

FOX-WOLF WATERSHED ALLIANCE, INC.

KIMBERLY, WISCONSIN

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

**FOX-WOLF WATERSHED ALLIANCE, INC.
KIMBERLY, WISCONSIN**

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Erickson & Associates, S.C.
Certified Public Accountants

1000 West College Avenue • Appleton, Wisconsin 54914 • (920) 733-4957 • FAX (920) 733-6221
255 South Main Street • Fond du Lac, Wisconsin 54935 • (920) 921-4189 • FAX (920) 923-1149
www.erickson-cpas.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fox-Wolf Watershed Alliance, Inc.
Kimberly, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Fox-Wolf Watershed Alliance, Inc. (a non-profit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 from 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 Organization'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 Organization'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 Fox-Wolf Watershed Alliance, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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 as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the *State Single Audit Guidelines* is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information 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 additional 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Information Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2018, on our consideration of Fox-Wolf Watershed Alliance, Inc.'s internal control over financial reporting and 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*, in considering Fox-Wolf Watershed Alliance, Inc.'s internal control over financial reporting and compliance.

Erickson & Associates, S.C.

ERICKSON & ASSOCIATES, S.C.

Appleton, Wisconsin

August 8, 2018

**FOX-WOLF WATERSHED ALLIANCE, INC.
KIMBERLY, WISCONSIN**

STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	2017	2016
Current assets:		
Cash	\$ 82,970	\$ 140,538
Accounts receivable	8,136	--
Grants receivable	360,778	258,747
Prepaid expenses	3,500	1,301
Total current assets	455,384	400,586
Property and equipment:		
Furniture and equipment	41,258	41,258
Less accumulated depreciation	29,646	25,529
Net property and equipment	11,612	15,729
Other assets:		
Restricted cash - NEWSC	98,439	110,062
Total assets	\$ 565,435	\$ 526,377

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 349,810	\$ 352,762
Accrued payroll	12,027	11,034
Payroll tax liabilities	6,782	5,775
Deferred revenues	64,727	21,259
Total liabilities	433,346	390,830
Net assets:		
Unrestricted:		
Property and equipment	11,612	15,729
Undesignated	7,911	(12,627)
Total unrestricted	19,523	3,102
Temporarily restricted	112,566	132,445
Total net assets	132,089	135,547
Total liabilities and net assets	\$ 565,435	\$ 526,377

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS.

FOX-WOLF WATERSHED ALLIANCE, INC.
KIMBERLY, WISCONSIN

STATEMENTS OF ACTIVITIES
For the Years Ended December 31,

	2017		Totals
	Unrestricted	Temporarily Restricted	
Support and revenue:			
Contributions	\$ 18,825	\$ 4,000	\$ 22,825
Government grants	976,188	--	976,188
Other grants	10,389	12,349	22,738
Donations - in kind	9,317	--	9,317
Program revenues	1,005	--	1,005
Membership dues	73,435	--	73,435
Contracted services	51,680	--	51,680
Conference revenues	41,875	10,980	52,855
Interest income	802	--	802
Net assets released from restrictions	47,208	(47,208)	--
Total support and revenue	1,230,724	(19,879)	1,210,845
Expenses:			
Program services	1,159,467	--	1,159,467
Management and general	53,397	--	53,397
Fund raising	1,439	--	1,439
Total expenses	1,214,303	--	1,214,303
Change in net assets	16,421	(19,879)	(3,458)
Net assets - beginning of year	3,102	132,445	135,547
Net assets - end of year	\$ 19,523	\$ 112,566	\$ 132,089

2016		
Unrestricted	Temporarily Restricted	Totals
\$ 968	\$ --	\$ 968
792,659	--	792,659
102,409	26,400	128,809
9,555	--	9,555
2,718	--	2,718
65,515	--	65,515
28,738	--	28,738
49,412	2,300	51,712
676	--	676
1,650	(1,650)	--
<u>1,054,300</u>	<u>27,050</u>	<u>1,081,350</u>
1,005,786	--	1,005,786
69,030	--	69,030
374	--	374
<u>1,075,190</u>	<u>--</u>	<u>1,075,190</u>
(20,890)	27,050	6,160
<u>23,992</u>	<u>105,395</u>	<u>129,387</u>
<u>\$ 3,102</u>	<u>\$ 132,445</u>	<u>\$ 135,547</u>

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS.

**FOX-WOLF WATERSHED ALLIANCE, INC.
KIMBERLY, WISCONSIN**

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31,

	2017			
	Program Services	Management and General	Fund Raising	Totals
Salaries and wages	\$ 259,872	\$ 31,953	\$ 721	\$ 292,546
Payroll taxes	18,912	3,379	13	22,304
Direct program expenses	828,581	--	--	828,581
Occupancy	4,865	993	83	5,941
Office supplies	1,965	519	55	2,539
Office equipment	5,876	3,016	63	8,955
Insurance	2,262	39	104	2,405
Telephone	5,837	608	118	6,563
Postage and shipping	767	55	10	832
Printing and publications	6,154	889	49	7,092
Travel	11,862	150	2	12,014
Conferences, meetings, and workshops	10,493	196	35	10,724
Professional services	288	6,942	154	7,384
Website expenses	250	3	1	254
Miscellaneous	1,483	537	31	2,051
Total expenses before depreciation	1,159,467	49,279	1,439	1,210,185
Depreciation	--	4,118	--	4,118
Total expenses	\$ 1,159,467	\$ 53,397	\$ 1,439	\$ 1,214,303

2016

Program Services	Management and General	Fund Raising	Totals
\$ 189,115	\$ 35,841	\$ 315	\$ 225,271
14,167	2,685	24	16,876
776,040	--	--	776,040
2,320	3,580	--	5,900
592	625	--	1,217
3,585	4,109	--	7,694
19	2,182	--	2,201
1,683	2,648	--	4,331
1,245	183	--	1,428
2,491	254	27	2,772
4,622	318	--	4,940
8,630	1,650	--	10,280
--	8,722	--	8,722
225	18	--	243
1,052	958	8	2,018
1,005,786	63,773	374	1,069,933
--	5,257	--	5,257
<u>\$ 1,005,786</u>	<u>\$ 69,030</u>	<u>\$ 374</u>	<u>\$ 1,075,190</u>

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS.

**FOX-WOLF WATERSHED ALLIANCE, INC.
KIMBERLY, WISCONSIN**

STATEMENTS OF CASH FLOWS
For the Years Ended December 31,

	2017	2016
Cash flows from operating activities:		
Donations and grants received	\$ 919,720	\$ 673,680
Program service revenue received	214,307	127,586
Cash paid for operating expenses	(1,204,020)	(706,023)
Investment income	802	676
Net cash provided by (used in) operating activities	(69,191)	95,919
Net increase (decrease) in cash	(69,191)	95,919
Cash balance, beginning of year	250,600	154,681
Cash balance, end of year	\$ 181,409	\$ 250,600
Significant non-cash items - in-kind contributions:		
In-kind donations of materials, supplies, and services	\$ 9,317	\$ 9,555

**RECONCILIATIONS OF CHANGES IN NET ASSETS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Change in net assets	\$ (3,458)	\$ 6,160
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,118	5,257
(Increase) decrease in operating assets:		
Accounts receivable	(8,136)	1,800
Grants receivable	(102,031)	(248,756)
Prepaid expenses	(2,199)	8
Increase (decrease) in operating liabilities:		
Accounts payable	(2,953)	348,222
Accrued payroll	993	4,672
Payroll tax liabilities	1,007	1,453
Deferred revenues	43,468	(22,897)
Net cash provided by (used in) operating activities	\$ (69,191)	\$ 95,919

**FOX-WOLF WATERSHED ALLIANCE, INC.
KIMBERLY, WISCONSIN**

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies:

Nature of Activities

Fox-Wolf Watershed Alliance, Inc. (Organization) is an independent nonprofit organization that identifies issues and advocates effective policies and actions that protect, restore, and sustain the water resources of the Fox-Wolf River Basin. To accomplish its mission, the Organization has three main activities:

Research - Working towards developing a cost-effective, watershed based strategy for improving water quality through a Water Quality Trading Program.

Restoration and Watershed Recovery - This project will reduce agricultural and nutrient loading to the Lower Fox River and Green Bay by installing conservation practices in key sections of the watershed with the highest loading sediment per cropland acre in the Lower Fox River. The project will test innovative practices and monitor the effects of those practices to guide implementation throughout the region.

Outreach and Education - Providing training and education to home owners, teachers, builders / developers, businesses, municipal employees & officials throughout Northeast Wisconsin through training programs, exhibiting efforts, an annual Watershed Cleanup event, website updates, and educational signage and flyers. Training is focused on what each individual can do at home / school / work to protect and restore local waters. NEWSC I&E efforts are targeted at home owners, builders / developers, industry, municipal employees and officials.

Basis of Presentation

The Organization's financial statements are presented in accordance with the requirements of the *Non-Profit Entities Topic of the FASB (Financial Accounting Standards Board) Accounting Standards Codification*. Under this Topic, the Organization 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.

Net Assets

Unrestricted net assets consist of amounts currently available for use by the Organization at the discretion of the Board of Directors.

Temporarily restricted net assets consist of amounts expendable for purposes specified by a grant or donor.

Permanently restricted net assets consist of amounts not available for expenditures. The Organization did not have any permanently restricted net assets as of December 31, 2017 or 2016.

Cash

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Uncollected accounts receivable are expensed when they are considered uncollectible. The accounts receivable balance is thought to be collectible, and no provision for uncollectible accounts has been made in these statements. Credit is extended on an unsecured basis.

**FOX-WOLF WATERSHED ALLIANCE, INC.
KIMBERLY, WISCONSIN**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 1. Summary of Significant Accounting Policies - Continued:

Property and Equipment

Vehicles, equipment, and furnishings are valued at cost when purchased or fair value when donated. It is not the Organization's policy to imply time restrictions expiring over the useful life of donated assets.

Amortization has been computed using the straight-line method based on useful lives as follows:

Office equipment and furniture	3 to 7 years
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Contributions

Contributions and grants received are recorded as unrestricted or temporarily restricted support depending on the existence or nature of any donor restrictions. Donor restricted contributions required to be reported as temporarily restricted support are reclassified to unrestricted net assets when the purpose for which the donation was restricted has been fulfilled. The Organization has not received any contributions that would be considered permanently restricted for 2017 or 2016.

Donated Materials and Services

Donated materials have been reflected in the accompanying financial statements based on the estimated fair values. Donated collection items have been capitalized. Donated services are reflected in the financial statements for services the Organization does not pay for that requires specific expertise. The Organization recognized donated services in the amount of \$5,909 and \$4,200 for the years ended December 31, 2017 and 2016, respectively. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific program services and various administrative services, which are not included with the Organization's financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Expenses

Expenses by function have been allocated among program and supporting services based on estimates made by the Organization's management.

Note 2. Concentrations of Credit Risk:

The Organization maintains its bank accounts at one financial institution in the Fox Valley area. Aggregate deposits at each bank are insured by the National Credit Union Administration up to \$250,000 per financial institution. The Organization's cash deposits exceed these federally insured limits at times during the year. The Organization has not experienced any losses on these accounts. Management believes the Organization is not exposed to any significant credit risk on cash.

Note 3. Grants Receivable:

Grants receivable consists of grants from various local agencies that partner with the Organization as well as the Federal EPA grant. All amounts are due within one year and the amount outstanding was \$360,778 and \$258,747 at December 31, 2017 and 2016, respectively.

**FOX-WOLF WATERSHED ALLIANCE, INC.
KIMBERLY, WISCONSIN**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 4. Tax Exempt Status:

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization has been classified as an organization that is not a private foundation, and donations made to the Organization qualify for the charitable deduction. The Organization is also exempt from Wisconsin income taxes.

The Organization adopted the provisions of the *Income Taxes Topic of the FASB Accounting Standards Codification*. As a result, the Organization evaluates its tax positions based on whether or not the position is more likely than not to be sustained upon examination by taxing authorities. The Organization continually evaluates its tax positions, changes in tax law and new authoritative rulings for potential implications on its tax status. The Organization's federal return is subject to examination generally for three years after being filed.

Note 5. Operating Lease:

During 2017 the Organization rented its office space under a new operating lease which is effective for the period May 15, 2017 through June 15, 2020. Rent payments are due in the amount of \$725 per month. Rent payments made under this agreement totaled \$3,625 for 2017.

During 2016 the Organization rented its office space under an operating lease. Rent payments were due in the amount of \$620 per month. Rent payments under this agreement totaled \$6,200 for 2016.

The future minimum lease payments are as follows for the year ending December 31,

2018	\$	8,700
2019		8,700
2020		4,350
		<u>21,750</u>
	\$	<u>21,750</u>

Note 6. Temporarily Restricted Net Assets:

Temporarily restricted net assets consisted of the following as of December 31,

	2017	2016
Northeast Wisconsin Stormwater Consortium	\$ 98,439	\$ 103,745
2017 Watershed Conference sponsorships	--	2,300
2017 River Cleanup event sponsorships	--	2,500
2018 Watershed Conference sponsorships	8,789	--
2018 River Cleanup event sponsorships	4,483	--
Clean Bay Backers	855	--
Monitoring Data for Water Quality grant	--	23,900
Totals	\$ 112,566	\$ 132,445

**FOX-WOLF WATERSHED ALLIANCE, INC.
KIMBERLY, WISCONSIN**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 7. Self-Funding for State Unemployment Compensation:

The Organization has elected to pay claims for unemployment compensation (if any) rather than participate in the Wisconsin Unemployment Reserve Fund (WURF). As a condition of this election, the Organization is required to maintain an open line of credit to cover such claims. As of December 31, 2017, the Organization had a line of credit in the amount of \$2,665 with the WURF named as the beneficiary. The outstanding balance on the line of credit as of December 31, 2017 and 2016, was \$0. There were no claims paid for the year ended December 31, 2017 or 2016. The letter of credit expires December 31, 2021.

Note 8. Major Support Received:

During the years ended December 31, 2017 and 2016, the Organization received major support from one source that exceeded 10% of the Organization's total. Total revenue from this source was \$910,406 and was \$787,771 for 2017 and 2016, respectively and \$359,567 and \$236,728 was owed from this source as of December 31, 2017 and 2016, respectively.

Note 9. Subsequent Events:

The Organization has evaluated all subsequent events through August 8, 2018, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**FOX-WOLF WATERSHED ALLIANCE, INC.
KIMBERLY, WISCONSIN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended December 31, 2017**

Awarding Agency/ Award Description	Federal CFDA Number	State ID Number	Grant Number	Accrued Receivable 12/31/16	Expenditures	Grantor Reimbursement	Accrued Receivable 12/31/17	Passed Through to Subrecipients
U.S. ENVIRONMENTAL PROTECTION								
AGENCY								
Great Lakes Program	66.469	n/a	GL-00E01451	\$ 220,405	\$ 804,733	\$ 711,036	\$ 314,102	\$ 598,627
Great Lakes Program	66.469	n/a	GL-00E01906	16,323	104,296	75,455	45,164	111,144
Great Lakes Program	66.469	n/a	GL-00E02239	--	1,377	1,076	301	--
Total expenditures of federal awards				<u>\$ 236,728</u>	<u>\$ 910,406</u>	<u>\$ 787,567</u>	<u>\$ 359,567</u>	<u>\$ 709,771</u>
STATE OF WISCONSIN DEPARTMENT OF								
NATURAL RESOURCES								
Winnebago Lake Comprehensive Planning grants:								
Planning - Lake Poygan	n/a	370.663	LPL 162517	\$ --	\$ 7,298	\$ 12,743	\$ (5,445)	\$ n/a
Planning - Lake Butte des Morts	n/a	370.663	LPL 162617	--	7,298	12,743	(5,445)	n/a
Planning - Lake Winneconne	n/a	370.663	LPL 162717	--	7,298	12,743	(5,445)	n/a
Planning - Lake Winnebago	n/a	370.663	LPL 62817	--	7,298	12,743	(5,445)	n/a
Winnebago System AIS Program	n/a	370.678	AEP51617	--	29,678	35,124	(5,446)	n/a
Expanding Educational Outreach in the LFR:								
River Planning	n/a	None	RP28316	(4,319)	3,181	--	(1,138)	n/a
Education and Changing Behaviors in the LFR:								
River Planning	n/a	370.675	RP29217	--	3,729	7,500	(3,771)	n/a
Total expenditures of state awards				<u>\$ (4,319)</u>	<u>\$ 65,780</u>	<u>\$ 93,596</u>	<u>\$ (32,135)</u>	<u>\$ --</u>

SEE NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS.

**FOX-WOLF WATERSHED ALLIANCE, INC.
KIMBERLY, WISCONSIN**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Note 1. Basis of Presentation:

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of Fox-Wolf Watershed Alliance, Inc. under programs of the federal government and Wisconsin Department of Natural Resources for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements* and the *State Single Audit Guide, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Fox-Wolf Watershed Alliance, Inc., they are not intended to and do not present the financial position, changes in the net assets or cash flow of Fox-Wolf Watershed Alliance, Inc.

Note 2. Summary of Significant Accounting Policies:

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Fox-Wolf Watershed Alliance, Inc. has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.



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INDEPENDENT AUDITOR'S 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
Fox-Wolf Watershed Alliance, Inc.
Kimberly, Wisconsin

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 Fox-Wolf Watershed Alliance, Inc. (a non-profit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated August 8, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fox-Wolf Watershed Alliance, Inc.'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 Organization'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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Fox-Wolf Watershed Alliance, Inc.'s Response to Findings

The Organization's responses to the findings identified in our audit are described in the accompanying corrective action plan. Fox-Wolf Watershed Alliance, Inc.'s responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

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 results of that testing, and not to provide an opinion on the effectiveness of the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Erickson & Associates, S.C.

ERICKSON & ASSOCIATES, S.C.

Appleton, Wisconsin

August 8, 2018



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE AND THE STATE SINGLE AUDIT GUIDELINES**

To the Board of Directors
Fox-Wolf Watershed Alliance, Inc.
Kimberly, Wisconsin

Report on Compliance for Each Major Federal Program

We have audited Fox-Wolf Watershed Alliance, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal and state programs for the year ended December 31, 2017. The Organization's major federal and state 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 federal and state statutes, regulations, and the terms and conditions of grants applicable to its federal and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal and state 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; audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance, 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 and state programs occurred. An audit includes examining, on a test basis, evidence about the Organization'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 and state program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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, 2017.

No state programs were considered major programs for the 2017 audit.

Report on Internal Control Over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Organization'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 and state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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 and state 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 and state 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-003 to be a significant deficiency.

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 Organization's response to the finding identified in our audit is described in the accompanying and corrective action plan. We did not audit the Organization's response, and accordingly, we express no opinion on it.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Erickson & Associates, S.C.

ERICKSON & ASSOCIATES, S.C.
Appleton, Wisconsin
August 8, 2018

**FOX-WOLF WATERSHED ALLIANCE, INC.
KIMBERLY, WISCONSIN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2017**

Summary of Auditor's Results

Financial Statements

Type of auditor's report on financial statements:	Unmodified opinion
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements?	No

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Type of auditor's report on compliance for major programs:	Unmodified opinion
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
Identification of major federal programs: 66.469	Great Lakes Program

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as a low-risk auditee?	No

Financial Statement Findings

2017-001 Lack of Adequate Segregation of Duties

- Condition: The Organization has a limited number of personnel that are responsible for and perform substantially all of the bookkeeping and accounting functions.
- Criteria: Segregation of duties is an internal control intended to prevent or decrease the occurrence of errors or intentional fraud. Good internal control requires a complete separation of duties with respect to the handling and recording of transactions.
- Cause: The additional costs with hiring additional support staff to achieve complete segregation of duties would outweigh the derived benefits.
- Effect: Proper segregation of duties in the system of controls is not accomplished.

Identification of a Repeat Finding: This is a repeat finding from previous audits, see 2016-001.

Recommendation: The Organization should continue to evaluate the cost/benefit of hiring additional support staff to achieve complete segregation of duties.

**FOX-WOLF WATERSHED ALLIANCE, INC.
KIMBERLY, WISCONSIN**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
For the Year Ended December 31, 2017

2017-001 Lack of Adequate Segregation of Duties - Continued

Views of
Responsible
Officials: See Organization's corrective action plan.

2017-002 Financial Statement Preparation

Condition: The Organization has historically relied upon its auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Organization's ability to prepare financial statements in accordance with GAAP (generally accepted accounting principles) is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the Organization's internal controls.

Criteria: The preparation and review of financial statements in accordance with GAAP by staff with experience in financial reporting is an internal control intended to prevent, detect and correct a potential omission or misstatement in the financial statements or related footnotes.

Cause: The additional costs with hiring staff experienced in preparing financial statements, along with additional training time, outweigh the derived benefits.

Effect: Information provided to management throughout the year may not be presented in accordance with generally accepted accounting principles.

Identification of a
Repeat Finding: This is a repeat finding from previous audits, see 2016-002.

Recommendation: The Organization should continue to evaluate the cost/benefit of outsourcing the task of preparing the financial statements to external accountants.

Views of
Responsible
Officials: See Organization's corrective action plan.

Federal and State Findings and Questioned Costs:

2017-003 OMB Uniform Grant Guidance Implementation

Federal grant info. Great Lakes Program CFDA #66.469, Environmental Protection Agency

Applicable
Compliance
Requirement: Subrecipient monitoring.

Condition: The Organization has various policies and procedures in place to safeguard its assets and establish related controls over receipts, disbursements, payroll transactions and general ledger maintenance. Federal awards received and disbursed by the Organization are managed through these Organization-wide policies and procedures; however, some of the policies and procedures have not been updated to ensure compliance with the requirements of OMB Uniform Guidance.

**FOX-WOLF WATERSHED ALLIANCE, INC.
KIMBERLY, WISCONSIN**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the Year Ended December 31, 2017

2017-003 OMB Uniform Grant Guidance Implementation - Continued

Criteria: The OMB Uniform Guidance requires the Organization to maintain certain policies related to procurement, subrecipient monitoring, and conflict of interest provisions, along with appropriate financial management systems and internal controls over federal awards to safeguard federal funds.

Cause: The Organization has not updated its policies regarding procurement, subrecipient monitoring and conflict of interest to be compliance with the OMB Uniform Guidance by year end.

Effect: The Organization could become noncompliant with requirements of the OMB Uniform Guidance, resulting in future findings and questioned costs related to federal awards administered by the Organization. The Organization's 2017 audit in accordance with the requirements of the OMB Uniform Guidance did not identify any instances of noncompliance with respect to direct and material compliance requirements of its major federal award program.

**Identification of a
Repeat Finding:**

This is a repeat finding from previous audits, see 2016-005.

Recommendation:

We recommend the Organization update its policies and procedures relating to federal awards. This includes evaluating existing policies and procedures to determine where additional enhancements should be made or new policies created, a plan to communicate these policies to employees, and procedures to periodically review and update them as considered necessary.

**Views of
Responsible
Officials:**

See Organization's corrective action plan.

**FOX-WOLF WATERSHED ALLIANCE, INC.
KIMBERLY, WISCONSIN**

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended December 31, 2017

Status of Prior Year Audit Findings:

The findings noted in the 2016 schedule of findings and questioned responses have been reported to the proper federal agencies.

2016-001 Lack of Adequate Segregation of Duties

Management continues to believe that due to budget constraints, it is not practicable for the Organization to hire additional staff to correct these findings. This is considered to be a repeat finding.

2016-002 Financial Statement Preparation

Management continues to believe that due to budget constraints, it is not practicable for the Organization to hire additional staff to correct these findings. This is considered to be a repeat finding.

2016-003 Journal Entry Preparation

Management addressed the issue with journal entries and significantly reduced the number of journal entries required to be prepared by the auditor.

2016-004 Financial Reporting for Federal Awards

Management addressed the issue with preparation of the schedule of expenditures of federal awards by providing the total amounts expended for the federal grant and amounts paid to subrecipients for the audit year. Management has demonstrated that they have the ability to prepare the schedule of expenditure of federal awards.

2016-005 OMB Uniform Grant Guidance Implementation

Management plans to address the issue but had not done so as of the end of the year. Management plans to revisit its policies and procedures during 2018 and make the necessary changes to ensure that it is in compliance with the Uniform Guidance.

CORRECTIVE ACTION PLAN

2017-001 Lack of Adequate Segregation of Duties

Corrective Action Plan: The Organization has evaluated the cost/benefit of hiring additional support staff to achieve proper separation of duties and at this point it is not possible due to budget constraints.

Anticipate Completion Date: Ongoing

2017-002 Financial Statement Preparation

Corrective Action Plan: The Organization has evaluated the cost/benefit of outsourcing the task of preparing the financial statements to an external accountant. It would be cost prohibitive to hire additional staff or outsource the task to an outside accountant. However, management of the Organization has obtained the necessary skills, knowledge, and experience to accept responsibility for the preparation of the Organization's financial statements.

Anticipate Completion Date: Ongoing

2017-003 OMB Uniform Grant Guidance Implementation

Corrective Action Plan: The Organization will review its financial policies and procedures relating to federal awards and update them in order to be in compliance with the requirements of the OMB Uniform Guidance.

Anticipate Completion Date: 2018 calendar year

Contact Information: For more information regarding these findings please contact Jessica Schultz, Executive Director, Fox-Wolf Watershed Alliance, Inc. 309 E Kimberly Avenue, Kimberly, WI, 54136.

Sincerely,



Jessica Schultz
Executive Director