

Harpeth River Watershed Association, Inc.
Financial Statements
December 31, 2005

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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, 2005 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, 2005, 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 April 28, 2006, 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.
April 28, 2006

Harpeth River Watershed Association, Inc.
Statement of Financial Position
December 31, 2005

Assets

Current Assets

Cash in Bank	\$ 53,972
Grants Receivable	37,156
Prepaid Expenses	3,000
Total Current Assets	94,128

Fixed Assets

Furniture and Equipment	20,158
Less: Accumulated Depreciation	(7,283)
Total Fixed Assets	12,875

Total Assets

\$ 107,003

Liabilities and Net Assets

Current Liabilities

Accounts Payable	\$ 482
Credit Card Payable	409
Payroll Tax Liabilities	6,750
Total Current Liabilities	7,641

Net Assets

Unrestricted	81,640
Temporarily Restricted	17,722
Total Net Assets	99,362

Total Liabilities and Net Assets

\$ 107,003

Harpeth River Watershed Association, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2005

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions	\$ 158,816	\$ 8,078	\$ 166,894
Grant Income	-	155,395	155,395
Service Income	29,047	-	29,047
Special Events	55,504	-	55,504
Other Income	288	-	288
Net Assets Released from Restrictions	167,531	(167,531)	-
Total Support and Revenue	<u>411,186</u>	<u>(4,058)</u>	<u>407,128</u>
 Fundraising Expenses			
Contract Labor	3,557	-	3,557
Payroll	28,556	-	28,556
Special Events	16,980	-	16,980
Other	7,148	-	7,148
Total Fundraising Expenses	<u>56,241</u>	<u>-</u>	<u>56,241</u>
 Administrative Expenses			
Payroll	14,202	-	14,202
Contract Labor	1,615	-	1,615
Fees	62	-	62
Professional Fees	2,185	-	2,185
Depreciation	2,974	-	2,974
Other	1,701	-	1,701
Total Administrative Expenses	<u>22,739</u>	<u>-</u>	<u>22,739</u>
 Program Expenses			
Payroll	125,231	-	125,231
Contract Labor	84,627	-	84,627
Conference and Meeting Cost	4,337	-	4,337
Insurance	3,125	-	3,125
Travel	9,934	-	9,934
Professional Fees	22,153	-	22,153
Rent	10,354	-	10,354
Office	14,639	-	14,639
Other	5,460	-	5,460
Total Program Expenses	<u>279,860</u>	<u>-</u>	<u>279,860</u>
 Total Expenses	<u>358,840</u>	<u>-</u>	<u>358,840</u>
 Change in Net Assets	52,346	(4,058)	48,288
 Net Assets at Beginning of Year	<u>29,294</u>	<u>21,780</u>	<u>51,074</u>
 Net Assets at End of Year	<u>\$ 81,640</u>	<u>\$ 17,722</u>	<u>\$ 99,362</u>

Harpeth River Watershed Association, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2005

Cash Flows from Operating Activities	
Change in Net Assets	\$ 48,288
 Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities	
Depreciation	2,974
(Increase) Decrease in Grant Receivable	(25,427)
(Increase) Decrease in Prepaid Expenses	(3,000)
Increase (Decrease) in Accounts Payable	(7,180)
Increase (Decrease) in Accrued Wages	(13,387)
Increase (Decrease) in Payroll Liabilities	3,322
Total Adjustments	(42,698)
 Net Cash Provided by Operating Activities	 5,590
 Cash Flows from Investing Activities	
Cash Payments for the Purchase of Fixed Assets	(8,904)
Net Cash Used by Investing Activities	(8,904)
 Net Increase (Decrease) in Cash	 (3,314)
 Cash in Bank Beginning of Year	 <u>57,286</u>
 Cash in Bank End of Year	 <u><u>\$ 53,972</u></u>

Harpeth River Watershed Association, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2005

Note 1 - Description and Purpose of Organization

Nature of Organization

Harpeth River Watershed Association, Inc. (the Organization) is a non-profit organization who's 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 \$29,047 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, 2005

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, 2005 temporarily restricted net assets of \$17,722 represent funds 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, 2005, there were no permanently restricted net assets.

Grants Receivable

The Organization has several reimbursement type governmental grants. Grants receivable at December 31, 2005 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.

Note 3 – In-Kind Contributions

Many individuals volunteer their time and perform a variety of tasks that assist 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 does not meet the criteria for recognition under SFAS No. 116.

Harpeth River Watershed Association, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2005

Note 4 – Grant Income

The Organization received \$155,395 from various governmental agencies, including the Department of Agriculture, the U.S. Environmental Protection Agency, the Tennessee Wildlife Resources Agency, and the National Fish and Wildlife Foundation.

Note 5 – 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. The Organization also maintains at various times cash balances in excess of \$100,000 in high credit quality banks, which are insured by the Federal Deposit Insurance Corporation up to \$100,000.

**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, 2005, and have issued our report thereon dated April 28, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Directors, 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, P.C.
Nashville, Tennessee
April 28, 2006