

Huron River Watershed Council

**Financial Statements
March 31, 2017**

**With Comparative Totals
For the Year Ended March 31, 2016**

Huron River Watershed Council
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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, which comprise of the statement of financial position as of March 31, 2017, 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 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 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 audit 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 audit opinion.

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, 2017, 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.

Report on Summarized Comparative Information

We have previously audited the Huron River Watershed's 2016 financial statements, and our report dated June 27, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Cole, Newton & Duran
Livonia, Michigan
June 23, 2017

**Huron River Watershed Council
Statement of Financial Position
March 31, 2017
With Comparative Totals for March 31, 2016**

ASSETS		
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash	\$ 458,287	\$ 347,556
Certificates of deposit	451,748	552,046
Accounts receivable	151,070	168,228
Grants receivable	188,900	63,131
Prepaid expenses	10,014	5,076
Total current assets	<u>1,260,019</u>	<u>1,136,037</u>
FIXED ASSETS		
Equipment	77,128	77,128
Less accumulated depreciation	<u>(71,158)</u>	<u>(66,542)</u>
TOTAL FIXED ASSETS	<u>5,970</u>	<u>10,586</u>
OTHER ASSETS		
Website in process	<u>16,670</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 1,282,659</u></u>	<u><u>\$ 1,146,623</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 5,712	\$ 34,460
Accrued expenses	94,312	77,777
Fiduciary funds	5,707	5,861
Total current liabilities	<u>105,731</u>	<u>118,098</u>
NET ASSETS		
Unrestricted	596,050	592,559
Temporarily restricted	580,878	435,966
Total net assets	<u>1,176,928</u>	<u>1,028,525</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,282,659</u></u>	<u><u>\$ 1,146,623</u></u>

See Notes to the Financial Statements

Huron River Watershed Council
Statement of Activities and Changes in Net Assets
March 31, 2017
With Comparative Totals for March 31, 2016

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
REVENUE AND SUPPORT				
Government	\$ 532,908	\$ -	\$ 532,908	\$ 516,319
Foundations, corporations, and support	20,479	780,021	800,500	824,662
Membership dues	134,205	-	134,205	135,425
Contributions	77,214	-	77,214	42,105
Special events	77,525	-	77,525	63,437
Program income	9,422	-	9,422	2,321
Interest income	2,563	-	2,563	2,216
Miscellaneous	1,963	-	1,963	2,129
Total Revenue and Support	856,279	780,021	1,636,300	1,588,614
Net Assets Released from Restrictions	635,109	(635,109)		
	<u>1,491,388</u>	<u>144,912</u>	<u>1,636,300</u>	<u>1,588,614</u>
EXPENSES				
Program services				
Watershed planning and management	565,890	-	565,890	421,872
Education	169,788	-	169,788	321,921
Development of stewards	483,270	-	483,270	558,742
Total Program Service Costs	<u>1,218,948</u>	<u>-</u>	<u>1,218,948</u>	<u>1,302,535</u>
Supporting Service Costs				
Management and general	117,883	-	117,883	119,743
Fundraising	151,066	-	151,066	136,818
Total Supporting Service Costs	<u>268,949</u>	<u>-</u>	<u>268,949</u>	<u>256,561</u>
Total Expenses	<u>1,487,897</u>	<u>-</u>	<u>1,487,897</u>	<u>1,559,096</u>
Increase (Decrease) in Net Assets	3,491	144,912	148,403	29,518
Net Assets at Beginning of Year	<u>592,559</u>	<u>435,966</u>	<u>1,028,525</u>	<u>999,007</u>
Net Assets at End of Year	<u>\$ 596,050</u>	<u>\$ 580,878</u>	<u>\$ 1,176,928</u>	<u>\$ 1,028,525</u>

See Notes to the Financial Statements

**Huron River Watershed Council
Statement of Functional Expenses
March 31, 2017
With Comparative Totals for March 31, 2016**

	Program Service Costs				Support Services			2016 Totals
	Watershed Planning and Management	Education	Development of Stewards	Total Programs	Management and General	Fund Raising	Total Support Services	
Salaries and wages	\$ 369,551	\$ 98,233	\$ 247,232	\$ 715,016	\$ 67,663	\$ 80,543	\$ 148,206	\$ 783,984
Payroll taxes	28,737	7,610	19,080	55,427	5,362	6,380	11,742	63,023
Employee benefits	40,749	9,085	32,868	82,702	18,709	13,616	32,325	101,162
Total compensation	439,037	114,928	299,180	853,145	91,734	100,539	192,273	948,169
Consultants	64,579	16,611	136,271	217,461	4,127	12,269	16,396	335,043
Media buys	643	608	2,695	3,946	2,192	156	2,348	11,403
Travel and meetings	5,160	9,696	9,979	24,835	1,839	582	2,421	48,693
Dues and publications	-	1,099	375	1,474	950	250	1,200	2,197
Postage and copies	5,061	622	2,553	8,236	666	1,745	2,411	11,234
Printing and reproduction	11,959	2,858	5,782	20,599	2,216	1,630	3,846	65,752
Supplies and equipment	4,040	1,815	2,241	8,096	7,611	1,752	9,363	16,713
Telephone and internet	1,230	327	823	2,380	933	268	1,201	5,327
Rent	17,832	4,740	11,929	34,501	2,735	3,886	6,621	41,381
Professional fees	2,975	791	1,991	5,757	545	648	1,193	7,300
Depreciation	2,479	425	1,070	3,974	292	349	641	3,998
Payroll service	1,053	280	705	2,038	193	230	423	2,008
Repairs and maintenance	1,310	348	1,261	2,919	421	286	707	4,057
Insurance	1,470	391	984	2,845	268	320	588	4,126
Newsletter and mailings	7,032	1,868	4,702	13,602	372	145	517	15,719
Events	-	10,094	-	10,094	-	21,578	21,578	21,119
Other	30	2,287	729	3,046	789	4,433	5,222	14,857
TOTAL EXPENSES	\$ 565,890	\$ 169,788	\$ 483,270	\$ 1,218,948	\$ 117,883	\$ 151,066	\$ 268,949	\$ 1,559,096

See Notes to the Financial Statements

Huron River Watershed Council
Statement of Cash Flows
March 31, 2017
With Comparative Totals for March 31, 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 148,403	\$ 29,518
Adjustments to reconcile net assets to net cash from operating activities:		
Depreciation	4,615	3,998
(Increase) decrease in assets:		
Accounts receivable and grants receivable	(108,611)	14,876
Prepaid expense	(4,938)	(97)
Increase (decrease) in liabilities:		
Accounts payable	(28,748)	24,262
Accrued expenses	16,536	(4,502)
Fiduciary funds	(154)	-
Unearned grants	-	(90,245)
	<u>27,103</u>	<u>(22,190)</u>
Net Cash Provided By (Used In) Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds (purchase) of certificates of deposit	100,298	(1,563)
Purchase of equipment	-	(5,405)
Investment in website	(16,670)	-
	<u>83,628</u>	<u>(6,968)</u>
Net Cash Provided By (Used In) Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	110,731	(29,158)
Cash and Cash Equivalents at Beginning of Year	<u>347,556</u>	<u>376,714</u>
Cash and Cash Equivalents at End of Year	<u>\$ 458,287</u>	<u>\$ 347,556</u>
Supplemental disclosure:		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

See Notes to the Financial Statements

Huron River Watershed Council
Notes to the Financial Statements
March 31, 2017 and 2016

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies

Organization and nature of activities

The Huron River Watershed Council (the Council) is a public nonprofit 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.

Basis of presentation

Financial statement presentation follows requirements of the Not-for-Profit Entities Topic of the FASB Accounting Standards Codification. 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. Net assets are classified as permanently restricted, temporarily restricted, or unrestricted, depending on the presence and characteristics of donor-imposed restrictions limiting the Council's ability to use or dispose of the contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements result in temporarily 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.

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.

Accounts receivable

Accounts receivable includes several promises to give based on grants and awards received from public and corporate support, as well as 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, therefore, no allowance for bad debts has been recorded. 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.

Property and equipment

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 \$4,615 and \$3,998 for the years ended March 31, 2017 and 2016, respectively.

Contributions

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

Huron River Watershed Council
Notes to the Financial Statements
March 31, 2017 and 2016

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Statement of functional expenses

The costs of providing the program and supporting services have been reported on a functional basis in the statement of functional expenses. Indirect costs have been allocated between the program and supporting services based on estimates. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Contributed services

During the year ended March 31, 2017, 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 7,020 and 5,536 for the years ended March 31, 2017 and 2016, respectively

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.

Advertising

The council expenses advertising costs as they are incurred.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Tax status

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 2013. Management has evaluated FASB ASC 740, *Income Taxes*, and has concluded it has no uncertain positions.

NOTE 2 – Contingencies and Concentration 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.

Concentrations of accounts receivable include a grant receivable from Erb Foundation totaling \$100,000, which made up approximately 30% of the total combined accounts receivable and grants receivable at March 31, 2017.

Huron River Watershed Council
Notes to the Financial Statements
March 31, 2017 and 2016

NOTE 2 – Contingencies and Concentration of Credit Risk (continued)

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 – Conditional 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 year ended March 31, 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.

NOTE 4 – Lease

In September 2016, the Council entered into a lease agreement for the use of office space for the period covering September 2016 through August 2017, for \$3,297 per month. Monthly lease payments per the rental agreement include various operating costs, such as parking, janitorial services and various utilities. Rent expense for the year ended March 31, 2017 and 2016, totaled \$41,122 and \$41,381, respectively.

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 the Council during the year ended March 31, 2017 and 2016, were \$43,104 and \$39,956, respectively. 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 the Financial Statements
March 31, 2017 and 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, 2017 and 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, 2017, and 2016, temporarily restricted net assets were made up of the following:

<u>Program Funded</u>	<u>2017</u>	<u>2016</u>
Adopt-A-Stream	\$ -	\$ 5,625
Austin Memorial Foundation	8,500	-
Ann Arbor Community Foundation	161	-
Climate Change Adaptation	581	10,640
Erb Foundation	116,158	100,000
Marc Conference	-	13,226
Masco	-	6,183
RiverUP!	128,820	196,495
USDN Great Lakes	50,131	
WCS	229,868	9,269
WQ Monitoring	46,659	94,528
	<u>\$ 580,878</u>	<u>\$ 435,966</u>

NOTE 8 – Release of Restricted Net Assets

Temporarily restricted net assets were released throughout the year ended March 31, 2017, and 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.

**Huron River Watershed Council
Notes to the Financial Statements
March 31, 2017 and 2016**

NOTE 8 – Release of Restricted Net Assets (continued)

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

<u>Program Funded</u>	<u>2017</u>	<u>2016</u>
Adopt-A-Stream	\$ 21,654	\$ 6,484
Americana-GI	-	11,808
Ann Arbor Community Foundation	9,840	-
Austin Memorial Foundation	8,250	-
Climate Change Adaptation	10,060	35,589
Erb Foundation	83,842	86,203
GIS Planning	26,000	-
Marc Conference	13,569	13,050
Masco	6,183	13,723
RiverUP!	330,104	365,995
Semi-Wild	2,500	5,000
USDN Great Lakes	12,002	-
WCS	9,268	154,462
WCS-Norton Creek	8,968	-
WQ Monitoring	92,869	44,002
	<u>\$ 635,109</u>	<u>\$ 736,316</u>

NOTE 9 – Comparative Statements

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended March 31, 2016, from which the summarized information was derived.

NOTE 10 – Pending Consent Judgement

The Council was not a defendant in any lawsuit during the year ended March 31, 2017. However, as of December 2016, the Council entered into intervenor status in a pending consent judgment. As of March 31, 2017, the Council had paid \$2,221 in fees and expenses associated with this suit. As of June 23, 2017, the date of the auditor's report, the Council has paid an additional \$738 in expenses and \$6,000 as a retainer for future legal services. The Council does not expect to incur significant additional fees and is not obligated to ongoing expenses related to this suit.

NOTE 11 – Events Occurring After Reporting Date

Management has evaluated events and transactions for potential recognition or disclosure through the date of the auditors' report, which is the date the financial statements were available to be issued.