Coastal Federation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

TRANSFER OF LAND

In 2009, the Federation transferred approximately 775 acres of land in Onslow County identified as the "Huggins Farms/ Swansboro". The funds for the acquisition were provided by a grant from the State of North Carolina Clean Water Management Fund in the amount of $2,122,672. This transfer is consistent with the mission of the Federation, and complies with the restrictive covenants on the property. The land was transferred to the North Carolina Wildlife Resources Commission.

During 2009, the Federation also transferred 1,443 acres of land in Onslow County along the White Oak River identified as the Quaternary Tract. Funds for the acquisition were provided by grants from the State of North Carolina Clean Water Management Fund, and the U.S. Fish and Wildlife Service in the amount of $1,493,567. This transfer is also consistent with the mission of the Federation, and complies with the restrictive covenants on the property. The land was transferred to the North Carolina Wildlife Resources Commission.
SUPPLEMENTARY INFORMATION

COMPLIANCE SECTION
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
North Carolina Coastal Federation, Inc.
Newport, North Carolina

We have audited the financial statements of North Carolina Coastal Federation, Inc. (a nonprofit organization) as of and for the year ended December 31, 2009, and have issued our report thereon dated February 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Carolina Coastal Federation, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Carolina Coastal Federation, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Carolina Coastal Federation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Williams Scarborouh · Smith · Gray, LLP
Jacksonville, North Carolina
February 27, 2010
REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of North Carolina Coastal Federation, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2009. North Carolina Coastal Federation, Inc.’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of North Carolina Coastal Federation, Inc.’s management. Our responsibility is to express an opinion on North Carolina Coastal Federation, Inc.’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about North Carolina Coastal Federation, Inc.’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of North Carolina Coastal Federation, Inc.’s compliance with those requirements.

In our opinion, North Carolina Coastal Federation, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.
Internal Control Over Compliance

The management of North Carolina Coastal Federation, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered North Carolina Coastal Federation, Inc.’s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of North Carolina Coastal Federation, Inc.’s internal control over compliance.

A deficiency in an entity’s internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program 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.

A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Williams Scarborough Smith Gray, LLP
Jacksonville, North Carolina
February 27, 2010
North Carolina Coastal Federation, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified.

Internal control over financial reporting:
- Material weakness(es) identified? yes X no
- Significant Deficiency(s) identified that is not considered to be material weakness yes X no

Noncompliance material to financial statements noted yes X no

Federal Awards

Internal control over major federal programs:
- Material weakness(es) identified? yes X no
- Significant Deficiency(s) identified that is not considered to be material weakness yes X none reported

Type of auditor's report issued on compliance for major federal programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 yes X no

Identification of major federal program:

<table>
<thead>
<tr>
<th>CFDA Numbers</th>
<th>Name of Federal Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.463</td>
<td>Department of Commerce: National Oceanic and Atmospheric Admin. (Recovery Act - Oyster Stimulus)</td>
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</tbody>
</table>

Dollar threshold used to distinguish between Type A and Type B Programs $ 300,000

Auditee qualified as low-risk auditee? yes X no
North Carolina Coastal Federation, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2009

Section II - Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

None reported.
North Carolina Coastal Federation, Inc.

CORRECTIVE ACTION PLAN

For the Year Ended December 31, 2009

<table>
<thead>
<tr>
<th>Section II - Financial Statement Findings</th>
</tr>
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<tbody>
<tr>
<td>None</td>
</tr>
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<table>
<thead>
<tr>
<th>Section III - Federal Award Findings and Questioned Costs</th>
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<tbody>
<tr>
<td>None</td>
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North Carolina Coastal Federation, Inc.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2009

<table>
<thead>
<tr>
<th>Section II - Financial Statement Findings</th>
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<tr>
<th>Section III - Federal Award Findings and Questioned Costs</th>
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<tbody>
<tr>
<td>None</td>
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North Carolina Coastal Federation, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended December 31, 2009

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<thead>
<tr>
<th>Grantor/Pass-Through Grantor/Program Title</th>
<th>Federal CFDA Number</th>
<th>State/Pass-Through Grantor's Number</th>
<th>Federal Expenditures</th>
<th>State Expenditures</th>
<th>Local Expenditures</th>
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<tr>
<td>Federal Awards:</td>
<td></td>
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<tr>
<td>Department of Commerce - National Oceanic and Atmospheric Admin:</td>
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<tr>
<td>North River Restoration, RAE Jones Island, RAE Myrtle Grove Oyster Plan, Chadwick, and Jockey's Ridge</td>
<td>11.463</td>
<td>$110,826</td>
<td>$</td>
<td>$119,383</td>
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<tr>
<td>U.S. Department of the Interior - Fish and Wildlife Service</td>
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<tr>
<td>Ward's Creek, Jockey's Ridge, Pelliter Easement and Partners</td>
<td>15.631</td>
<td>372,716</td>
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<td>123,152</td>
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<tr>
<td>U.S. Environmental Protection Agency</td>
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<tr>
<td>DENR White Oak and LF TMDL</td>
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<td>61,407</td>
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<td>State Grants:</td>
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<td>N.C. Clean Water Management Trust Fund</td>
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<td>North River project Phase II</td>
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<td>Storm Water Master Plan</td>
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<td>Oyster Master Plan</td>
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<td>Eagle Point</td>
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<td>Morris Landing</td>
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<td>553</td>
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<td>Pet Waste</td>
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<td>Hyde County</td>
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<td>Alderman</td>
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<td>NCCF Cistern</td>
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<td>Manteo Cistern</td>
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<td>N.C. Department of Environment and Natural Resources</td>
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<td>AAT Hoop Pole</td>
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<td>N.C. Department of Marine Fisheries</td>
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<td>DMF Refit</td>
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<td>N.C. Department of Justice Environmental Division</td>
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<td>Smithfield, Stump Sound Oyster Project, CCAP</td>
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<td>111,681</td>
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<td>N.C. Sea Grant</td>
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<td>LID Pilot</td>
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<td>Total expenditures of federal and state awards</td>
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