

**North Carolina Coastal Federation, Inc.**

**FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2010**

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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, 2010, 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, 2010, 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 March 29, 2011, 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 considered in assessing the results of our audit.

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 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. 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.

*Williams Scarborough Smith Gray, LLP*

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March 29, 2011

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North Carolina Coastal Federation, Inc.

STATEMENT OF FINANCIAL POSITION

December 31, 2010

ASSETS

Current Assets

Cash and cash equivalents	\$ 1,484,196
Investments	517,373
Accounts receivable	162,565
Prepaid expenses	4,250
Inventory	<u>8,240</u>

Total current assets 2,176,624

Endowment Investments 748,502

Property and Equipment

Property and equipment	1,465,337
Accumulated depreciation	<u>(340,266)</u>

Total property and equipment 1,125,071

Land/conservation easements 27,473,494

TOTAL ASSETS \$ 31,523,691

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 67,666
Accrued liabilities	<u>45,743</u>

Total current liabilities 113,409

NET ASSETS

Unrestricted:

Operating	1,744,737
Fixed assets	1,125,071
Temporarily restricted	318,478
Permanently restricted	<u>28,221,996</u>

Total net assets 31,410,282

TOTAL LIABILITIES AND NET ASSETS \$ 31,523,691

North Carolina Coastal Federation, Inc.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Grants and Revenues				
Donations	\$ 183,880	\$ 49,670	\$ -	\$ 233,550
Capital campaign donations	-	243,809	-	243,809
Grants	-	839,445	-	839,445
Investment income	43,274	14,989	75,472	133,735
Gain/Loss on disposals	(3,870)	-	-	(3,870)
Memberships	135,836	-	-	135,836
Sales	15,650	-	-	15,650
Less: cost of goods sold	(8,480)	-	-	(8,480)
Special projects	100,000	3,400,107	-	3,500,107
Net assets released from restrictions due to satisfaction of purpose	6,467,089	(4,510,486)	(1,956,603)	-
Miscellaneous	14,468	-	-	14,468
Total grants and revenues	6,947,847	37,534	(1,881,131)	5,104,250
Expenses				
Headquarters	638,080	-	-	638,080
Development	56,492	-	-	56,492
Administration	82,153	-	-	82,153
Central	217,250	-	-	217,250
Southeast	233,913	-	-	233,913
Northeast	183,547	-	-	183,547
Land transferred	2,045,809	-	-	2,045,809
Special projects	2,977,514	-	-	2,977,514
Total expenses	6,434,758	-	-	6,434,758
Change in net assets	513,089	37,534	(1,881,131)	(1,330,508)
Net Assets, beginning of year	2,356,719	280,944	30,103,127	32,740,790
Net Assets, end of year	\$ 2,869,808	\$ 318,478	\$ 28,221,996	\$ 31,410,282

See Accompanying Notes to the Financial Statements

North Carolina Coastal Federation, Inc.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets \$ (1,330,508)

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

Depreciation	54,261
Transfer of conservation easements	2,045,809
(Gain)/Loss on sale of fixed assets	3,870
(Increase) decrease in operating assets	
Accounts receivable	(55,879)
Prepaid expenses	(4,250)
Investments	(41,951)
Inventory	(1,619)
Endowment investments	(164,678)
Increase (decrease) in operating liabilities	
Accounts payable	(12,891)
Accrued liabilities	(3,906)

Net cash provided by operating activities 488,258

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of land	(160,000)
Acquisition of capital assets	<u>(23,214)</u>

Net cash used by investing activities (183,214)

Net increase in cash and cash equivalents 305,044

Beginning cash and cash equivalents 1,179,152

Ending cash and cash equivalents \$ 1,484,196

See Accompanying Notes to the Financial Statements

North Carolina Coastal Federation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

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, 2010, the Federation received many private, state and federal grants. The federal grant from NOAA's National Marine Fisheries Service (Recovery Act funding) was especially significant and provided more than \$2.5 million to rebuild oyster reefs and provide jobs for oyster-men and other water-related workers.

Basis of Accounting

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

Financial Statement Presentation

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

Cash Equivalents

For purposes of reporting cash flows, the Federation considers its checking 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.

North Carolina Coastal Federation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

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

Public Support and Revenue

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

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

Contributions of donated non-cash assets are recorded at their fair 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.

The Federation's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2008, 2009, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

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.



North Carolina Coastal Federation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

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

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.

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.

North Carolina Coastal Federation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

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

Land/Conservation Easements (Continued)

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.

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.

Compensated Absences

The Federation has accrued vacation pay in the amount of \$45,743. 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.

North Carolina Coastal Federation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

CONCENTRATIONS OF RISK

Credit Risk

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, 2010, the Federation's uninsured cash balances total \$1,048,664. 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.

INVESTMENTS

Investments as of December 31, 2010, are summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Fair Value	\$ 466,480	\$ 139,732	\$ 92,130	\$ 698,342
Carrying Value	\$ 466,480	\$ 139,732	\$ 92,130	\$ 698,342

Of the above balances \$180,969 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, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	<u>\$ 43,274</u>	<u>\$ 14,989</u>	<u>\$ 75,472</u>	<u>\$ 133,735</u>

North Carolina Coastal Federation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2010, at cost is summarized as follows:

Furniture and equipment	\$ 154,845
Trucks and cars	117,101
Boats	39,088
Buildings and land (exclusive of conservation properties)	<u>1,154,303</u>
	1,465,337
Accumulated depreciation	<u>(340,266)</u>
Net property and equipment	<u>\$ 1,125,071</u>

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

North Carolina Coastal Federation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

LAND/CONSERVATION EASEMENTS (Continued)

Morris Landing, Onslow County

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

\$ 873,435

North River Farms (#1), Carteret County

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

\$ 1,094,318

North River Farms (#2), Carteret County

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

\$ 3,033,019

North River Farms (#3), Carteret County

In 2005, the Federation received a perpetual conservation easement on approximately 1,435 acres of land in Carteret County identified as "North River Farms #3". The easement is recorded at the fair value at the date of the gift as established by a professional appraisal.

\$ 1,430,000

North Carolina Coastal Federation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

LAND/CONSERVATION EASEMENTS (Continued)

Robinson/Tyrrell County

In 2007, the Federation received a perpetual conservation easement on approximately 86.93 acres of land in Tyrrell County. The easement is recorded at 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

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

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

North Carolina Coastal Federation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

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.

	<u>\$ 216,111</u>
Total	<u>\$ 27,473,494</u>

RETIREMENT CONTRIBUTION

The Federation has established a SEP-IRA retirement account for eligible participants. The Federation contributes 3% of compensation of all employees with at least two years experience with the Federation. Additionally, eligible employees may benefit from tax deferred contributions to a cafeteria plan implemented under section 403(b) of the Internal Revenue Code. Contributions to the Plan by the Federation amounted to \$27,701 for the year ended December 31, 2010.

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. Earnings 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. Earnings 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. Earnings equal to five percent may be used for general operating support per management policy for the fund. The earnings can only be used after the fund has had an investment review.

The composition of the endowment net assets for these funds and the changes in endowment net assets as of December 31, 2010 are as follows:

North Carolina Coastal Federation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

ENDOWMENT FUNDS (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Kathleen Bryan Edwards Endowment:				
Endowment net assets, January 1, 2010	\$ -	\$ -	\$ 30,869	\$ 30,869
Contributions	-	-	-	-
Investment income	-	835	-	835
Net appreciation	-	2,894	-	2,894
Administrative fees	(303)	-	-	(303)
Program expenditures	(1,690)	-	-	(1,690)
Endowment net assets, December 31, 2010	<u>\$ (1,993)</u>	<u>\$ 3,729</u>	<u>\$ 30,869</u>	<u>\$ 32,605</u>
L. Richard Preyer Endowment:				
Endowment net assets, January 1, 2010	\$ -	\$ -	\$ 12,980	\$ 12,980
Contributions	-	-	-	-
Investment income	-	226	-	226
Net appreciation	-	1,114	-	1,114
Administrative fees	(301)	-	-	(301)
Program expenditures	(732)	-	-	(732)
Endowment net assets, December 31, 2010	<u>\$ (1,033)</u>	<u>\$ 1,340</u>	<u>\$ 12,980</u>	<u>\$ 13,287</u>
H. Smith Richardson Endowment:				
Endowment net assets, January 1, 2010	\$ -	\$ -	\$ 539,070	\$ 539,070
Contributions	-	-	100,000	100,000
Investment income	-	17,705	-	17,705
Net appreciation	-	51,845	-	51,845
Administrative fees	(6,010)	-	-	(6,010)
Endowment net assets, December 31, 2010	<u>\$ (6,010)</u>	<u>\$ 69,550</u>	<u>\$ 639,070</u>	<u>\$ 702,610</u>



North Carolina Coastal Federation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2010 consisted of the following:

Eagle Point stewardship	\$ 20,818
Morris Landing stewardship	98,047
North River stewardship	19,603
Wal-Mart stewardship	22,172
Other	<u>157,838</u>
Total	<u>\$ 318,478</u>

PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at December 31, 2010 consisted of the following:

Endowment investments (current market value)	\$ 748,502
Land/Conservation easements (at historic cost or fair market value at the time of the gift)	<u>27,473,494</u>
Total	<u>\$ 28,221,996</u>

FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 820, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes 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 Plan 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.

North Carolina Coastal Federation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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, 2010.

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

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

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

All investments in the Statement of Net Assets 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, 2010.

	2010			
	Level 1	Level 2	Level 3	Total
<u>Investments*</u>				
Equities	\$ 294,277	\$ -	\$ -	\$ 294,277
Mutual Funds	180,997	-	-	180,997
Fixed Income	-	223,068	-	223,068
Total	<u>\$ 475,274</u>	<u>\$ 223,068</u>	<u>\$ -</u>	<u>\$ 698,342</u>

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

North Carolina Coastal Federation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

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 2010 as it ended in 2008. The Federation will continue to collect moneys that were pledged during previous years. As of December 31, 2010, there was \$162,218 in pledges due. These pledges are not included in the accounts receivable.

TRANSFER OF LAND

In 2010, the Federation transferred approximately 200 acres of land in Onslow County identified as "Sloan Farm". The funds for the acquisition were provided by a grant from the State of North Carolina Clean Water Management Fund and the United States Fish and Wildlife Service in the amount of \$2,045,809. 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 State of North Carolina.

EVALUATION OF SUBSEQUENT EVENTS

The Federation has evaluated subsequent events through March 29, 2011, the date which the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

**COMPLIANCE SECTION**



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

Christopher K. Williams, CPA  
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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, 2010, 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 *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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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### Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Carolina Coastal Federation, Inc.'s financial statements are free 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 Scarborough Smith Gray, LLP*

Williams · Scarborough · Smith · Gray, LLP  
Jacksonville, North Carolina  
March 29, 2011



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

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 North Carolina Coastal Federation, Inc. (a nonprofit organization) compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of North Carolina Coastal Federation, Inc.'s major federal programs for the year ended December 31, 2010. 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 of 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 compliance requirements referred to above that could have a direct or material effect on each of its major federal programs for the year ended December 31, 2010. The results of auditing procedures disclosed no instances of non compliance with those requirements.

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### Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance in accordance with OMB Circular A-133, but not for the purposes 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 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 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.

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 deficiencies, 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*

Williams · Scarborough · Smith · Gray, LLP  
Jacksonville, North Carolina  
March 29, 2011



North Carolina Coastal Federation, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2010

**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	<u>      X      </u>	no
- Significant Deficiency(s) identified that is not considered to be material weakness	_____	yes	<u>      X      </u>	none reported
Noncompliance material to financial statements noted	_____	yes	<u>      X      </u>	no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified?	_____	yes	<u>      X      </u>	no
- Significant Deficiency(s) identified that is not considered to be material weakness	_____	yes	<u>      X      </u>	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	<u>      X      </u>	no
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Identification of major federal program:

CFDA Numbers

Name of Federal Program

11.463

Department of Commerce:

National Oceanic and Atmospheric Admin. (Recovery Act - Oyster Stimulus)

Dollar threshold used to distinguish between Type A and Type B Programs

      \$ 300,000      

Auditee qualified as low-risk auditee?	_____	yes	<u>      X      </u>	no
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North Carolina Coastal Federation, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2010

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**Section II - Financial Statement Findings**

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None reported.

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**Section III - Federal Award Findings and Questioned Costs**

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None reported.

North Carolina Coastal Federation, Inc.

CORRECTIVE ACTION PLAN

For the Year Ended December 31, 2010

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**Section II - Financial Statement Findings**

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None

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**Section III - Federal Award Findings and Questioned Costs**

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None

North Carolina Coastal Federation, Inc.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2010

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**Section II - Financial Statement Findings**

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None

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**Section III - Federal Award Findings and Questioned Costs**

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None

North Carolina Coastal Federation, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended December 31, 2010

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State/Pass- Through Grantor's Number	Federal Expenditures	State Expenditures
<b>Federal Awards:</b>				
<u>Department of Commerce - National Oceanic and Atmospheric Admin:</u>				
Estuary Restor. Pub., Jockey's Ridge, Morris Landing, Durants Pt, New River Training, and Jone's Island	11.463		\$ 74,022	\$ 187,712
Recovery Act - Oyster Restoration	11.463		2,528,593	-
<u>U.S. Department of the Interior - Fish and Wildlife Service</u>				
Albemarle Pamlico Restoration, Jockey's Ridge, and Partners	15.631		16,107	-
<u>U.S. Environmental Protection Agency</u>				
DENR Landfill, Gray to Blue, and Hyde County, White Oak, Bradley Crk	66.456		193,200	-
<b>State Grants:</b>				
<u>N.C. Clean Water Management Trust Fund</u>				
Smyrna Rain Garden		N/A	-	20,050
Lockwood Folly LID		N/A	-	9,018
Hyde County		N/A	-	35,371
North River Phase II		N/A	-	-
Alderman Rain Garden		N/A	-	13,886
Eagle Point		N/A	-	11,500
BMP 2		N/A	-	-
BMP 3		N/A	-	-
Five Star Rain Garden		N/A	-	-
<u>N.C. Department of Environment and Natural Resources</u>				
NC CCAP		N/A	-	-
<u>N.C. Department of Marine Fisheries</u>				
DMF Refit		N/A	-	2,461
<u>N.C. Department of Justice Environmental Division</u>				
Smithfield		N/A	-	72,001
<u>N.A.W.C.A</u>				
Pelletier		N/A	-	6,537
Total expenditures of federal and state awards			<u>\$ 2,811,922</u>	<u>\$ 358,536</u>