

Harpeth River Watershed Association, Inc.
Financial Statements
December 31, 2009

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McKerley & Noonan, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Harpeth River Watershed Association, Inc.
Nashville, TN

We have audited the accompanying statement of financial position of Harpeth River Watershed Association, Inc. (a nonprofit organization) as of December 31, 2009 and the related statements of activities and changes in net assets 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 misstatements. 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 Harpeth River Watershed Association, Inc. as of December 31, 2009, 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 July 13, 2010, on our consideration of Harpeth River Watershed Association, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

McKerley & Noonan

McKerley & Noonan, P.C.
July 13, 2010

Harpeth River Watershed Association, Inc.
Statement of Financial Position
December 31, 2009

Assets

Current Assets

Cash in Bank	\$ 48,849
Investments - Money Market Account	1,180
Grants Receivable	24,342
Other Receivable	1,170
Prepaid Expenses	4,021
Total Current Assets	<u>79,562</u>

Fixed Assets

Furniture and Equipment	37,067
Less: Accumulated Depreciation	<u>(30,461)</u>
Total Fixed Assets	<u>6,606</u>

Total Assets	<u><u>\$ 86,168</u></u>
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Liabilities and Net Assets

Current Liabilities

Accounts Payable	\$ 16,617
Accrued Expenses	<u>6,625</u>
Total Current Liabilities	<u>23,242</u>

Net Assets

Unrestricted	55,613
Temporarily Restricted	<u>7,313</u>
Total Net Assets	<u>62,926</u>

Total Liabilities and Net Assets	<u><u>\$ 86,168</u></u>
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Harpeth River Watershed Association, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions	\$ 171,032	\$ 2,500	\$ 173,532
Grant Income	-	167,542	167,542
Service Income	10,050	-	10,050
Special Events	82,386	-	82,386
In-Kind Contributions	6,658	-	6,658
Other Income	738	-	738
Net Assets Released from Restrictions	198,592	(198,592)	-
Total Support and Revenue	<u>469,456</u>	<u>(28,550)</u>	<u>440,906</u>
Fundraising Expenses			
Contract Labor	3,292	-	3,292
Payroll	61,717	-	61,717
Special Events	39,156	-	39,156
Other	11,374	-	11,374
Total Fundraising Expenses	<u>115,539</u>	<u>-</u>	<u>115,539</u>
Administrative Expenses			
Payroll	24,147	-	24,147
Fees	218	-	218
Other	2,526	-	2,526
Total Administrative Expenses	<u>26,891</u>	<u>-</u>	<u>26,891</u>
Program Expenses			
Payroll	175,098	-	175,098
Contract Labor	5,785	-	5,785
Insurance	4,191	-	4,191
Travel	2,899	-	2,899
Professional Fees	8,434	-	8,434
Rent and Utilities	36,090	-	36,090
Supplies	75,007	-	75,007
Other	6,480	-	6,480
Total Program Expenses	<u>313,984</u>	<u>-</u>	<u>313,984</u>
Total Expenses	<u>456,414</u>	<u>-</u>	<u>456,414</u>
Change in Net Assets	13,042	(28,550)	(15,508)
Net Assets at Beginning of Year	<u>42,571</u>	<u>35,863</u>	<u>78,434</u>
Net Assets at End of Year	<u>\$ 55,613</u>	<u>\$ 7,313</u>	<u>\$ 62,926</u>

Harpeth River Watershed Association, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2009

Cash Flows from Operating Activities

Change in Net Assets	\$ (15,508)
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**Adjustments to Reconcile Change in Net Assets
to Net Cash Provided by Operating Activities**

Depreciation	5,325
Increase in Grant Receivable	770
Increase in Other Receivable	12,746
Increase in Prepaid Expenses	119
Increase in Accounts Payable	10,192
Decrease in Accrued Expenses	(11,246)
Total Adjustments	<u>17,906</u>

Net Cash Provided by Operating Activities	2,398
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Cash Flows from Investing Activities

Cash Received from Money Market Funds	<u>15,084</u>
Net Cash Provided by Investing Activities	<u>15,084</u>

Net Increase (Decrease) in Cash	17,482
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Cash in Bank Beginning of Year	<u>31,367</u>
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Cash in Bank End of Year	<u><u>\$ 48,849</u></u>
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Harpeth River Watershed Association, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2009

Note 1 - Description and Purpose of Organization

Nature of Organization

Harpeth River Watershed Association, Inc. (the Organization) is a non-profit organization whose mission is to enhance the water quality of the Harpeth River and its tributaries through education and by promoting cooperation among citizens, businesses, and agencies in Tennessee. The majority of the Organization's income comes from donations from individuals, companies, and foundations, as well as government grants. In addition, the Organization earned \$10,050 for services performed for third parties.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Organization have been prepared on the accrual basis of accounting, which means that revenues are recognized when earned and expenses are recorded when incurred. The significant accounting policies of the Organization are described below to enhance the usefulness of the financial statements to the reader.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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.

Financial Statement Presentation

For financial statement presentation, the Organization reports its financial information according to three classes of net assets (unrestricted net assets, temporarily restricted net assets and permanently restricted net assets) based on the existence or absence of donor-imposed restrictions.

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations. Monies received without restriction or released from restriction are generally used to finance the normal day-to-day operations of the Organization.

Harpeth River Watershed Association, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2009

Note 2 - Summary of Significant Accounting Policies (continued)

Temporarily Restricted Net Assets

Net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a 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. At December 31, 2009 temporarily restricted net assets totaled \$7,313, and are subject to restricted use in the Organization's watershed programs.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. As of December 31, 2009, there were no permanently restricted net assets.

Investments

The Organization's investments at December 31, 2009 consisted of funds invested primarily in a money market account held in a Fidelity Investments brokerage account. All investment fair value measurements fall within Level 1 inputs of the fair value hierarchy noted in SFAS No. 157.

Grants Receivable

The Organization has several reimbursement type governmental grants. Grants receivable at December 31, 2009 represent costs incurred on grants that had not yet been reimbursed. Management believes all amounts are fully collectible.

Fixed Assets

Fixed assets are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Significant additions and betterments are capitalized. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred.

Income Taxes

The Organization is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and therefore, no provision for federal or state income taxes is applicable.

Harpeth River Watershed Association, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2009

Note 2 - Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

Effective January 1, 2009, the Organization adopted the guidance in ASC 740 on accounting for uncertainty in income taxes (formerly FIN 48). There was no effect on beginning net assets as a result of this accounting change. For all tax positions taken by the Organization, management believes it is clear that the likelihood is greater than 50 percent that the full amount of the tax positions taken will be ultimately realized. With few exceptions, the Organization is no longer subject to U.S. federal tax examinations by tax authorities for years before 2006. The Organization incurred no interest or penalties during the year ended December 31, 2009.

Note 3 – In-Kind Contributions

The Organization received \$6,658 of donated refreshments and supplies for their fundraising event. The Organization booked this amount as in-kind contribution income and as a related event expense.

During 2009, many individuals volunteered their time and performed a variety of tasks that assisted the Organization with program services and fundraising events. No amounts have been reflected in the financial statements for these donated services since the volunteers' time did not meet the criteria for recognition under SFAS No. 116.

Note 4 – Grant Income

The Organization received \$167,542 from various governmental agencies, including the Department of Agriculture, the U.S. Environmental Protection Agency, and the Tennessee Wildlife Resources Agency.

Note 5 – Operating Leases

The Organization entered into a lease agreement for office space with payments of \$2,850 per month for a term of three years on April 1, 2007. In April 2009, the rent was negotiated down to \$2,150 for the final year of the agreement. The Organization paid a total of \$27,900 in rent for office space during 2009.

The Organization entered into a lease agreement for a copier on April 10, 2007 for a term of three years. The lease calls for base payments of \$209 per month plus \$48 per month service and additional fees based on usage. The Organization paid \$4,596 in lease payments for the copier in 2009.

Harpeth River Watershed Association, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2009

Note 5 – Operating Leases (continued)

Future minimum lease payments for the organization are as follows:

2010	9,436
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Note 6 – Concentration of Credit Risk

The Organization has a concentration of credit risk with the grants receivable with various governmental organizations. Failure by the governmental organizations to pay the receivables would have a significant financial impact on the Organization.

Note 7 – Subsequent Events

Subsequent events have been evaluated through the financial statement date of July 13, 2010.

McKerley & Noonan, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards

To the Board of Directors of
Harpeth River Watershed Association, Inc.

We have audited the financial statements of Harpeth River Watershed Association, Inc. (a nonprofit organization) as of and for the year ended December 31, 2009, and have issued our report thereon dated July 13, 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.

Compliance

As part of obtaining reasonable assurance about whether Harpeth River Watershed Association, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Harpeth River Watershed Association, 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 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "McKerley & Noonan".

McKerley & Noonan, P.C.
Nashville, Tennessee
July 13, 2010