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October 3, 2013

Board of Directors
Tippecanoe Watershed Foundation
301 N. Main Street; P.O. Box 55
North Webster, IN 46555

We have reviewed the audit report prepared by David Culp & Co., LLP, Independent Public Accountants, for the period January 1, 2010 to December 31, 2010. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Tippecanoe Watershed Foundation, as of December 31, 2010, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

Tippecanoe Watershed Foundation, Inc.
Audit Report
December 31, 2010 and 2009

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To the Board of Directors
Tippecanoe Watershed Foundation, Inc.
North Webster, Indiana

Independent Auditor's Report

We have audited the accompanying statements of assets, liabilities and net assets - modified cash basis of Tippecanoe Watershed Foundation, Inc. (the Foundation) as of December 31, 2010 and 2009, and the related statements of revenues, expenses and change in net assets - modified cash basis and cash flows - modified cash basis for the year ended December 31, 2010. These financial statements are the responsibility of the Foundation'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. 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 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.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Tippecanoe Watershed Foundation, Inc. as of December 31, 2010 and 2009, and its revenues and expenses for the year ended December 31, 2010, on the basis of accounting described in Note 1.



David Culp & Co. LLP
Certified Public Accountants

Goshen, Indiana
March 15, 2013

Tippecanoe Watershed Foundation, Inc.
 Statements of Assets, Liabilities and Net Assets - Modified Cash Basis
 December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|---|-------------------|------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 35,884 | \$ 59,451 |
| Restricted cash | 73,142 | 28,626 |
| Certificates of deposit | <u>75,000</u> | <u>-</u> |
| Total current assets | <u>184,026</u> | <u>88,077</u> |
| Office and field equipment | 16,085 | 6,441 |
| <u>Less:</u> Accumulated depreciation | <u>12,018</u> | <u>6,025</u> |
| Net fixed assets | <u>4,067</u> | <u>416</u> |
| Beneficial interest in community foundation | <u>6,459</u> | <u>5,791</u> |
| Total assets | <u>\$ 194,552</u> | <u>\$ 94,284</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| <u>Liabilities:</u> | | |
| Payroll liabilities | <u>\$ 1,115</u> | <u>\$ -</u> |
| Total liabilities | <u>1,115</u> | <u>-</u> |
| <u>Net assets:</u> | | |
| Unrestricted | 120,295 | 65,658 |
| Temporarily restricted | <u>73,142</u> | <u>28,626</u> |
| Total net assets | <u>193,437</u> | <u>94,284</u> |
| Total liabilities and net assets | <u>\$ 194,552</u> | <u>\$ 94,284</u> |

The accompanying notes are an integral part of these financial statements.

Tippecanoe Watershed Foundation, Inc.
Statement of Revenues, Expenses and Change in Net Assets - Modified Cash Basis
For The Year Ended December 31, 2010

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|--------------------|
| <u>Revenue and other support:</u> | | | |
| Donations | \$ 98,000 | \$ - | \$ 98,000 |
| Restricted donations | - | 38,013 | 38,013 |
| Grants | 145,150 | - | 145,150 |
| Change in beneficial interest in community foundation | 668 | - | 668 |
| Other income | <u>-</u> | <u>9,000</u> | <u>9,000</u> |
| Total revenue and other support before net assets released from program restrictions | 243,818 | 47,013 | 290,831 |
| Net assets released from program restrictions | <u>2,497</u> | <u>(2,497)</u> | <u>-</u> |
| Total revenue and other support | <u>246,315</u> | <u>44,516</u> | <u>290,831</u> |
| <u>Program expense:</u> | | | |
| Grant and project | 116,599 | - | 116,599 |
| Public outreach and education | 21,139 | - | 21,139 |
| Other | <u>25,204</u> | <u>-</u> | <u>25,204</u> |
| Total program expenses | <u>162,942</u> | <u>-</u> | <u>162,942</u> |
| <u>Supporting services expense:</u> | | | |
| General administration | 12,327 | - | 12,327 |
| Fundraising | <u>16,409</u> | <u>-</u> | <u>16,409</u> |
| Total supporting services expenses | <u>28,736</u> | <u>-</u> | <u>28,736</u> |
| Total expenses | <u>191,678</u> | <u>-</u> | <u>191,678</u> |
| Change in net assets | 54,637 | 44,516 | 99,153 |
| Net assets, beginning of year | <u>65,658</u> | <u>28,626</u> | <u>94,284</u> |
| Net assets, end of year | <u>\$ 120,295</u> | <u>\$ 73,142</u> | <u>\$ 193,437</u> |

The accompanying notes are an integral part of these financial statements

Tippecanoe Watershed Foundation, Inc.
Statement of Cash Flows - Modified Cash Basis
For The Year Ended December 31, 2010

Cash flows from operating activities:

| | |
|--|---------------|
| Change in net assets | \$ 99,153 |
| Adjustments to reconcile changes in net assets to net cash from operating activities: | |
| Depreciation | 5,993 |
| Change in restricted cash | (44,516) |
| Change in beneficial interest in community foundation | (668) |
| (Decrease) increase in: | |
| Payroll liabilities | <u>1,115</u> |
| Net cash provided by operating activities | <u>61,077</u> |

Cash flows from investing activities:

| | |
|--|------------------|
| Purchase of investments | (75,000) |
| Purchase of field equipment | <u>(9,644)</u> |
| Net cash (used in) investing activities | <u>(84,644)</u> |
| Net (decrease) in cash and cash equivalents | (23,567) |
| Cash and cash equivalents at beginning of year | <u>59,451</u> |
| Cash and cash equivalents at end of year | <u>\$ 35,884</u> |

The accompanying notes are an integral part of these financial statements

Tippecanoe Watershed Foundation, Inc.
Notes to Financial Statements
December 31, 2010 and 2009

Note 1: Nature of Organization and Significant Accounting Policies

Nature of organization – The Tippecanoe Environmental Lake & Watershed Foundation, Inc. d/b/a Tippecanoe Watershed Foundation (the Foundation) is an Indiana not-for-profit corporation that was formed in 1997. The Foundation exists to protect and improve the water quality within the lakes and streams of the upper Tippecanoe River watershed through the implementation of projects and programs to stop or reduce water pollution at the source.

Basis of accounting - The financial statements are prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. This basis of presentation differs from accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, revenues are recorded when received and expenses are recorded when paid. These financial statements reflect the capitalized cost of property and the withholding of employee payroll liabilities.

Basis of presentation - The Foundation reports the change in, and totals of each net asset class based on the existence of donor restrictions, as applicable. Pursuant to current accounting standards, the Foundation classifies its net assets as either unrestricted, temporarily restricted or permanently restricted. Each category is described as follows:

Unrestricted net assets represent the net assets of the Foundation that are not subject to donor-imposed stipulations. However, unrestricted net assets may be designated for particular uses by action of the Foundation's board of directors, or may be otherwise limited by contractual agreements with outside parties.

Temporarily restricted net assets represent the net assets of the Foundation that are subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations, or that expire by the passage of time.

Permanently restricted net assets represent the net assets of the Foundation that have been donated for the purpose of perpetual investment. The donor restrictions associated with this net asset class do not expire. However, the earnings generated from these net assets are available for use by the Foundation, in accordance with donor stipulations. There were no permanently restricted net assets at December 31, 2010 and 2009.

Use of estimates - The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents - For purposes of the statements of cash flows, the Foundation considers all highly liquid investments purchased from operating revenues, and having a maturity of three months or less to be cash equivalents. The Foundation has cash on deposit in a financial institution, which does not exceed the limits of coverage provided by the Federal Deposit Insurance Corporation.

Tippecanoe Watershed Foundation, Inc.
Notes to Financial Statements
December 31, 2010 and 2009

Investments – During the year ended December 31, 2010, the Foundation’s investments consisted of a certificate of deposit with a local financial institution. The certificate of deposit bears interest at 1.25% per annum.

Property and equipment - Property and equipment are stated at cost. Donated property and equipment is recorded at its estimated fair value as of the date of donation. Additionally, expenditures for new additions and repairs that substantially increase the useful lives of existing property and equipment are also capitalized. Normal repairs and maintenance are recorded as operating expenditures. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is credited to, or charged against, operations for the period.

Donations of property and equipment are reported as increases in unrestricted net assets 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 Foundation reports expirations on donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Depreciation of property and equipment is computed by the straight-line method over the estimated useful lives of the assets. For the year ended December 31, 2010, depreciation expense was \$5,993.

Revenue and support - Contributions and investment earnings are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. All donor-restricted support is reported as an increase in unrestricted net assets. Contributions are included in income in the period the gifts are received.

Donated services – A substantial number of volunteers donate significant amounts of time in providing the Foundation’s services. The financial statements do not reflect the value of those contributed services because they do not meet the criteria for recognition.

Functional allocation of expenses - The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes - The Foundation is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and applicable state law, except for taxes pertaining to unrelated business income. Additionally, the Foundation is not considered to be a private foundation under section 509(a) of the Internal Revenue code. During the year ended December 31, 2010, the Foundation did not generate any income that would be considered unrelated to its established purpose.

Tippecanoe Watershed Foundation, Inc.
Notes to Financial Statements
December 31, 2010 and 2009

Current accounting standards require the Foundation to address the determination of whether tax benefits claimed, or expected to be claimed, on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Foundation, and various positions related to the potential sources of unrelated business taxable income. The tax benefits that could be recognized in the financial statements from such positions would be measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. At December 31, 2010 and 2009, there were no unrecognized tax benefits identified or recorded as liabilities. The Foundation files Form 990 and the related state of Indiana return, and has not been subject to examination by the Internal Revenue Service in the past three years.

Subsequent events - Management has evaluated the activities and transactions subsequent to December 31, 2010 for potential recognition and/or disclosure and determined that no subsequent events exist. This analysis was performed through March 15, 2013, the date the financial statements were available to be issued.

Note 2: Beneficial interest in net assets held by community foundations – The Foundation has entered into an agreement with the Kosciusko County Community Foundation, Inc. (KCCF) in which KCCF established a fund to receive gifts for the purpose of providing support to itself. The Foundation expects to receive only the income earned on the assets held in perpetuity. Distributions from the funds are based upon KCCF’s spending policy which currently provides for an approximate annual spending rate of four percent per year of the fair value of the fund. Annual distributions from the fund, in addition to interest and dividend earnings, and net realized and unrealized gains (losses) are reported as components of the change in beneficial interest in the community foundation reported in the statement of activities.

The funds held by the community foundation represent contributions made by the Foundation from unrestricted assets and appreciation on these monies. The amounts contributed by the Foundation are recorded as beneficial interest in community foundation in the statements of financial position. Additionally, donors have and will contribute directly to the Foundation’s fund on behalf of the Foundation. These contributions are not considered to be the assets of the Foundation.

The following is a summary of the assets of the Foundation and those of KCCF that are to be used for the benefit of the Foundation:

| | <u>2010</u> | <u>2009</u> |
|-------------------------------|-----------------|-----------------|
| Contributed by the Foundation | \$ 6,459 | \$ 5,791 |
| Contributed by Others | <u>9,364</u> | <u>8,371</u> |
| Total Fair Value | <u>\$15,823</u> | <u>\$14,162</u> |

Tippecanoe Watershed Foundation, Inc.
Notes to Financial Statements
December 31, 2010 and 2009

Note 3: Board designated endowment:

Overview – The Foundation’s board designated endowment consists of pooled funds invested and managed by the area county community foundation. As required by the modified cash basis of accounting, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Foundation has determined the requirements of Indiana’s version of the uniform Prudent Management of Institutional Funds Act (UPMIFA) to center around the preservation of the fair value of the original investment as of the date of the asset transfers. Because the investments were initiated by action of the Board of Directors, the net assets associated with the endowment valuation, both principal and subsequent accumulations, are classified as unrestricted. Because the Organization’s endowment is maintained by the county community foundation, the spending policies of the foundation are followed. See Note 2 for further description of the spending policies.

Change in endowment net assets – The Organization’s change in board designated endowment net assets, which are 100% unrestricted, for the year ended December 31, 2010 is as follows:

| | |
|---|--------------------|
| Endowment net assets, beginning of year | \$5,791 |
| Investment return | 668 |
| Contributions | - |
| Appropriations and expenditures | <u> -</u> |
| Endowment net assets, end of year | <u>\$ 6,459</u> |

Note 4: Financial Instruments - Accounting standards defines fair value as the price that would be received for an asset, or paid to transfer a liability (an exit price) in the Foundation’s principle or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Foundation determines the fair market values of its readily marketable investments and certain other assets based on the fair value hierarchy established, which requires the Foundation to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs that reflect the assumptions obtained from sources independent of the Foundation. Unobservable inputs are inputs that reflect the Foundation’s own assumptions based on market data and on assumptions that market participants would use in pricing the asset or liability developed, based on the best information available in the circumstances. Accounting standard further describe three levels of inputs within its hierarchy that may be used to measure fair value:

Level 1 Inputs: Quoted price for identical assets or liabilities in active markets that the Foundation has the ability to access as of the measurement date. The fair values of debt and equity investments that are readily marketable are determined by obtaining daily quoted prices from nationally recognized securities exchanges.

Tippecanoe Watershed Foundation, Inc.
Notes to Financial Statements
December 31, 2010 and 2009

Level 2 Inputs: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs which are observable or can be corroborated by observable market data. The fair values of the Foundation's certificate of deposit are determined through inquires of the financial institution from which it originated.

Level 3 Inputs: Unobservable inputs. The fair value of the Foundation's beneficial interest in the Kosciusko County Community Foundation is based upon externally developed models that use unobservable inputs due to limited market activity of the instrument.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The Foundation's holdings with the Kosciusko County Community Foundation represent a Level 3 financial instrument. That holding and the investments of the Foundation are assets measured at fair value on a recurring basis and are summarized below:

| | <u>Fair Value Measurements at December 31, 2010</u> | | | |
|--|---|------------------|-----------------|------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Investments: | | | | |
| Certificate of Deposit | \$ - | \$ 75,000 | \$ - | \$ 75,000 |
| Beneficial interest in community foundation | <u>-</u> | <u>-</u> | <u>6,459</u> | <u>6,459</u> |
| Total assets | <u>\$ -</u> | <u>\$ 75,000</u> | <u>\$ 6,459</u> | <u>\$ 81,459</u> |

| | <u>Fair Value Measurements at December 31, 2009</u> | | | |
|--|---|----------------|-----------------|-----------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Beneficial interest in community foundation | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,791</u> | <u>\$ 5,791</u> |
| Total assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,791</u> | <u>\$ 5,791</u> |

Note 5: Temporarily Restricted Net Assets - The Foundation's temporarily restricted net assets were for the following purposes as of December 31:

| | <u>2010</u> | <u>2009</u> |
|--------------------|-----------------|-----------------|
| Land acquisition | \$43,882 | \$ 6,900 |
| Weed prevention | 14,348 | 14,348 |
| Watershed projects | 9,225 | - |
| Other | <u>5,687</u> | <u>7,378</u> |
| | <u>\$73,142</u> | <u>\$28,626</u> |

Tippecanoe Watershed Foundation, Inc.
Notes to Financial Statements
December 31, 2010 and 2009

Note 6: Government funding - During 2010, the Organization received the following grant amounts from the State of Indiana government entities:

| <u>Grantor</u> | <u>Grant Number</u> | <u>Revenue Recognized</u> |
|--|-------------------------|-------------------------------|
| Indiana Department of Environmental Management | A-305-9-272 | \$ 95,421 |
| | A-305-10-18 | <u>10,200</u> |
| Total Indiana Department of Environmental Management | | <u>105,621</u> |
| Indiana Fish and Wildlife | | |
| Lake and River Enhancement Division | N/A | <u>35,145</u> |
| Total Grants | | <u>\$ 140,766</u> |

Note 7: Retirement Benefits - The Foundation has established an IRA for the Executive Director effective April 2, 2010. The plan requires the Foundation to make a matching contribution up to 3% of the employee's contributions to the plan. There were no contributions for the year ended December 31, 2010.

Note 8: Leases - On January 1, 2009, the Foundation signed an office lease to end on January 31, 2010 with an option to extend two years at that time. The terms of the lease required monthly payments of \$575. This lease agreement has been extended through December 31, 2015, with no change in the amount of the monthly rental of \$575. Rent expense for the year ended December 31, 2010 totaled \$6,900. Future minimum rental payments are as follows:

| | |
|------|---------|
| 2011 | \$6,900 |
| 2012 | 6,900 |
| 2013 | 6,900 |
| 2014 | 6,900 |
| 2015 | 6,900 |