

Four Lakes Task Force

Financial Statements

December 31, 2019

(With Summarized Comparative Information for 2018)

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Independent Auditors' Report

Management and the Board of Directors
Four Lakes Task Force
Midland, MI

We have audited the accompanying financial statements of Four Lakes Task Force which comprise the statement of assets and net assets – cash basis as of December 31, 2019 and the related statements of revenues, expenses and changes in net assets – cash basis, and functional expenses – cash basis for the year 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 the cash basis of accounting as described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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. 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 auditors' 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.

Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. These financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and net assets of Four Lakes Task Force as of December 31, 2019, and its revenues and expenses and changes in net assets for the year then ended in accordance with the cash basis of accounting as described in Note 1.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, Four Lakes Task Force changed its method of accounting for contributions as required by the provisions of FASB Accounting Standards Update 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Four Lakes Task Force's, previously known as Sanford Lake Preservation Association, December 31, 2018 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated February 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Yeo & Yeo, P.C.

Midland, MI
February 28, 2020

Four Lakes Task Force
Statement of Assets and Net Assets - Cash Basis
December 31, 2019
(With Summarized Comparative Information for 2018)

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash	\$ 3,396,742	\$ 55,671
Property and equipment, net	<u>9,481,568</u>	<u>59,466</u>
Total assets	<u>\$ 12,878,310</u>	<u>\$ 115,137</u>
Liabilities and net assets		
Current liabilities		
Dam purchase obligation, current portion	2,409,200	-
Dam purchase obligation, net of current portion	<u>6,670,800</u>	<u>-</u>
Total liabilities	<u>9,080,000</u>	<u>-</u>
Net assets		
Without donor restrictions, undesignated	\$ 421,922	\$ 115,137
With donor restrictions, purpose	<u>3,376,388</u>	<u>-</u>
Total net assets	<u>3,798,310</u>	<u>115,137</u>
Total liabilities and net assets	<u>\$ 12,878,310</u>	<u>\$ 115,137</u>

See Accompanying Notes to the Financial Statements

Four Lakes Task Force
Statement of Revenues, Expenses and Changes in Net Assets - Cash Basis
For the Year Ended December 31, 2019
(With Summarized Comparative Information for 2018)

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Total 2018
Revenue				
Grants				
Michigan Economic Development Corporation	\$ -	\$ 5,000,000	\$ 5,000,000	\$ -
The Dow Chemical Company	125,000	-	125,000	-
Contributions	15,000	-	15,000	290,982
In-kind contributions	11,763	-	11,763	-
Net assets released from restrictions	<u>1,623,612</u>	<u>(1,623,612)</u>	<u>-</u>	<u>-</u>
 Total revenue	 <u>1,775,375</u>	 <u>3,376,388</u>	 <u>5,151,763</u>	 <u>290,982</u>
Expenses				
Program services	1,395,714	-	1,395,714	48,324
Management and general	<u>72,876</u>	<u>-</u>	<u>72,876</u>	<u>188,251</u>
 Total expenses	 <u>1,468,590</u>	 <u>-</u>	 <u>1,468,590</u>	 <u>236,575</u>
 Change in net assets	 306,785	 3,376,388	 3,683,173	 54,407
Net assets - beginning of year	<u>115,137</u>	<u>-</u>	<u>115,137</u>	<u>60,730</u>
 Net assets - end of year	 <u>\$ 421,922</u>	 <u>\$ 3,376,388</u>	 <u>\$ 3,798,310</u>	 <u>\$ 115,137</u>

Four Lakes Task Force
Statement of Functional Expenses - Cash Basis
For the Year Ended December 31, 2019
(With Summarized Comparative Information for 2018)

	<u>Program Services</u>	<u>Management and General</u>	<u>2019 Total</u>	<u>2018 Total</u>
Contract services	\$ 1,339,855	\$ 44,736	\$ 1,384,591	\$ 229,108
Equipment rental	55,859	-	55,859	-
Interest expense	-	16,394	16,394	-
Depreciation expense	-	1,945	1,945	-
Property taxes	-	4,615	4,615	4,639
Operating	-	4,469	4,469	2,828
Conferences	-	717	717	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 1,395,714</u>	<u>\$ 72,876</u>	<u>\$ 1,468,590</u>	<u>\$ 236,575</u>

See Accompanying Notes to the Financial Statements

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Notes to the Financial Statements
December 31, 2019
(With Summarized Comparative Information for 2018)

Note 1 - Summary of Significant Accounting Policies

Nature of Activities

Four Lakes Task Force (the "Task Force"), previously known as Sanford Lake Preservation Association, is a Michigan non-profit organization, based in Midland, Michigan. The Task Force was formed for the purpose of preserving the beauty, enjoyment and recreational use of four lakes (i.e. Sanford Lake, Wixom Lake, Smallwood Lake, and Secord Lake) in Midland and Gladwin County, Michigan and to provide financial assistance for the preservation and maintenance of the Sanford Lake, Wixom Lake, Secord Lake and Smallwood Lake earthen dams.

Basis of Accounting

The Task Force's policy is to prepare its financial statements 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. Under that basis, the only assets recognized are cash and property and equipment and only the dam purchase obligation is recognized as a liability. Revenues are recognized when received rather than when earned and expenses are recognized when cash is disbursed rather than when the obligation is incurred.

Basis of Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Comparative Financial Information

The financial information for the year ended December 31, 2018 is presented for comparative purposes and is not intended to be a complete financial statement presentation.

Cash

The Task Force maintains cash at a local bank. As of December 31, 2019 the entire bank balance was insured by FDIC.

Property and Equipment

Major improvements are capitalized while ordinary maintenance and repairs are expensed.

The Task Force evaluates long-lived assets for impairment using a discounted cash flow method whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with accounting principles generally accepted in the United States of America.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets.

Gifts of land, buildings, equipment and other long-lived assets are also reported as revenue without donor restrictions and net assets, unless subject to time restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor

Four Lakes Task Force
Notes to the Financial Statements
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(With Summarized Comparative Information for 2018)

restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Donated Services and Goods

The Task Force records the value of donated goods as contributions using estimated fair values at the date of receipt. The Task Force recognized donated supplies of \$638 and \$0 for the years ended December 31, 2019 and 2018, respectively.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received. Financial services were provided for the Task Force totaling \$11,125 and \$0 for the years ended December 31, 2019 and 2018.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. The allocation of expenses to the functional programs and management and general categories was computed based on actual results.

Income Tax Status

The Task Force is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is classified as an organization other than a private foundation, as described in Section 509(a). The Task Force files information returns in the U.S. Federal and Michigan jurisdiction.

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.

Subsequent Events

Management has evaluated subsequent events through February 28, 2020, which is the date the financial statements were available to be issued.

Change in Accounting Principle

The Task Force adopted ASU 2018-08 Not-for-Profit Entities (Topic 958) *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* as of the beginning of the year ended December 31, 2019. This has been adopted using the modified retrospective approach. Net assets did not change as a result of this change.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash	<u>\$ 20,354</u>
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The Task Force received \$5 million from the Michigan Economic Development Corporation. Of this amount \$1,623,612 was spent in 2019 and \$3,376,388 is restricted for the dam purchase and restoration. Due to the dam purchase agreement exceeding this amount, the Task Force is working on developing additional revenue streams or securing additional funding.

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Note 3 - Property and Equipment

Major classes of assets and related accumulated depreciation thereon are summarized as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 59,466	\$ 59,466
Dams	9,400,000	-
Furniture and equipment	<u>24,047</u>	<u>-</u>
	9,483,513	59,466
Accumulated depreciation	<u>(1,945)</u>	<u>-</u>
Property and equipment, net	<u>\$9,481,568</u>	<u>\$ 59,466</u>

Note 4 - Dam Purchase Obligation

Effective December 31, 2019, the Task Force and Four Lakes Operations Corporation (“FLO”) entered into a purchase agreement with Boyce Hydro LLC for the purchase of four Lake Level Facilities (i.e. Sanford, Edenville, Smallwood and Secord dams) situated in Midland and Gladwin Counties, Michigan. As a part of the agreement the Task Force turns over operations oversight to FLO to produce hydroelectric energy. As a part of the agreement, the Task Force made \$320,000 in payments in 2019. The future payments remaining are scheduled as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 2,409,200	\$ 460,800	\$ 2,870,000
2021	259,200	460,800	720,000
2022	<u>6,411,600</u>	<u>-</u>	<u>6,411,600</u>
Total payments	<u>\$ 9,080,000</u>	<u>\$ 921,600</u>	<u>\$ 10,001,600</u>

In addition, the Task Force has agreed to pay the current dam owner \$12,500 per month commencing on January 1, 2020 for operations and maintenance of the Edenville Dam until the dam purchase agreement is complete. The future payments remaining are scheduled as follows:

2020	\$ 150,000
2021	<u>150,000</u>
Total	<u>\$ 300,000</u>

Note 5 - Line of Credit

The Task Force had an unsecured line of credit with a local bank totaling \$1,000,000. This arrangement provided for the borrowing amounts for short-term use. During the year ended December 31, 2019, the Task Force borrowed \$1,000,000, which was repaid in full along with \$16,394 in interest prior to December 31, 2019. The line of credit expired as of November 20, 2019 and was not renewed by the Task Force.

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Note 6 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes and periods at December 31:

	2019	2018
Subject to expenditure for specified purpose:		
Dam purchase and restoration	\$3,376,388	\$ -

Note 7 - Net Assets Released from Donor Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose specified by the donors as follows for the years ended December 31:

	2019	2018
Satisfaction of purpose restrictions		
Dam purchase and restoration	\$1,623,612	\$ -

Note 8 - Related Party Transactions

The Task Force contracted with a local legal firm for legal services during 2019 and 2018. A Principal of this law firm was on the Board for the Task Force until July 25, 2019. The amount paid to this firm for legal services for the years ending December 31, 2019 and 2018 was \$20,020 and \$17,441, respectively.

The Task Force is contracted with a local financial consulting firm for financial matters. A member of this firm is also an Officer of the Task Force. The amount paid to this firm for these services for the years ending December 31, 2019 and 2018 was \$30,000 and \$0, respectively. In addition, there was \$11,125 of donated services contributed from this firm during 2019.

The Task Force is contracted with a local property investment firm for book-keeping services. A minority owner of this firm is also on the Board of the Task Force. The Task Force has contracted with this firm to simplify operations and utilize payroll and benefit infrastructure that is already in place at this firm. The amount paid to this firm for these services for the years ending December 31, 2019 and 2018 was \$13,464 and \$0, respectively.