

Harpeth River Watershed Association, Inc.
Financial Statements
December 31, 2010

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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, 2010 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, 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 June 3, 2011, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on 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.

McKerley & Noonan

McKerley & Noonan, P.C.
June 3, 2011

Harpeth River Watershed Association, Inc.
Statement of Financial Position
December 31, 2010

Assets

Current Assets

Cash in Bank	\$ 73,030
Grants Receivable	50,700
Other Receivable	5,407
Prepaid Expenses	1,031
Total Current Assets	<u>130,168</u>

Fixed Assets

Furniture and Equipment	31,230
Less: Accumulated Depreciation	(29,477)
Total Fixed Assets	<u>1,753</u>

Total Assets	<u><u>\$ 131,921</u></u>
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Liabilities and Net Assets

Current Liabilities

Accounts Payable	\$ 13,214
Accrued Expenses	6,357
Total Current Liabilities	<u>19,571</u>

Net Assets

Unrestricted	112,350
Temporarily Restricted	-
Total Net Assets	<u>112,350</u>

Total Liabilities and Net Assets	<u><u>\$ 131,921</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, 2010

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions	\$ 170,517	\$ -	\$ 170,517
Grant Income	-	77,958	77,958
Service Income	8,350	-	8,350
Special Events	78,650	-	78,650
Other Income	680	-	680
Net Assets Released from Restrictions	85,271	(85,271)	-
Total Support and Revenue	343,468	(7,313)	336,155
Fundraising Expenses			
Payroll	10,981	-	10,981
Special Events	31,377	-	31,377
Other	8,413	-	8,413
Total Fundraising Expenses	50,771	-	50,771
Administrative Expenses			
Contract Labor	19,404	-	19,404
Payroll	5,772	-	5,772
Fees	926	-	926
Other	2,177	-	2,177
Total Administrative Expenses	28,279	-	28,279
Program Expenses			
Payroll	97,969	-	97,969
Contract Labor	10,291	-	10,291
Insurance	2,536	-	2,536
Travel	2,038	-	2,038
Professional Fees	54,899	-	54,899
Rent and Utilities	21,165	-	21,165
Supplies	11,869	-	11,869
Other	6,914	-	6,914
Total Program Expenses	207,681	-	207,681
Total Expenses	286,731	-	286,731
Change in Net Assets	56,737	(7,313)	49,424
Net Assets at Beginning of Year	55,613	7,313	62,926
Net Assets at End of Year	\$ 112,350	\$ -	\$ 112,350

Harpeth River Watershed Association, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2010

Cash Flows from Operating Activities	
Change in Net Assets	\$ 49,424
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities	
Depreciation	2,775
Loss on Disposal of Fixed Assets	784
Increase in Grant Receivable	(26,358)
Increase in Other Receivable	(4,237)
Increase in Prepaid Expenses	2,990
Increase in Accounts Payable	(3,403)
Decrease in Accrued Expenses	(268)
Total Adjustments	<u>(27,717)</u>
Net Cash Provided by Operating Activities	21,707
Cash Flows from Investing Activities	
Proceeds from Sale of Fixed Assets	<u>1,294</u>
Net Cash Used by Investing Activities	<u>1,294</u>
Net Increase (Decrease) in Cash	23,001
Cash in Bank Beginning of Year	<u>50,029</u>
Cash in Bank End of Year	<u><u>\$ 73,030</u></u>

Harpeth River Watershed Association, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2010

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 \$8,350 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, 2010

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, 2010, there were no temporarily restricted net assets.

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, 2010, there were no permanently restricted net assets.

Grants Receivable

The Organization has several reimbursement type governmental grants. Grants receivable at December 31, 2010 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.

Effective January 1, 2009, the Organization adopted the guidance in ASC 740 on accounting for uncertainty in income taxes (formerly FIN 48). 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 2007. The Organization incurred no interest or penalties during the year ended December 31, 2010.

Harpeth River Watershed Association, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2010

Note 3 – In-Kind Contributions

During 2010, 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 ASC 958-605, Revenue Recognition.

Note 4 – Grant Income

The Organization received \$77,958 from various governmental agencies, including the Tennessee Department of Agriculture, the U.S. Environmental Protection Agency, U.S. Fish and Wildlife Service, and the Tennessee Wildlife Resources Agency.

Note 5 – Operating Leases

Beginning in April 2010, the Organization entered into a month to month operating lease for office space at \$652 a month. The Organization paid \$15,168 in rent payments during 2010.

Note 6 – Concentration of Credit Risk

The Organization has a concentration of credit risk with the grants receivable from various governmental organizations. These grants are secured by the federal and/or state governments. 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 June 3, 2011.

McKerley & Noonan, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**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 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, 2010, and have issued our report thereon dated June 3, 2011. 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 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 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 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.

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 or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McKerley & Noonan

McKerley & Noonan, P.C.

Nashville, Tennessee

June 3, 2011