

Huron River Watershed Council

Financial Statements

March 31, 2016

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Huron River Watershed Council
Ann Arbor, Michigan

We have audited the accompanying financial statements of Huron River Watershed Council (a nonprofit organization), which comprise the statement of financial position as of March 31, 2016, and the related statements of activities and changes in net assets, functional expenses 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 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 opinion.

Emphasis of Matter

As explained in note 9 of the financial statements, the Council has updated its policy regarding the treatment of deferred revenue and temporarily restricted revenue to more closely adhere to Revenue Recognition of Not for Profit Organizations. The change in accounting treatment is reflected through a prior period adjustment outlined in the financial statements.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Huron River Watershed Council as of March 31, 2016, 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.



COLE, NEWTON & DURAN

June 27, 2016

Huron River Watershed Council

Statement of Financial Position

March 31, 2016

ASSETS

CURRENT ASSETS

Cash	\$ 347,556
Certificates of deposit	552,046
Accounts receivable	231,359
Prepaid expenses	<u>5,076</u>

TOTAL CURRENT ASSETS 1,136,037

FIXED ASSETS

Equipment	77,128
Less accumulated depreciation	<u>(66,542)</u>

TOTAL FIXED ASSETS 10,586

TOTAL ASSETS \$ 1,146,623

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 34,460
Accrued expenses	77,777
Fiduciary funds	<u>5,861</u>

TOTAL CURRENT LIABILITIES 118,098

NET ASSETS

Temporarily restricted	435,966
Unrestricted	<u>592,559</u>

1,028,525

TOTAL LIABILITIES AND NET ASSETS \$ 1,146,623

See Accompanying Notes to Financial Statements.

Huron River Watershed Council

Statement of Activities and Changes in Net Assets

For the Year Ended March 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restrctited	Totals 2016
REVENUE AND SUPPORT				
Government	\$ 516,319	\$ -	\$ -	\$ 516,319
Foundations, corporations and public support	78,727	745,935	-	824,662
Membership dues	135,425	-	-	135,425
Contributions	42,105	-	-	42,105
Special events	63,437	-	-	63,437
Program income	2,321	-	-	2,321
Interest income	2,216	-	-	2,216
Miscellaneous	2,129	-	-	2,129
TOTAL REVENUE AND SUPPORT	<u>842,679</u>	<u>745,935</u>	<u>-</u>	<u>1,588,614</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>736,316</u>	<u>(736,316)</u>	<u>-</u>	<u>-</u>
	<u>1,578,995</u>	<u>9,619</u>	<u>-</u>	<u>1,588,614</u>
EXPENSES				
Program Service Costs				
Watershed Planning & Management	421,872	-	-	421,872
Education	321,921	-	-	321,921
Development of Stewards	558,742	-	-	558,742
Total Program Service Costs	<u>1,302,535</u>	<u>-</u>	<u>-</u>	<u>1,302,535</u>
Supporting Service Costs				
Management and general	119,743	-	-	119,743
Fundraising	136,818	-	-	136,818
Total Supporting Service Costs	<u>256,561</u>	<u>-</u>	<u>-</u>	<u>256,561</u>
TOTAL EXPENSES	<u>1,559,096</u>	<u>-</u>	<u>-</u>	<u>1,559,096</u>
INCREASE (DECREASE) IN NET ASSETS	<u>19,899</u>	<u>9,619</u>	<u>-</u>	<u>29,518</u>
NET ASSETS-BEGINNING OF YEAR	572,660	-	-	572,660
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>426,347</u>	<u>-</u>	<u>426,347</u>
REVISED NET ASSETS-BEGINNING OF YEAR	<u>572,660</u>	<u>426,347</u>	<u>-</u>	<u>999,007</u>
NET ASSETS-END OF YEAR	<u>\$ 592,559</u>	<u>\$ 435,966</u>	<u>\$ -</u>	<u>\$ 1,028,525</u>

See Accompanying Notes to Financial Statements.

Huron River Watershed Council
Statement of Functional Expenses
For the Year Ended March 31, 2016

	Program Service Costs			Support Services			Totals Year ended March 31, 2016
	Watershed Planning & Management	Education	Development of Stewards Programs	Management and General	Fund Raising	Total Support Services	
Salaries and wages	\$ 255,663	\$ 164,720	\$ 237,715	\$ 51,769	\$ 74,117	\$ 125,886	\$ 783,984
Payroll taxes	20,531	13,150	18,876	4,652	5,814	10,466	63,023
Employee benefits	23,910	13,848	30,477	19,726	13,201	32,927	101,162
Total compensation	300,104	191,718	287,068	76,147	93,132	169,279	948,169
Consultants	27,695	86,548	208,249	4,031	8,520	12,551	335,043
Media buys	986	400	8,903	655	459	1,114	11,403
Travel and meetings	7,647	21,093	9,180	8,699	2,074	10,773	48,693
Dues and publications	-	750	640	752	55	807	2,197
Postage and copies	3,918	3	3,257	1,299	2,757	4,056	11,234
Printing and reproduction	44,519	1,703	6,405	9,453	3,672	13,125	65,752
Supplies and equipment	7,095	136	5,297	3,604	581	4,185	16,713
Telephone and internet	452	313	207	3,991	364	4,355	5,327
Rent	13,242	8,690	12,414	2,897	4,138	7,035	41,381
Depreciation	1,207	792	1,132	264	603	867	3,998
Professional fees	2,336	1,533	2,190	511	730	1,241	7,300
Payroll service	642	422	602	141	201	342	2,008
Repairs and maintenance	1,298	852	1,217	284	406	690	4,057
Insurance	1,320	866	1,238	289	413	702	4,126
Newsletter and mailings	6,107	3,934	5,678	-	-	-	15,719
Events	-	-	1,967	1,246	17,906	19,152	21,119
Other	3,304	2,168	3,098	5,480	807	6,287	14,857
TOTAL EXPENSES	\$ 421,872	\$ 321,921	\$ 558,742	\$ 119,743	\$ 136,818	\$ 256,561	\$ 1,559,096

See Accompanying Notes to Financial Statements.

Huron River Watershed Council

Statement of Cash Flows

For the Year Ended March 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	29,518
Adjustments to reconcile excess revenue over expenses to net cash used by operating activities		
Depreciation		3,998
Changes in operating assets and liabilities		
Accounts receivable		14,876
Prepaid expenses		(97)
Accounts payable		24,262
Accrued expenses & other liabilities		(4,502)
Unearned grants		<u>(90,245)</u>
Net Cash Provided By (Used In) Operating Activities		<u>(22,190)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds (purchase) of certificates of deposit		(1,563)
Purchase of equipment		<u>(5,405)</u>
Net Cash Provided By (Used In) Investing Activities		<u>(6,968)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (29,158)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 376,714

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 347,556

Supplemental Cash Flows Disclosures:

Cash paid for interest	\$	<u>-</u>
Cash paid for income taxes	\$	<u>-</u>

See Accompanying Notes to Financial Statements.

Huron River Watershed Council

Notes to Financial Statements

March 31, 2016

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Tax Status – The Huron River Watershed Council (the Council) is a public non-profit coalition of local governments, businesses and citizens in southeastern Michigan established in 1965 under Michigan's Local River Management Act to protect the Huron River and its tributary streams, lakes, wetlands and groundwater. The Council works to facilitate watershed-based management of water resources by providing hands-on citizen education, technical assistance in policy development, and by conducting direct river protection projects. One of the primary responsibilities of the Council is to educate citizens and local decision-makers on the wise use and management of water resources.

The Council is exempt from federal income taxes under §501(c) (3) of the Internal Revenue Code. Contributions to the Council are deductible by the donor for federal tax purposes. In addition, the Internal Revenue Service has determined that the Council is not a private foundation within the meaning of §509(a) of the Code. The Council is no longer subject to U.S. federal tax examinations by tax authorities for years before 2012.

Financial Statement Presentation – The Council 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.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

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

Cash and Cash Equivalents – Cash and cash equivalents include all monies in banks and highly liquid investments, with original maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Fixed Assets – It is the Council's policy to capitalize fixed assets over \$1,000. Lesser amounts are expensed. Purchased equipment is capitalized at cost. Donations of property are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions 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 contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Council reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Council reclassifies temporarily restricted net assets to unrestricted net assets at that time. Fixed assets are classified as equipment with useful lives of five years. Depreciation amounted to \$3,998 for the year ended March 31, 2016.

Huron River Watershed Council

Notes to Financial Statements

March 31, 2016

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition – Contributions are recognized as revenue, either unrestricted or temporarily restricted, in the year received from the donor. Contributions without donor imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the contribution are both reported as unrestricted revenue. When a donation or award restriction expires, that is, when the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are classified as unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. The Council has also entered into agreements to provide assistance with services relevant to the Huron River Watershed. Revenue associated with these service agreements is recognized as the service is performed.

Contributed Services – During the year ended March 31, 2016, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Council at the office as well as the program locations, but these services do not meet the criteria for recognition as contributed services. Total volunteer hours were 5,536 for the year ended March 31, 2016.

Functional Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising – The Council expenses advertising costs as they are incurred.

Bad Debts – The direct write off method of accounting for uncollectible accounts receivable is utilized whereby an account is written off only when determined to be uncollectible. The results of this method do not vary materially from the generally accepted method.

Long-term Grants – During the year ended March 31, 2016, the Council was awarded a \$300,000 grant, payable over a three-year period, receiving \$100,000 per annum through 2018. As the award is conditional, based on grant performance in future years, the Council has elected to recognize revenue as the funds are awarded and conditions are met. Future funds related to this award expected to be received and recognized as revenue amount to \$100,000 for both years ended March 31, 2017 and 2018.

In addition, during the year ended March 31, 2016, the Council was awarded a three-year challenge grant. This grant awards the Council up to \$100,000 per annum to be paid on a 1:1 basis to match new or increased gifts, donations and non-government grants. Grant revenue related to the matching grant is recognized as the matched funds are recognized.

Events Occurring After Reporting Date – Management has evaluated events and transactions for potential recognition or disclosure through the date of the auditor's report, which is the first date the financial statements were available to be issued.

Huron River Watershed Council

Notes to Financial Statements

March 31, 2016

NOTE 2 — CONTINGENCIES AND CONCENTRATIONS OF CREDIT RISK

The Council maintains its cash balances in several banks located in southeastern Michigan. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 in any one bank. At times during the year, balances on deposit in any one bank may exceed the insured amount. The Council has not experienced any losses with respect to uninsured cash balances.

The Council receives a portion of its revenues from certain government grants that may be subject to audit. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to the government entity. Until the reported costs have been audited and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

NOTE 3 — ACCOUNTS RECEIVABLE

Included in accounts receivable are several promises to give based on grants and awards received from public and corporate support, and well those provided by government entities. Accounts receivable can also include membership dues as well as fees for services provided. All receivable balances are expected to be collected within one year.

NOTE 4 — LEASE

In September 2015, the Council entered into a lease agreement for the use of office space for the period covering September 2015 through August 2016. During this time period monthly rental payments would range from \$3,170 to \$3,297. Monthly lease payments per the rental agreement includes various operating costs, such as parking, janitorial services and various utilities.

Future minimum rental payments required by the Council amount to \$16,485 for the year ending March 31, 2017.

NOTE 5 — EMPLOYEE BENEFIT PLAN

The Council has a defined contribution salary deferral plan covering substantially all employees. Under the plan, the Council contributes three percent of each eligible employee's compensation and also matches dollar for dollar up to another two percent of each eligible employee's compensation. Plan expenses incurred by Council during the year ended March 31, 2016 were \$39,956. The Council is considered a government instrumentality for purposes of the plan and is ERISA exempt.

NOTE 6 — FAIR VALUE MEASUREMENTS

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on hierarchy that prioritizes the valuation techniques and inputs used to measure fair value.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Council has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

Huron River Watershed Council

Notes to Financial Statements

March 31, 2016

NOTE 6 — FAIR VALUE MEASUREMENTS (continued)

In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Council's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Council measures its investments in certificates of deposit at fair value on a recurring basis. The fair value of certificates of deposit is based primarily on Level 1 inputs as described above.

NOTE 7 — TEMPORARILY RESTRICTED NET ASSETS

Substantially all restrictions on net assets as of March 31, 2016 are related to funds awarded from government entities and public support for ongoing support and programs within the Council's direct mission of addressing pollution prevention and abatement, wetland and floodplain protection, citizen education and natural resource and land-use planning.

As of March 31, 2016, temporarily restricted net assets were made up of the following:

<u>Program Funded</u>	<u>Temporarily Restricted Net Assets</u>
Adopt-A-Stream	\$ 5,625
RiverUP!	196,495
Masco	6,183
WQ Monitoring	94,528
WCS	9,269
Climate Change Adaptation	10,640
Marc Conference	13,226
Erb Foundation	100,000
	<u>\$ 435,966</u>

Huron River Watershed Council

Notes to Financial Statements

March 31, 2016

NOTE 8 — RELEASE OF RESTRICTED NET ASSETS

Temporarily restricted net assets were released throughout the year ended March 31, 2016, by incurring expenses and satisfying the restricted purposes of the programs the funds were awarded for or by the occurrence of other events specified by donors.

Temporarily restricted net assets released during the course of the year are as follows:

<u>Program Funded</u>	<u>Net Assets Released</u>
Adopt-A-Stream	\$ 6,484
Americana - GI	11,808
Semi - Wild	5,000
RiverUP!	365,995
Masco	13,723
WQ Monitoring	44,002
WCS	154,462
Climate Change Adaptation	35,589
Marc Conference	13,050
Erb Foundation	86,203
	<u>\$ 736,316</u>

NOTE 9 — PRIOR PERIOD ADJUSTMENTS

Prior to the year ended March 31, 2016, the Council maintained the position that all funds received for the purpose of performing business activities in-line with its mission, for which services had not been performed would be considered unearned grants. As such, unearned grants as of March 31, 2015 amounted to \$480,960.

During the course of the year ended March 31, 2016, the Council changed its position and accounting treatment of incoming funds, to adhere more directly with ASC 958-605 (Revenue Recognition for Not for Profit Organizations). The change in accounting treatment affected the majority of funds received, contracts entered into and funds awarded to the Council which were previously classified as unearned grants.

Due to the Council's change in accounting policies, the Council's Statement of Activities shows a prior period adjustment of \$426,347, as Beginning Balance of Temporarily Unrestricted Assets for the year ended March 31, 2016. The prior period adjustment is made up a reclassification of unearned grants in the amount of \$390,715 as of March 31, 2015, and a \$35,632 account receivable. The account receivable balance is associated with an award from prior years that is to be funded at the end of the contract period, in the 2016 calendar year.