

TIP OF THE MITT WATERSHED COUNCIL

(a Michigan nonprofit corporation)

FINANCIAL STATEMENTS

for the year ended December 31, 2015

MASON, KAMMERMANN & ROHRBACK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CHARLEVOIX, MICHIGAN

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MASON, KAMMERMANN & ROHRBACK, P.C.

Certified Public Accountants

Velda K. Kammermann
Todd P. Rohrback

Established 1988
www.northmicpa.com

Corey R. Bascom

June 17, 2016

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Tip of the Mitt Watershed Council:

We have audited the accompanying financial statements of Tip of the Mitt Watershed Council (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, 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. 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.

~ Boyne City ~

115A South Lake Street
Boyne City, MI 49712
p: 231-582-7211

~ Charlevoix ~

110 Park Avenue
Charlevoix, MI 49720
p: 231-547-4911

~ Petoskey ~

600 Charlevoix Avenue
Petoskey, MI 49770
p: 231-348-6930

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tip of the Mitt Watershed Council as of December 31, 2015, 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.

Report on Summarized Comparative Information

We have previously audited Tip of the Mitt Watershed Council's 2014 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated June 9, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements for which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of functional expenses on pages 13 and 14 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.

Mason, Kammermann & Rohrback, P. C.

TIP OF THE MITT WATERSHED COUNCIL

STATEMENT OF FINANCIAL POSITION

December 31, 2015

(with comparative totals as of December 31, 2014)

<u>ASSETS</u>		
	<u>2015</u>	<u>2014</u>
CURRENT ASSETS:		
Cash in bank	\$ 12,152	\$ 78,407
Accounts receivable	12,833	884
Grants receivable	94,514	53,273
Inventory	5,465	5,985
Prepaid expenses	<u>10,681</u>	<u>23,234</u>
Total current assets	135,645	161,783
LAND, BUILDING, FURNITURE AND EQUIPMENT, net of accumulated depreciation (Note E)		
	712,479	722,870
OTHER ASSETS:		
Investments (Note C)	1,246,343	1,292,637
Pooled income fund (Note F)	-	10,094
Net assets invested in community foundations (Note I)	<u>386,881</u>	<u>415,791</u>
Total other assets	<u>1,633,224</u>	<u>1,718,522</u>
Total assets	<u>\$ 2,481,348</u>	<u>\$ 2,603,175</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 6,831	\$ 24,966
Accrued expenses	18,864	19,780
Unearned revenues	<u>65,488</u>	<u>61,721</u>
Total current liabilities	91,183	106,467
NET ASSETS:		
Unrestricted:		
Designated for repairs and replacement Operations	<u>177,249</u> <u>1,299,721</u>	<u>163,918</u> <u>1,387,627</u>
Total unrestricted	1,476,970	1,551,545
Temporarily restricted	-	9,852
Permanently restricted	<u>913,195</u>	<u>935,311</u>
Total net assets	<u>2,390,165</u>	<u>2,496,708</u>
Total liabilities and net assets	<u>\$ 2,481,348</u>	<u>\$ 2,603,175</u>

The accompanying notes are a part of the financial statements.

TIP OF THE MITT WATERSHED COUNCIL

STATEMENT OF ACTIVITIES

for the year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total All Funds</u>
REVENUES AND SUPPORT:				
Contributions	\$ 452,758	\$ -	\$ 6,794	\$ 459,552
Grants	-	411,481	-	411,481
Contract services	20,633	-	-	20,633
Dividend and interest income (Note C)	25,182	-	-	25,182
Realized and unrealized gains on investments (Note C)	(55,688)	-	-	(55,688)
Net change in beneficial interests in community foundations	-	-	(28,910)	(28,910)
Other income	22,200	8,071	-	30,271
Net assets released from restrictions	<u>429,404</u>	<u>(429,404)</u>	<u>-</u>	<u>-</u>
Total revenue and support	894,489	(9,852)	(22,116)	862,521
EXPENSES:				
PROGRAM SERVICES:				
Policy and advocacy	297,575	-	-	297,575
Watershed protection	416,570	-	-	416,570
Communications	<u>176,072</u>	<u>-</u>	<u>-</u>	<u>176,072</u>
Total program services	890,217	-	-	890,217
SUPPORTING SERVICES:				
Management	24,841	-	-	24,841
Fundraising	<u>54,006</u>	<u>-</u>	<u>-</u>	<u>54,006</u>
Total supporting services	<u>78,847</u>	<u>-</u>	<u>-</u>	<u>78,847</u>
Total expenses	<u>969,064</u>	<u>-</u>	<u>-</u>	<u>969,064</u>
Change in net assets	(74,575)	(9,852)	(22,116)	(106,543)
Net assets, January 1, 2015	<u>1,551,545</u>	<u>9,852</u>	<u>935,311</u>	<u>2,496,708</u>
Net assets, December 31, 2015	<u>\$ 1,476,970</u>	<u>\$ -</u>	<u>\$ 913,195</u>	<u>\$ 2,390,165</u>

The accompanying notes are a part of the financial statements.

TIP OF THE MITT WATERSHED COUNCIL

STATEMENT OF CASH FLOWS

for the year ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets		\$ (106,543)
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Depreciation	\$ 28,115	
Decrease in pooled income fund	10,094	
Increase in accounts and grants receivable	(53,190)	
Decrease in inventory and prepaid expenses	13,073	
Decrease in accounts payable	(18,135)	
Increase in accrued expenses and unearned revenue	2,851	
Contributions restricted for endowment	(6,794)	
Noncash contributions	(2,457)	
Net realized gains on sales of investments	(20,572)	
Net unrealized losses on investments	<u>76,260</u>	
Total adjustments		<u>29,245</u>
Net cash used by operating activities		(77,298)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	446,111	
Purchases of investments	(427,215)	
Decrease in interests in community foundations	28,910	
Purchase of fixed assets	<u>(15,599)</u>	
Net cash used by investing activities		32,207
CASH FLOWS FROM FINANCING ACTIVITIES:		
Transfer pooled income funds to endowment	(22,969)	
Contributions restricted for endowment	<u>1,805</u>	
Net cash used by financing activities		<u>(21,164)</u>
DECREASE IN CASH AND CASH EQUIVALENTS		(66,255)
CASH AND CASH EQUIVALENTS, January 1, 2015		<u>78,407</u>
CASH AND CASH EQUIVALENTS, December 31, 2015		<u>\$ 12,152</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid		\$ 322

The accompanying notes are a part of the financial statements.

TIP OF THE MITT WATERSHED COUNCIL

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2015

NOTE A - ORGANIZATION:

The Tip of the Mitt Watershed Council is organized to promote the protection and enhancement of water quality and water resources in the watersheds of Antrim, Charlevoix, Cheboygan, and Emmet Counties of Michigan.

The Council is supported primarily by various public and private grants, investment income, and donations from area residents and visitors.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

Assets, liabilities, revenues and expenses are recognized on the accrual basis of accounting.

Basis of Presentation

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Council and changes therein are classified and reported according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

The financial statements include certain prior-year summarized comparative information in total but not by 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 December 31, 2014, from which the summarized information was derived.

Revenue Recognition

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

Cash includes all funds in the checking account. For purposes of the statement of cash flows, the Council considers all cash in bank accounts to be liquid investments and are included as cash and cash equivalents.

TIP OF THE MITT WATERSHED COUNCIL

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Contributed Services

The Council generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Council with programs and other committee assignments. No amounts have been recorded for volunteer services.

Investments

Investments are carried at estimated fair market value. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Unrealized increases or decreases resulting in changes in market value of investments are included annually in the Statement of Activities. The Council established a policy providing the approximate limits for the investment asset allocation as follows:

<u>Investment Type</u>	<u>Allocation Percentage</u>
Cash	0% - 10%
Bond Funds	26% - 56%
Common Stock and Equity Funds	23% - 53%
Real Estate Funds	0% - 5%
Hedge Funds	10% - 27%

The Council has restricted a portion of the investments for endowment purposes to provide working capital and sustain the organization's operations. The endowment fund has an annual spending policy that allows the Council to use 5 percent of the total fund value for operations, as long as the resulting balance exceeds the accumulated donations to the fund.

Inventory

Inventory has been recorded at the lower of cost or market.

Property and Equipment

Land, buildings and equipment are stated at cost for purchased items and market value at date of donation for donated items. Depreciable assets are being depreciated over their estimated useful lives using the straight-line method. The Council capitalizes expenditures for property and equipment in excess of \$1,000.

TIP OF THE MITT WATERSHED COUNCIL

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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.

NOTE C - INVESTMENTS:

All investment returns, including interest and dividend income and net gains or losses, are considered available for current operations. For the year ended December 31, 2015, investment returns are classified as unrestricted in the statement of activities and are summarized as follows:

Interest and dividend income		\$ 35,909
Investment management fees		<u>(10,727)</u>
Net interest and dividend income		25,182
Net realized gains	\$ 20,572	
Net unrealized losses	<u>(76,260)</u>	
Net realized and unrealized losses		<u>(55,688)</u>
Net investment income		<u>\$ (30,506)</u>

At December 31, 2015, investments were comprised of the following:

	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain/(Loss)</u>
Cash and money market	\$ 82,199	\$ 82,199	\$ -
Common stocks and equity funds	610,504	677,890	67,386
Bond funds	353,904	348,686	(5,218)
Real estate	48,578	53,683	5,105
Hedge funds	<u>90,000</u>	<u>83,885</u>	<u>(6,115)</u>
Total	<u>\$ 1,185,185</u>	<u>\$ 1,246,343</u>	<u>\$ 61,158</u>

Investments totaling \$526,314 have been set aside for permanent endowment. The Council has designated unrestricted investments totaling \$177,249 for future replacement of fixed assets. The remaining investments of \$542,780 are available for operations.

TIP OF THE MITT WATERSHED COUNCIL

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2015

NOTE D – FAIR VALUE MEASUREMENTS:

Financial Accounting Standards Board Codification 820.10 (FASB ASC 820.10) 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 820.10 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Council 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 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.

Fair values for mutual funds are determined by reference to quoted market prices and other relevant information by market transactions. Fair values for hedge funds are based on meaningful third-party transactions and comparable public market valuations.

TIP OF THE MITT WATERSHED COUNCIL

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2015

NOTE D – FAIR VALUE MEASUREMENTS (CONTINUED):

At December 31, 2015, the Council's investments, measured on a recurring basis, are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 82,199	\$ -	\$ -	\$ 82,199
Mutual funds:				
Equity	677,890	-	-	677,890
Bond	348,686	-	-	348,686
Real estate	53,683	-	-	53,683
Hedge	<u>83,885</u>	<u>-</u>	<u>-</u>	<u>83,885</u>
Totals	<u>\$ 1,246,343</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,246,343</u>

NOTE E - LAND, BUILDING, FURNITURE AND EQUIPMENT:

Fixed assets consist of the following at December 31, 2015:

Building and improvements	\$ 650,143
Office furnishings and equipment	254,913
Vehicle and boat	<u>40,245</u>
	945,301
Less accumulated depreciation	<u>(501,822)</u>
	443,479
Land	<u>269,000</u>
Total	<u>\$ 712,479</u>

For the year ended December 31, 2015, depreciation expense totaled \$28,115.

NOTE F - POOLED INCOME FUND:

The Council created a pooled income fund under section 642(c)(5) of the Internal Revenue Code, as amended. A pooled income fund is a trust that allows a donor to transfer property, such as securities and/or cash, to the trust as a gift thereby conveying an irrevocable remainder interest in the property to the Council while retaining an income interest in the property for the life of one or more beneficiaries living at the time of the transfer.

Property transferred to the fund is pooled with all other fund assets for investment management purposes.

TIP OF THE MITT WATERSHED COUNCIL

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2015

NOTE F - POOLED INCOME FUND (CONTINUED):

Gifts to the fund are recorded as assets of the Council at their fair market value at the time of the gift, discounted using the then current interest rate and life expectancy of donor. Subsequent annual amortization of the discount is reported as additions to temporarily restricted net assets. Upon the death of a beneficiary or beneficiaries designated by the donor, or the exercise of a donor's power of revocation, the amount of the remainder interest associated with that donor's gift is transferred to the Council subject to any donor restrictions and the unamortized portion of the discount will be added to net assets.

Prior to year end, the remaining assets were gifted to the Council and the fund was terminated.

NOTE G - INCOME TAX STATUS:

The Internal Revenue Service has determined the Council to be exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Therefore, the financial statements reflect no provision or liability for federal income tax.

NOTE H - MARKET AND CREDIT RISK:

Financial instruments which potentially subject the Council to concentrations of credit risk consist primarily of investments and accounts receivable. Investments include temporary cash balances kept in money market accounts managed by credit worthy, high quality financial institutions plus stocks and bonds of domestic and foreign corporations and notes and bonds issued by the United States government that are subject to market fluctuation. By policy, these investments are kept within limits designed to prevent risks caused by concentration. Substantially all accounts receivable are due from public and private grants awarded to the Council for use in the various watershed projects undertaken in the counties of Antrim, Charlevoix, Cheboygan and Emmet in Michigan with one grant being individually significant. Management believes there is no significant concentration of market or credit risk.

NOTE I - INTEREST IN NET ASSETS OF COMMUNITY FOUNDATIONS:

The Council has established agency endowment funds with Petoskey - Harbor Springs Area Community Foundation and Charlevoix County Community Foundation and granted variance power to modify the funds in the event the monies are no longer needed or the Council ceases to exist. These transfers have been recorded as net assets invested in community foundations totaling \$386,881. This represents the transfers made by the Council plus the pro rata increase or decrease in market value of the funds. Annual income from these funds is available to the Council as unrestricted revenues and is recorded when received. For 2015, amounts received totaled \$20,927 and have been recorded as contributions in the Statement of Activities.

TIP OF THE MITT WATERSHED COUNCIL

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2015

NOTE J - LINE OF CREDIT:

The Council has a line of credit with the bank in the amount of \$150,000. The line of credit is available to finance current operations as needed and advances carry an interest rate of 2 percent above the London interbank offered rate. There was no balance outstanding under the revolving line of credit at December 31, 2015.

NOTE K - DATE OF MANAGEMENT'S REVIEW:

In preparing the financial statements, the Council has evaluated events and transactions for potential recognition or disclosure through June 17, 2016, the date that the financial statements were available to be issued.

NOTE L - COMMITMENTS:

The Council has contracts in progress to provide services totaling approximately \$370,000 that are yet to be completed.

TIP OF THE MITT WATERSHED COUNCIL

SCHEDULE OF FUNCTIONAL EXPENSES

for the year ended December 31, 2015

	Program Services			
	Policy & Advocacy	Watershed Protection	Communications	Total
Salaries, payroll taxes and benefits	\$ 211,836	\$ 249,761	\$ 116,661	\$ 578,258
Outside services	5,402	14,387	4,025	23,814
Professional services	2,371	2,964	1,334	6,669
Advertising	96	120	190	406
Grant expenses	45,390	103,506	34,659	183,555
Contract costs	-	3,335	-	3,335
Insurance	2,168	2,870	1,219	6,257
Printing	7,164	8,984	4,491	20,639
Office supplies and postage	7,187	11,320	4,092	22,599
Telephone	1,118	1,397	629	3,144
Travel and meetings	575	-	720	1,295
Utilities	2,439	3,049	1,372	6,860
Repairs and maintenance	1,991	2,655	1,120	5,766
Dues and memberships	747	859	446	2,052
Interest expense	94	117	53	264
Depreciation	8,997	11,246	5,061	25,304
Totals	<u>\$ 297,575</u>	<u>\$ 416,570</u>	<u>\$ 176,072</u>	<u>\$ 890,217</u>

The accompanying notes are a part of the financial statements.

Supporting Services

Management	Development and Fundraising	Total	Total All Funds
\$ 19,311	\$ 43,524	\$ 62,835	\$ 641,093
1,883	1,218	3,101	26,915
222	519	741	7,410
14	31	45	451
-	1,428	1,428	184,983
-	-	-	3,335
203	475	678	6,935
551	1,515	2,066	22,705
874	1,903	2,777	25,376
105	243	348	3,492
341	42	383	1,678
-	533	533	7,393
393	436	829	6,595
64	150	214	2,266
37	21	58	322
<u>843</u>	<u>1,968</u>	<u>2,811</u>	<u>28,115</u>
<u>\$ 24,841</u>	<u>\$ 54,006</u>	<u>\$ 78,847</u>	<u>\$ 969,064</u>