

NORTH CAROLINA COASTAL FEDERATION, INC.

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2019**

(THIS PAGE WAS LEFT BLANK INTENTIONALLY)

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	5
FINANCIAL STATEMENTS	
Statement of Financial Position	7
Statement of Activities	8
Statement of Cash Flows	9
Statement of Functional Expenses	10
Notes to the Financial Statements	11
COMPLIANCE SECTION	
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 <i>Government Auditing Standards</i>	23
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	25
Schedule of Findings and Questioned Costs	27
Corrective Action Plan	29
Summary Schedule of Prior Audit Findings	30
Schedule of Expenditures of Federal and State Awards	31

(THIS PAGE WAS LEFT BLANK INTENTIONALLY)



WILLIAMS · SCARBOROUGH · GRAY, LLP
Certified Public Accountants

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

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, 2019, 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.

2131 S. Glenburnie Rd., Suite 3
PO Box 14008
New Bern, NC 28561-4008

Phone (252) 638-4000
Fax (252) 638-3989

INNOVATIVE · RESPONSIVE · DEDICATED

www.wsgcpa.com

824 Gum Branch Rd., Suite K
PO Box 5003
Jacksonville, NC 28540

Phone (910) 455-2196
Fax (910) 455-1943

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, 2019, 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

Other 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 Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 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 June 30, 2020, 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 • Gray, LLP

Williams • Scarborough • Gray, LLP
Jacksonville, North Carolina
June 30, 2020

North Carolina Coastal Federation, Inc.
STATEMENT OF FINANCIAL POSITION
December 31, 2019

ASSETS

Current Assets	
Cash and cash equivalents	\$ 1,408,917
Investments	1,582,707
Accounts receivable	494,405
Prepaid expenses	3,903
Inventory	<u>7,597</u>
Total current assets	3,497,528
Endowment Investments	1,320,709
Property and Equipment	
Property and equipment	2,751,481
Accumulated depreciation	<u>(791,079)</u>
Total property and equipment	1,960,402
Land/conservation easements	<u>29,381,068</u>
TOTAL ASSETS	<u><u>\$ 36,159,707</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 25,674
Accrued liabilities	<u>135,683</u>
Total current liabilities	161,357

NET ASSETS

Without Donor Restrictions:	
Operating	1,458,646
Fixed assets	1,960,402
Board designated	2,243,671
With Donor Restrictions	30,335,632
Total net assets	<u>35,998,350</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 36,159,707</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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Grants and Revenues			
Donations	\$ 310,611	\$ 6,084	\$ 316,695
Appeal donations	-	100,545	100,545
Capital campaign donations	-	273,161	273,161
Campaign costs	-	(58,536)	(58,536)
Government grants	869,955	1,868,699	2,738,654
Foundations and public charity grants	1,362,148	178,616	1,540,764
Events	164,844	-	164,844
Cost of events	(76,904)	-	(76,904)
Realized and unrealized investment income	353,393	118,370	471,763
Land Acquisition	511,427	-	511,427
Gift -In-Kind	50,000	-	50,000
Memberships	229,583	-	229,583
License plates	88,660	-	88,660
Gift shop sales	5,849	-	5,849
Cost of goods sold	(4,181)	-	(4,181)
Rental income, net	10,451	-	10,451
Net assets released from restrictions due to satisfaction of purpose	2,033,880	(2,033,880)	-
Miscellaneous	9,893	-	9,893
Total grants and revenues	5,919,610	453,059	6,372,668
Expenses			
Restricted- Program Services	2,471,934	-	2,471,934
Unrestricted- Operating			
Program Services	1,972,557	-	1,972,557
Administrative and general	352,386	-	352,386
Fundraising	390,567	-	390,567
Total operating expenses	2,715,510	-	2,715,510
Total expenses	5,187,444	-	5,187,444
Change in net assets	732,165	453,059	1,185,224
Net Assets, beginning of year	4,930,553	29,882,573	34,813,126
Net Assets, end of year	<u>\$ 5,662,719</u>	<u>\$ 30,335,632</u>	<u>\$ 35,998,350</u>

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, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets \$ 1,185,224

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

Depreciation	91,223
(Increase) decrease in operating assets	
Accounts receivable	(295,203)
Prepaid expenses	(1,535)
Investments	(263,432)
Inventory	(180)
Endowment investments	(245,354)
Increase (decrease) in operating liabilities	
Accounts payable	9,327
Accrued liabilities	<u>7,059</u>

Net cash provided by operating activities 482,116

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds on the sale of fixed assets	5,014
Acquisition of capital assets	<u>(618,479)</u>

Net cash used by investing activities (613,465)

Net decrease in cash and cash equivalents (131,350)

Beginning cash and cash equivalents 1,540,266

Ending cash and cash equivalents \$ 1,408,916

North Carolina Coastal Federation, Inc.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019

	Restricted	Unrestricted - Operating				Total
	Program Services	Program Services	Administrative and General	Fundraising	Operating Subtotal	
Expenses						
Audit	\$ -	\$ 6,405	\$ 6,405	\$ -	\$ 12,810	\$ 12,810
Boat Use	8,365	1,950	-	-	1,950	10,315
Building Maintenance	73	42,245	21,692	-	63,937	64,010
Consultants	-	9,500	-	-	9,500	9,500
Contingency	-	7,922	-	-	7,922	7,922
Contracted Service	2,347,318	-	-	-	-	2,347,318
Credit Card/Bank Fees	-	-	4,046	4,046	8,093	8,093
Design/Engineering	-	-	-	5,147	5,147	5,147
Dues	-	11,712	-	-	11,712	11,712
Equipment Maintenance	2,154	17,235	16,672	40,291	74,197	76,351
Insurance	642	-	64,175	-	64,175	64,817
Legal	-	-	-	30	30	30
Lobbying	-	67,920	-	-	67,920	67,920
Meeting	2,509	9,631	-	282	9,914	12,423
Payroll Wages	-	1,352,130	177,689	244,006	1,773,825	1,773,825
Payroll Benefits/Taxes	-	204,022	43,889	40,010	287,921	287,921
Postage	-	3,185	452	6,779	10,416	10,416
Printing	4,561	15,539	4,160	11,308	31,007	35,567
Supplies	86,554	17,892	7,339	3,759	28,991	115,545
Training	70	9,600	-	-	9,600	9,670
Travel	12,848	31,367	258	9,878	41,503	54,351
Utilities	1,496	39,615	10,852	14,470	64,938	66,434
Web	2,403	53,789	-	400	54,189	56,591
Depreciation	-	70,899	10,162	10,162	91,223	91,223
Boat and Vehicle Expense	2,941	-	(15,406)	-	(15,406)	(12,465)
Total expenditures	\$ 2,471,934	\$ 1,972,557	\$ 352,386	\$ 390,567	\$ 2,715,510	\$ 5,187,444

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

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

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, 2019, 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 two classes of net assets: with donor restrictions and without donor restrictions

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, 2019

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 “with donor restrictions” 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, “with donor restrictions” are reclassified to “without donor restrictions” 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 “without donor restrictions. Investment earnings with donor restrictions are recorded in “with donor 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 2016, 2017, and 2018 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 “With Donor Restrictions”.

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, 2019

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 with donor restrictions to without donor restrictions at that time. Property and equipment are depreciated using the straight-line method. Depreciation expense for the year is \$91,223.

Compensated Absences

The Federation has accrued vacation pay in the amount of \$87,028. 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, 2019, the Federation's uninsured cash balances totaled \$1,091,297. 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.

Significant Contribution

The Federation has acknowledged that one contribution comprised 16% of the organization's revenue for the year ended 2019. This contributing family has graciously supported and advocated for the Federation

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

CONCENTRATIONS OF RISK (Continued)

for decades. Each year, Management and the Board of Directors discuss the significance of this contribution and ensure the proper steps are being taken to increase other revenue streams. Through this annual review, and the efforts made to increase other revenues, Management and the Board of Directors believe the proper steps have been taken to maintain a balanced revenue stream.

INVESTMENTS/ENDOWMENTS

Investments as of December 31, 2019, are summarized as follows:

	Without Donor Restrictions		With Donor Restrictions	Total
	<u>No Restrictions</u>	<u>Board Restrictions</u>	<u>Donor Restrictions</u>	
Fair Value				
Investments	\$ 301,578	\$ 755,475	\$ 560,134	\$ 1,617,187
Endowments	-	1,181,938	179,804	1,361,742
Carrying Value	\$ 301,578	\$ 1,937,413	\$ 739,938	\$ 2,978,929

Of the above investment and endowment balances, \$34,480 and \$41,033 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, 2019:

	Without Donor Restrictions		With Donor Restrictions	Total
	<u>No Restrictions</u>	<u>Board Restrictions</u>	<u>Donor Restrictions</u>	
Realized and Unrealized				
Investment Income	\$ 47,135	\$ 306,258	\$ 118,370	\$ 471,763

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2019, at cost is summarized as follows:

Furniture and equipment	\$ 342,335
Trucks and cars	154,543
Boats	77,864
Buildings and land (exclusive of conservation properties)	2,176,739
	<u>2,751,481</u>
Accumulated depreciation	<u>(791,079)</u>
Net property and equipment	<u>\$ 1,960,402</u>

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

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

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 Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

LAND/CONSERVATION EASEMENTS (Continued)

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

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

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

RETIREMENT CONTRIBUTION

The Federation has established a 403(b) Thrift retirement plan for eligible participants. The Federation contributes 4% 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 \$57,805 for the year ended December 31, 2019.

LIQUIDITY AND AVAILABILITY OF RESOURCES

The Federation's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash	\$ 1,333,403
Receivables	494,405
Short-term Investments	<u>301,578</u>
Total	<u>\$ 2,129,386</u>

The Federation's investment and endowment funds consist of donor and board restricted funds. Earnings from donor-restricted funds are restricted for specific purposes and therefore, are not available for general expenditures. Earnings from board restricted funds are managed in accordance with our investment policy. On an annual basis, the investment committee will evaluate the need for a distribution to meet our operating goals. If a distribution is approved, the available distribution is equal to a three year trailing average of the balance, not to exceed 5%. Although the Federation does not intend to spend from these board restricted funds other than amounts appropriated for general expenditures as part of its annual investment review and budget process, amounts from its these funds could be made available if necessary.

ENDOWMENT FUNDS

Two 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 NC Coastal Federation Endowment Fund is held by the Federation. This endowment is made of the H. Smith Richardson Jr. fund and the Coastal Advocacy fund. Earnings on the H. Smith Richardson Jr. fund 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. Earnings on the Coastal Advocacy fund shall be reinvested until December 31, 2019; after which the earnings may be used for grassroots initiatives and Coastal Review Online.

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

The composition and changes in the endowment's net assets for these funds as of December 31, 2019 are as follows:

	Without Donor		With Donor	Total
	Restrictions		Restrictions	
	<u>No</u>	<u>Board</u>	<u>Donor</u>	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Restrictions</u>	
Kathleen Bryan Edwards Endowment:				
Endowment net assets, January 1, 2019	\$ -	\$ -	\$ 41,835	\$ 41,835
Contributions	-	-	-	-
Investment income	-	-	1,112	1,112
Net appreciation	-	-	7,719	7,719
Administrative fees	-	-	(470)	(470)
Endowment net assets, December 31, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,196</u>	<u>\$ 50,196</u>
NC Coastal Federation Endowment:				
Endowment net assets, January 1, 2019	\$ -	\$ 980,344	92,876	\$ 1,073,219
Contributions	-	13,927	26,677	40,603
Investment income	-	26,298	-	26,298
Net appreciation	-	168,798	10,056	178,854
Administrative fees	-	(7,428)	-	(7,428)
Endowment net assets, December 31, 2019	<u>\$ -</u>	<u>\$ 1,181,938</u>	<u>\$ 129,609</u>	<u>\$ 1,311,547</u>
Total Endowment, December 31, 2019	<u>\$ -</u>	<u>\$ 1,181,938</u>	<u>\$ 179,804</u>	<u>\$ 1,361,742</u>

WITH DONOR RESTRICTIONS NET ASSETS

The net assets With Donor Restrictions at December 31, 2019 consisted of the following:

North River Farm Reserve	\$ 560,134
Endowment investments (current market value)	179,804
Capital Campaign Proceeds	214,625
Land/Conservation easements (at historic cost or fair market value at the time of the gift)	<u>29,381,068</u>
Total	<u>\$ 30,335,631</u>

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

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.

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, 2019.

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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

TRANSACTIONS WITH RELATED PARTIES

During 2019, the Federation utilized a contractor for a grant through the Natural Resources Conservation Services (NRCS) in the annual amount of \$416,435. The contractor is a participant on an advisory committee in our southeast region. Along with other internal controls, the grant was held to the federal requirements set by the entities involved in the NRCS grant agreement. This grant was also included in our single audit testing for 2019.

North Carolina Coastal Federation, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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, 2019.

	2019			Total
	Level 1	Level 2	Level 3	
<u>Investments*</u>				
Equities	\$ 1,055,856	\$ -	\$ -	\$ 1,055,856
Fixed Income	526,851	-	-	526,851
Total	<u>\$ 1,582,707</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,582,707</u>
<u>Endowments</u>				
Equities	\$ 900,421	\$ -	\$ -	\$ 900,421
Fixed Income	420,288	-	-	420,288
Total	<u>\$ 1,320,709</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,320,709</u>

*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.

ALLOCATION OF FUNCTIONAL EXPENSES

The cost of providing the various programs and activities has been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and support services benefitted based on a combination of specific identification and allocation by management.

EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 30, 2020, the date the financial statements were available to be issued. The recent coronavirus (COVID-19) outbreak could have a significant negative impact on all organization's financial performance and financial position. As of the issuance date of these financial statements, the impact of the outbreak on the Organization was not determinable based on the constantly changing nature of the situation. Under Executive Order 121 for the State of North Carolina, the Federation is considered a non-essential business. However, the Federation has modified its operations to allow employees to work remotely from home to comply with this order. The Organization received a Payroll Protection Program loan from the Small Business Administration in the amount of \$371,400. The loan is expected to be forgiven as part of the CARES Act enacted by the federal government to bring economic relief to small businesses during the national pandemic for payroll costs, mortgage interest payments, rent or lease payments, and utility payments.

SUPPLEMENTARY INFORMATION

(THIS PAGE WAS LEFT BLANK INTENTIONALLY)



WILLIAMS · SCARBOROUGH · GRAY, LLP
Certified Public Accountants

Christopher K. Williams, CPA
Steven N. Scarborough, 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.

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, 2019, 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 June 30, 2020.

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.

2131 S. Glenburnie Rd., Suite 3
PO Box 14008
New Bern, NC 28561-4008

Phone (252) 638-4000
Fax (252) 638-3989

INNOVATIVE · RESPONSIVE · DEDICATED

www.wsgcpa.com

824 Gum Branch Rd., Suite K
PO Box 5003
Jacksonville, NC 28540

Phone (910) 455-2196
Fax (910) 455-1943

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 • Gray, LLP

Williams • Scarborough • Gray, LLP
Jacksonville, North Carolina
June 30, 2020



WILLIAMS · SCARBOROUGH · GRAY, LLP
Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited North Carolina Coastal Federation, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on North Carolina Coastal Federation, Inc.'s major federal program for the year ended December 31, 2019. North Carolina Coastal Federation, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of North Carolina Coastal Federation, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of North Carolina Coastal Federation, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, North Carolina Coastal Federation, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

2131 S. Glenburnie Rd., Suite 3
PO Box 14008
New Bern, NC 28561-4008

INNOVATIVE · RESPONSIVE · DEDICATED

824 Gum Branch Rd., Suite K
PO Box 5003
Jacksonville, NC 28540

Phone (252) 638-4000
Fax (252) 638-3989

www.wsgcpa.com

Phone (910) 455-2196
Fax (910) 455-1943

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

Management of North Carolina Coastal Federation, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered North Carolina Coastal Federation, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Williams • Scarborough • Gray, LLP

Williams • Scarborough • Gray, LLP

Jacksonville, North Carolina

June 30, 2020

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

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 _____ none reported

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: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) _____ yes _____ X _____ no

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
11.463	Department of Commerce: NOAA (Oyster Restoration)

Dollar threshold used to distinguish between Type A and Type B Programs \$ 750,000

Auditee qualified as low-risk auditee? _____ X _____ yes _____ _____ no

North Carolina Coastal Federation, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2019

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, 2019

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

North Carolina Coastal Federation, Inc.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2019

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

North Carolina Coastal Federation, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended December 31, 2019

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>				
WRP-WRE tech services	10.072	NR174532XXXXC002	\$ 395,135	\$ -
<u>U.S. Department of Commerce</u>				
<u>National Oceanic and Atmospheric Administration</u>				
EDA Feasibility Study	11.302	EDA18ATL3020029	12,622	-
NC Hurricane Marine Debris Cleanup	11.999	NA19NOS9990033	46,371	-
Oyster Restoration	11.463	NA16NMF4630315	884,828	-
<u>National Oceanic and Atmospheric Administration/National Fish & Wildlife Foundation</u>				
Atlantic and Oriental Resilience Sites	11.473	0318.18.062417	3,791	-
<u>NOAA/National Marine Fisheries Service/Atlantic States Marine Fisheries Commission</u>				
Morris Landing shoreline restoration	11.434	19-091	35	-
<u>U.S. Department of Defense</u>				
<u>U.S. Army Corps of Engineers</u>				
Lockwood Folly	12.130	W912HP-13-2-0001	367	-
<u>U.S. Department of the Interior</u>				
<u>U.S. Fish and Wildlife Service</u>				
Atlantic White Cedar	15.631	F11AP00152	5,372	-
Aquarium	15.608	F17AP00869	2,975	-
<u>U.S. Fish and Wildlife Service/North Carolina Coastal Land Trust</u>				
Schneider Acquisition	15.623	F18AP00402	9,473	-
<u>U.S. Fish and Wildlife Service/Southeast Aquatic Research Partnership</u>				
Living Shoreline cost-share	15.608	F17AP00869	18,695	-
<u>U.S. Environmental Protection Agency</u>				
<u>N.C. Dept. of Environment and Natural Resources</u>				
Stormwater RunoffUNCW	66.460	7732	6,175	-
B&H Watershed Rest Plan	66.460	7071	9,854	-
B&H WRP Implementation	66.460	7435	71,790	-
Swansboro SW reduction	66.460	7363	112	-
<u>N.C. Dept of Environment and National Resources/Council of Governments</u>				
Carolina Beach WRP	66.454	7759	6,110	-
<u>N.C. Dept of Environment and National Resources/Division of Coastal Management</u>				
Nc Resilience Summit	11.419	7961	485	-

North Carolina Coastal Federation, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended December 31, 2019

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	-	30,446
Pine Knoll Shores stormwater		2019-1003	-	24
Stroud Acquisition		2018-043	-	10,000
Beaufort stormwater		2017-1004	-	99,143
<u>N.C. Department of Justice</u>				
Hyde County		NCCF 013	-	192,350
<u>N.C. State Appropriations</u>				
Crab Pot Project		7747	-	79,428
Marine Debris Cleanup		7760	-	360,000
<u>N.C. Dept. of Agriculture and Consumer Services</u>				
		28-2017-111		
Moore Shore Road		28-2017-222	-	30,000
		28-2017-333		
<u>Subcontractor</u>				
NCSU - Aquaculture Plan			-	59
Sunset Beach - Waterfront Park shoreline			-	23,212
Total expenditures of federal and state awards			\$ 1,474,192	\$ 824,662