

**WOOD-PAWCATUCK WATERSHED ASSOCIATION  
(A NON-PROFIT ORGANIZATION)  
FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012  
WITH  
INDEPENDENT AUDITORS' REPORT**



Certified Public Accountants & Business Consultants

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**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
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**December 31, 2013 and 2012**

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Certified Public Accountants & Business Consultants

## Independent Auditors' Report

To the Board of Directors  
Wood-Pawcatuck Watershed Association  
Hope Valley, Rhode Island

### Report on the Financial Statements

We have audited the accompanying statements of financial position of Wood-Pawcatuck Watershed Association as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets, and cash flows for the years 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.

### *Auditors' 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 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 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.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wood-Pawcatuck Watershed Association as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The supplementary information on pages 13 to 16 is presented for the purposes of additional analysis and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards 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 other 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

***Other Reporting Requirements by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 2, 2014 on our consideration of Wood-Pawcatuck Watershed Association'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 that testing, and not to provide an opinion on the 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.

*YKSM, LTD.*

Providence, Rhode Island  
October 2, 2014

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 267,751	\$ 63,897
Accounts receivable	101,833	232,924
Inventory	6,071	6,628
Prepaid expenses	<u>2,747</u>	<u>2,746</u>
<b>Total Current Assets</b>	<b>378,402</b>	<b>306,195</b>
<b>Investments</b>	<b>254,490</b>	<b>218,027</b>
<b>Endowments Held in Trust</b>	<b>66,762</b>	<b>61,653</b>
<b>Property, Plant and Equipment, net</b>	<b>381,053</b>	<b>392,506</b>
<b>Other Assets:</b>		
Land held for conservation	<u>113,000</u>	<u>113,000</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,193,707</u></b>	<b><u>\$ 1,091,381</u></b>

The Accompanying Notes Are An Integral Part Of These Financial Statements

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**STATEMENTS OF FINANCIAL POSITION (CONTINUED)**  
**December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 11,664	\$ 64,749
Accrued expenses	<u>3,283</u>	<u>669</u>
 <b>Total Current Liabilities</b>	 <u>14,947</u>	 <u>65,418</u>
 <b>Net Assets:</b>		
Unrestricted	922,213	856,698
Temporarily restricted	129,497	41,231
Permanently restricted	<u>127,050</u>	<u>128,034</u>
 <b>Total Net Assets</b>	 <u>1,178,760</u>	 <u>1,025,963</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u>\$ 1,193,707</u>	 <u>\$ 1,091,381</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
 (A NON-PROFIT ORGANIZATION)  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
 For the Years Ended December 31, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted
	\$	\$	\$	\$	\$	\$
<b>Support and Revenues:</b>						
Contractual services	\$ 280	\$ -	\$ -	\$ 280	\$ 209	\$ -
Contributions	23,412	-	-	23,412	31,647	-
Dividend and interest income	16,137	-	-	16,137	10,100	-
Foundation and government grants	1,012,935	91,915	-	1,104,850	465,548	-
Gain (loss) on sales of securities	(1,273)	-	-	(1,273)	1,454	-
Membership dues	20,763	-	-	20,763	20,619	-
Merchandise and glide sales, net	1,129	-	-	1,129	1,144	-
Miscellaneous	-	-	-	-	2,029	-
Program revenues	8,400	-	-	8,400	8,444	-
Disposition of assets	4,353	-	-	4,353	-	-
Unrealized gain on investments	38,837	-	-	38,837	14,967	-
<b>Net Assets Released from Restrictions</b>						
Satisfaction of program restrictions	4,633	(3,649)	(984)	-	1,142	(449)
<b>Total Support and Revenues</b>	<u>1,129,606</u>	<u>88,266</u>	<u>(984)</u>	<u>1,216,888</u>	<u>557,303</u>	<u>(449)</u>
<b>Expenses:</b>						
Program Expenses:						
Shannock Fish Passage	850,616	-	-	850,616	468,145	-
<b>Supporting Services:</b>						
Support functions	44,982	-	-	44,982	29,013	-
General and administrative	168,382	-	-	168,382	181,878	-
Miscellaneous	111	-	-	111	-	-
<b>Total Expenses</b>	<u>213,475</u>	<u>-</u>	<u>-</u>	<u>213,475</u>	<u>210,891</u>	<u>-</u>
<b>Change In Net Assets</b>	<u>1,064,091</u>	<u>-</u>	<u>-</u>	<u>1,064,091</u>	<u>679,036</u>	<u>-</u>
Net assets, beginning of year	65,515	88,266	(984)	152,797	(121,733)	(449)
Net assets, end of year	<u>856,698</u>	<u>41,231</u>	<u>128,034</u>	<u>1,025,963</u>	<u>978,431</u>	<u>41,680</u>
	<u>\$ 922,213</u>	<u>\$ 129,497</u>	<u>\$ 127,050</u>	<u>\$ 1,178,760</u>	<u>\$ 856,698</u>	<u>\$ 41,231</u>

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended December 31, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 152,797	\$ (122,875)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	14,922	18,085
Realized (gain) loss	1,273	(1,454)
Unrealized gain	(38,837)	(14,967)
Gain on disposition of property, plant, & equipment	(4,350)	-
Changes in operating assets and liabilities:		
Decrease in accounts receivables	131,091	208,273
Decrease in inventory	557	1,423
(Accrual) decrease in prepaid expenses	(1)	5,779
Decrease in accounts payable	(53,085)	(143,185)
Increase in accrued expenses	<u>2,614</u>	<u>93</u>
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>206,981</b>	<b>(48,828)</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(5,619)	(2,050)
Investment/endowment activity	(4,008)	(2,288)
Proceeds from sale of fixed assets	<u>6,500</u>	<u>-</u>
<b>Net Cash Used In Investing Activities</b>	<b><u>(3,127)</u></b>	<b><u>(4,338)</u></b>
<b>Net Increase (Decrease) In Cash</b>	<b>203,854</b>	<b>(53,166)</b>
Cash and cash equivalent, beginning of year	<u>63,897</u>	<u>117,063</u>
Cash and cash equivalent, end of year	<u>\$ 267,751</u>	<u>\$ 63,897</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

**Note 1 – Summary of Significant Accounting Policies**

**Nature of Operations** – Wood-Pawcatuck Watershed Association (the Association) is a non-profit Association whose mission is to promote and protect the integrity of the lands and waters of the Wood and Pawcatuck watersheds. The Association has individual and corporate members that pay annual dues as well as contribute financial support and volunteer services throughout the year in support of the various programs that the Association offers. The Association also receives funding from private foundations, as well as municipal, state and federal government agencies.

**Basis of Accounting** – Wood-Pawcatuck Watershed Association uses the accrual basis of accounting and accordingly reflects all significant receivables, payables and other liabilities.

**Basis of Presentation** - The Association presents financial statements in accordance with Presentation of Financial Statements for Not for Profit Entities Topic of the FASB Accounting Standards Codification. Under this topic, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Unrestricted Net Assets** - consist of those amounts that are available for operations and support in carrying out the purpose of the Association.

**Temporarily Restricted Net Assets** - consist of those resources that are restricted by donors to specific program activities. When the restrictions are met as the activities are performed, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted resources that meet the restrictions in the same reporting period are reported as unrestricted support.

**Permanently Restricted Net Assets** - consist of resources of which the original principal is restricted by the donors for investment in perpetuity, while the income may be either temporarily restricted or unrestricted, according to the donors' wishes.

**Property and Equipment** - Property and equipment are carried at cost. The Association's policy is to capitalize assets which exceed \$1,000. Depreciation is computed using the straight-line method over lives ranging from 5 to 40 years. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected as a change in net assets for the period. The cost of maintenance and repairs are expensed as incurred; significant renewals and betterment are capitalized. A deduction is made for retirements resulting from renewals or betterment.

**Cash Equivalents** - For the statement of cash flows, all investment instruments with original maturities of three months or less are considered cash equivalents.

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

**Note 1 – 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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Compensated Absences** - Employees of the Association are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service, and other factors. It is impractical to estimate the amount of compensation for future absences, and, accordingly, no liability has been recorded in the Association's financial statements. The Association's policy is to recognize the costs of compensated absences when actually paid to employees.

**Investments** - The Association reports investments in accordance with Presentation of Financial Statements for Not for Profit Entities Topic of the FASB Accounting Standards Codification. Pursuant to this topic, investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair value in the statement of financial position with gains and losses included in the statement of activities. Investments in equity securities that do not have a readily determinable fair value are reported at cost.

**Fair Value Measurement** – The Association measures and discloses certain financial assets and liabilities at fair value. The Fair Value Topic of the FASB Accounting Standards Codification defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the most advantageous market in an orderly transaction between market participants on the measurement date. Under this guidance, the Association is also required to classify certain assets and liabilities based on the following fair value hierarchy:

**Level 1** – Quoted prices in active markets for identical assets or liabilities.

**Level 2** – Quoted prices for identical assets and liabilities in markets that are not active; quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly and;

**Level 3** – Prices or valuations that require inputs that are both significant to the fair value measurements and unobservable.

The Association utilizes the active market approach to measure the fair value of cash, cash equivalents and trading securities.

**Inventory** – Inventory consists of guide books and other merchandise for sale to the general public. Inventory is valued at the lower of cost or market (based on a first in, first out) or market value.

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Income Taxes** - The Association is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Rhode Island Division of Taxation has also granted the Association an exemption from state corporate taxes.

**Uncertain Tax Positions** - The Association accounts for certain tax positions in accordance with Topics of the FASB Accounting Standards Codification. This guidance increases the relevancy and comparability of financial reporting by clarifying the way entities account for uncertainties in income taxes for tax positions taken or expected to be taken. The adoption of this guidance resulted in no change to net assets and no increase in accrued liabilities. The Association has evaluated its accounting and tax positions, including its properly approved and maintained non-profit status, and is of the opinion that more likely than not the policies and positions it has adopted will remain unchanged. The Association files non-profit information returns in the U.S. Federal jurisdiction which has a statute of limitations of three years.

**Subsequent Events** - Management has evaluated subsequent events through October 2, 2014, the date which the financial statements were available to be issued. No significant events have been identified that would require adjustment of, or disclosure in the accompanying financial statements.

**Note 2 – Cash Concentrations**

Financial instruments which potentially subject the Association to concentrations of credit risk as required by the Financial Instruments Topic of FASB Accounting Standards Codification consist of cash and cash equivalents.

The Association maintains its cash balances at two financial institutions located in Rhode Island. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) for December 31, 2013 and 2012. The FDIC limit had been temporarily increased to unlimited insurance on all non-interest bearing deposit accounts through December, 31 2012 and permanently increased to \$250,000 for all other deposit accounts. Subsequent to December 31, 2012, all deposit accounts are insured up to \$250,000. At December 31, 2013, \$86,195 of the Company's cash was not insured by the FDIC. As of December 31, 2012, all cash accounts were insured by the FDIC.

**Note 3 – Related-Party Transactions**

An uncompensated member of the board of directors also is the investment broker for all investments held by the Association.

**Note 4 – Fiscal-Agency Relationships**

During 2013 and 2012, the Association acted as a fiscal agent for an association of local artists known as Hop Arts, receiving contributions and making disbursements in accordance with agreed-to procedures with the group.

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

**Note 5 – Property, Plant and Equipment**

The following is a summary of the major classes of property and equipment as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Buildings and improvements	\$ 351,292	\$ 345,675
Land	117,723	117,723
Vehicles	<u>2,220</u>	<u>20,636</u>
	471,235	484,034
Less: accumulated depreciation	<u>(90,182)</u>	<u>(91,528)</u>
	 Net Property, Plant and Equipment	 \$ <u>381,053</u>
		\$ <u>392,506</u>

Depreciation expense for the years ended December 31, 2013 and 2012 were \$14,922 and \$18,085 respectively.

**Note 6 – Restricted Assets**

Restricted assets consist of plots of land donated to the Association to be held for conservation as well as endowments held in a trust (Note 9).

**Note 7 – Temporary Restrictions/Limitations on Net Assets**

During the year ended December 31, 2013, the Association agreed upon new terms for the use of a capital revolving fund provided by the Champlin Foundation during 2006. The original terms of the agreement were to provide advances on the Association's program costs. As the Association received funding from various organizations for the program, the capital revolving fund would be reimbursed. Since the inception of the Shannock Fish Passage project, the entirety of the capital revolving fund had been advanced. As of December 11, 2013, the Association agreed with Champlin, that any amount recouped of the capital revolving fund would now be used indefinitely as designated by the Champlin Foundation. As of December 31, 2013, \$91,915 was recouped from the Shannock Fish Passage project and designated to be used for campus renovation, and computer upgrades. These projects began and were completed during the subsequent year, thereby temporarily restricting these assets as of December 31, 2013. There were no temporarily restricted net assets as of December 31, 2012 from this project.

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

**Note 8 - Investments**

As of December 31, 2013 and 2012 investments at fair value consisted of the following:

	<u>2013</u>	<u>2012</u>
Polly Fund	\$ 230,668	\$ 197,376
Philip R. Sisson Memorial Fund	22,203	19,062
Raymond F. Cherenzia Fund	<u>1,619</u>	<u>1,589</u>
 Total	 <u>\$ 254,490</u>	 <u>\$ 218,027</u>

Generally, for all trading securities, fair value is determined by reference to quoted market prices and other relevant information generated by market transactions.

The following schedule summarizes investment returns and its classification in the statement of activities as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 11,256	\$ 10,314
Unrealized gain due to market fluctuations	31,427	9,091
Realized gain (loss) on sale of investment	<u>(2,411)</u>	<u>736</u>
 Investment income	 40,272	 20,141
 Investment income from endowments	 <u>13,429</u>	 <u>6,380</u>
 Total investment income	 <u>\$ 53,701</u>	 <u>\$ 26,521</u>

**Note 9 – Endowments Held**

The Association is a beneficiary of The Saul B. Saila Fellowship Fund, held by Rhode Island Foundation. Under the terms of the agreement, the Association has the irrevocable right to receive income earned by the fund, dependent on the fund distribution guidelines, but not the assets held in fund. The principal is restricted in perpetuity. In accordance with Measurement of Investments for Not for Profit Entities Topic of the FASB Accounting Standards Codification, this fund has been recorded on the accompanying statement of financial position at its fair value within the permanently restricted class of assets. The funds are pooled with other investments of the Rhode Island Foundation. The investment activities are reported to the Association based on its percentage share of funds in the pool accounts of the Rhode Island Foundation. The net realized and unrealized gains and losses of \$2,952 and \$1,984 from these investments along with interest and dividends are recorded as unrestricted investment gains and losses within the statement of activities for the years ended December 31, 2013 and 2012, respectively.

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

**Note 9 – Endowments Held (Continued)**

The Association is also a beneficiary of The WPWA Mitch and Betty Salomon Fund, held by Community Foundation of Eastern Connecticut. Under the terms of the agreement, the Association has the irrevocable right to receive income earned by the fund, dependent on the fund distribution guidelines, but not the assets held in fund. However, at any time the Association, dependent on board approval by both entities, may withdraw all funds held in the fund less the matching contribution. In accordance with Measurement of Investments for Not for Profit Entities Top of the FASB Accounting Standards Codification, this fund has been recorded on the accompanying statement of financial position at its fair value within the temporarily restricted class of assets. The funds are pooled with other investments of the Community Foundation of Eastern Connecticut. The investment activities are reported to the Association based on its percentage share of funds in the pool accounts of the Community Foundation of Eastern Connecticut. The net realized and unrealized gains and losses of \$5,596 and \$4,610 from these investments are recorded as unrestricted investment gains and losses within the statement of activities for the years ended December 31, 2013 and 2012, respectively.

## **SUPPLEMENTARY INFORMATION**

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended December 31, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
USDoC/NOAA/RI Coastal Resources Management & Save the Bay Habitat Conservation (ARRA)	11.463	845,870
USDoc/NOAA/US Environmental Protection Agency Urban Waters Grant	66.44	<u>29,612</u>
Total		\$ <u>875,482</u>

*The schedule of expenditures of federal awards includes the federal grant activity from Wood-Pawcatuck Watershed Association and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.*

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**SCHEDULES OF PROGRAM EXPENSES**  
**For the Years Ended December 31, 2013 and 2012**

	<b><u>2013</u></b>	<b><u>2012</u></b>
Shannock Fish Passage:		
Construction	\$ 795,446	\$ 240,316
Engineering	21,884	168,074
Audit	14,987	22,550
Permits	1,619	29,425
Project oversight, internal	<u>16,680</u>	<u>7,780</u>
Total Shannock Fish Passage	<u>850,616</u>	<u>468,145</u>
 Total Program Expenses	 <u>\$ 850,616</u>	 <u>\$ 468,145</u>

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**SCHEDULES OF SUPPORT FUNCTIONS EXPENSES**  
**For the Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Contracted services	\$ 18,443	\$ -
Educational programs	1,361	1,814
Fundraising	1,337	3,499
Grant expenses	13,258	12,371
Membership and volunteers	248	267
Merchandise	638	1,522
Recreational programs	197	508
Scientific monitoring	<u>9,500</u>	<u>9,032</u>
 Total Support Function Expense	 <u>\$ 44,982</u>	 <u>\$ 29,013</u>

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES**  
**For the Years Ended December 31, 2013 and 2012**

	<b><u>2013</u></b>	<b><u>2012</u></b>
Accounting	\$ 11,055	\$ 14,176
Bank service charges	743	725
Board of trustees	553	687
Conferences and travel	825	741
Contributions	11,850	-
Depreciation	14,922	18,085
Dues	474	500
Endowment management fees	893	822
Equipment	923	1,524
Insurance	3,964	4,107
Internet/website	1,171	2,214
Miscellaneous	945	694
Office expense	1,259	227
Payroll and benefits, net of project oversight	110,354	126,903
Payroll service	772	601
Printing and postage	2,061	2,799
Repairs and maintenance	224	729
Training and certifications	1,172	1,769
Telephone	980	878
Utilities	2,989	1,909
Vehicle	<u>253</u>	<u>1,788</u>
 Total General and Administrative Expense	 <u>\$ 168,382</u>	 <u>\$ 181,878</u>

**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**

*Independent Auditors' Report*

Board of Directors  
Wood-Pawcatuck Watershed Association  
Hope Valley, RI

We have audited 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, the financial statements of Wood-Pawcatuck Watershed Association as of and for the year ended December 31, 2013 and the related notes to the financial statements, and have issued our report thereon dated October 2, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Wood-Pawcatuck Watershed Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wood-Pawcatuck Watershed Association's internal control. Accordingly, we do not express an opinion on the effectiveness of Wood-Pawcatuck Watershed Association's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (Finding 2013-1, and 2013-2).

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Wood-Pawcatuck Watershed Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Wood-Pawcatuck Watershed Association in a separate letter dated October 2, 2014.

### **Wood-Pawcatuck Watershed Association's Response to Findings**

Wood-Pawcatuck Watershed Association's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Wood-Pawcatuck Watershed Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*YKSM, LTD.*

Providence, RI  
October 2, 2014

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

*Independent Auditors' Report*

To the Board of Directors of  
Wood-Pawcatuck Watershed Association  
Hope Valley, RI

**Report on Compliance for Each Major Federal Program**

We have audited Wood-Pawcatuck Watershed Association's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Wood-Pawcatuck Watershed Association's major federal programs for the year ended December 31, 2013. Wood-Pawcatuck Watershed Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Wood-Pawcatuck Watershed Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Wood-Pawcatuck Watershed Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Wood-Pawcatuck Watershed Association's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Wood-Pawcatuck Watershed Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

**Report on Internal Control over Compliance**

Management of Wood-Pawcatuck Watershed Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Wood-Pawcatuck Watershed Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Wood-Pawcatuck Watershed Association's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*YKSM, LTA.*

Providence, RI  
October 2, 2014

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**SUMMARY SCHEDULE OF THE CURRENT STATUS**  
**OF THE PRIOR YEAR'S AUDIT COMPLIANCE FINDINGS**  
**December 31, 2013**

**Section I - Financial Statement Findings**

**Material Weaknesses**

**2012-1 Segregation of Function**

*Statement of Condition:*

A good system of internal control provides for a proper segregation of accounting functions. The Association does not have proper segregation of duties over cash receipts. For example, the same person who opens the mail and prepares a check list and deposit slip, deposits checks electronically in the bank. We identified instances of overlap of function by personnel responsible for bookkeeping and recording of transactions.

*Recommendation:*

The management needs to take steps to improve segregation of duties by enlisting another individual to become involved in the receipts process.

**Current Status:**

Segregation of duties for receipts processing is still a deficiency. See current year finding 2013-1 response on the accompanying schedule of findings and questioned costs.

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**SUMMARY SCHEDULE OF THE CURRENT STATUS**  
**OF THE PRIOR YEAR'S AUDIT COMPLIANCE FINDINGS**  
**December 31, 2013**

**2012-2 Internal Controls Over Payroll**

*Statement of Condition:*

A good system of internal control should include sufficient review of payroll information. The Association does not employ a proper review of payroll disbursement. During the fiscal year 2012, one employee received excessive compensation due to an error in communication with the Association's payroll service provider. Due to insufficient controls, the Association was not able to detect and prevent this error until it had continued for eight months, at which point the payroll company acknowledged and agreed that the error was theirs and subsequently reimbursed the Association for their overpayment.

*Recommendation:*

The management needs to take steps to strengthen internal controls and oversight over payroll by providing a more detailed review of payroll information.

*Current Status:*

The Association now submits all payroll change requests to the payroll company in written form and the Association's controller and executive director now independently review every payroll journal issued by the service provider for accuracy.

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**December 31, 2013**

**Section I - Financial Statement Findings**

Material Weakness

**2013-1 Segregation of Function**

*Criteria:* Management should improve segregation of duties.

*Statement of Condition:*

A good system of internal control provides for a proper segregation of accounting functions. The Association does not have proper segregation of duties over cash receipts. For example, the same person who opens the mail and prepares a check list and deposit slip, deposits checks electronically in the bank. We identified instances of overlap of function by personnel responsible for bookkeeping and recording of transactions.

*Effect of Condition:*

Potential exists that a material misstatement of the financial statements or fraud could occur and not be prevented or detected by the organization's internal control.

*Recommendation:*

The management needs to take steps to improve segregation of duties by enlisting another individual to become involved in the receipts.

*Response:*

During 2013 management made a good faith attempt to implement the recommended controls over cash receipts by segregating the recording and bank deposit procedures for a majority of the year, despite the Association's acknowledgment that material weakness still existed within the procedures recommended by their consultants. Additionally, the Association found the procedures to be too onerous on staff and resulted in significant delays in depositing donor's funds which elicited complaints from a portion of donors. Current and intended future practices require that recording and depositing be conducted by more than one person when feasible.

**WOOD-PAWCATUCK WATERSHED ASSOCIATION**  
**(A NON-PROFIT ORGANIZATION)**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**December 31, 2013**

**2013-2 Third Party Payroll Provider**

*Criteria:* Management should strengthen internal controls and oversight over payroll.

*Statement of Condition:*

The entity employs a third party payroll provider. The payroll provider does not have an internal control audit performed under Statements on Standards for Attestation Engagements (SSAE) No. 16 after its previous audit dated March 27<sup>th</sup>, 2013. There is limited assurance the third party payroll provider's internal controls are operating effectively to ensure all payroll prepared and issued, all quarterly and annual reports filed with federal and state agencies are filed accurately and timely, and all payroll taxes withheld by the payroll company are paid to the respective agency. The lack of controls could result in a material misstatement of the financial statements and not be prevented or detected by the organization's internal controls.

*Effect of Condition:*

Potential exists that a material misstatement of the financial statements or fraud could occur and not be prevented or detected by the third party payroll provider.

*Recommendation:*

The entity needs to employ a payroll provider who has an annual internal control audit.

*Response:*

When the Association engaged with its now former payroll provider, CSC Paymaster, it was done with the explicit understanding that SOC reports were conducted annually by the payroll company. Those reports were made available to our consultants in previous years. Subsequent to CSC Paymaster's engagement, and without communication to the Association, this annual procedure was discontinued by the payroll company. Upon this discovery the Association took immediate steps to engage with an alternate vendor who could guarantee the provision of annual SOC reports. Effective September 26th 2014, WPWA has engaged with ADP to provide payroll services.