



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS &  
CONSULTANTS

ROBERT E. LIST, CPA  
STEWART J. REID, CPA  
MICHAEL LHANISKO, CPA  
DAVID D. QUIMBY, CPA  
KATHLYN M. ENGELHARDT, CPA  
RENAE M. CLEVINGER, CPA  
AMY L. RODRIGUEZ, CPA  
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA  
ROY A. SCHAIRER, CPA  
JAMES L. WHALEY, CPA  
JEROME L. YANTZ, CPA  
PHILIP T. SOUTHGATE, CPA  
ROBERT J. DUYCK, CPA

## INDEPENDENT AUDITORS' REPORT

June 29, 2007

Board of Directors  
Bay Sail  
Bay City, Michigan

We have audited the accompanying statement of financial position of Bay Sail as of December 31, 2006 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Sail at December 31, 2006, and the changes in its net assets and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

1600 CENTER  
AVENUE  
POST OFFICE BOX  
775  
BAY CITY, MI 48707-  
0775  
989-893-5577  
800-624-2400  
FAX 989-895-5842  
www.wf-cpas.com  
wffiwf-cpas.com

OFFICES:  
BAY CITY,  
CURE GLADWIN  
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An Independently Owned Member

**BAYSAIL**  
Statement of Financial Position  
December 31, 2006

<u>ASSETS</u>		
Cash and cash equivalents		\$ 15,500
Accounts receivable		22,898
Inventory		11,866
Prepaid expense		2,377
Land, furniture and equipment - at cost less accumulated depreciation of \$464,861		<u>784,099</u>
<b>Total assets</b>		<b><u>\$ 836,740</u></b>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities</u>		
Accounts payable		\$ 6,374
Note payable		249,909
Deferred revenue		29,712
Accrued payroll and taxes		<u>1,609</u>
		<u>287,604</u>
<u>Net Assets</u>		
Unrestricted:		
Investment in fixed assets net of related debt		534,190
Undesignated		<u>14,946</u>
		<u>549,136</u>
<b>Total liabilities and net assets</b>		<b><u>\$ 836,740</u></b>

See accompanying notes to financial statements

**BAYSAIL**  
Statement of Activities  
For the Year Ended December 31, 2006

<u>Public Support and Revenue</u>	
Grants and contributions	\$ 396,895
Port appearance	114,200
Public sail tickets	80,450
Charters	58,346
Program fees	86,051
Merchandise and concessions - net of direct expense of \$1,787	<u>441</u>
Total public support and revenue	<u>736,383</u>
<u>Expenses</u>	
Charters and public sail programs	336,015
Environmental education and training	5,017
Management and general	<u>95,771</u>
Total expenses	<u>436,803</u>
Change in net assets	<u>299,580</u>
Unrestricted net assets - beginning of year	<u>249,556</u>
Unrestricted net assets - end of year	<u>\$ 549,136</u>

See accompanying notes to financial statements

**BAYSAIL**  
**Statement of Cash Flows**  
For the Year Ended December 31, 2006

<u>Cash Flows from Operating Activities</u>	
Change in net assets	\$ 299,580
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	70,407
Contribution of land	(250,000)
Changes in operating assets and liabilities:	
Accounts receivable	45,299
Inventory	(788)
Prepaid expense	(2,377)
Accounts payable	(15,039)
Deferred revenue	(15,331)
Accrued payroll and taxes	<u>(3,004)</u>
Net cash provided by operating activities	128,747
<u>Cash Flows from Investing Activities:</u>	
Purchase of equipment	(7,729)
<u>Cash Flows from Financing Activities:</u>	
Repayment of debt	<u>(107,500)</u>
Net increase in cash and cash equivalents	13,518
Cash and cash equivalents, beginning of the year	<u>1,982</u>
Cash and cash equivalents, end of the year	<u><u>\$ 15,500</u></u>

See accompanying notes to financial statements

**BAYSAIL**  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Nature of**

**Operations**

The Bay Sail (Organization) is a nonprofit Michigan Corporation whose purpose is to foster environmental stewardship of the Saginaw Bay Watershed and the Great Lakes ecosystem and to provide personal development opportunities for learners of all ages through ship board and land based educational experiences.

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

**Basis of Accounting**

The accounts of Bay Sail are maintained on the accrual basis of accounting. Public support and revenue are recognized when earned, and expenses when incurred.

**Cash Flow Information**

For purposes of the statement of cash flows, cash and cash equivalents include all checking, savings and money market funds. Interest paid for the year was \$30,272. There was one significant non-cash transaction during the year. A parcel of land, with an estimated fair value of \$250,000, was donated to the Organization from the United States Coast Guard.

**Inventory**

Inventories are stated at lower of cost or market, and consist of items for resale.

**Equipment and Depreciation**

Depreciation of equipment is provided on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives for depreciation are as follows:

Furniture and equipment	7-15 years
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**Management and General**

Management and general costs are not identifiable with a single program or activity, but are necessary to conduct those activities. This includes expenses for the overall direction of the Organization's activities, business management, recordkeeping, budgeting and related purposes. Immaterial amount of fundraising costs are included in management and general.

Expenses are allocated between program services and management and general on the basis of estimated time and usage.

**BAYSAIL**  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Statement Presentation**

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". 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.

**Contributions**

The Organization has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made". Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions used in the same year are deemed to be unrestricted for financial reporting purposes.

There were no temporarily or permanently restricted contributions during the year.

**Donated Services**

Specialized donated services are reflected as contributions and valued at their estimated fair market values at the date of receipt. The Organization has adopted a policy not to reflect professional services received in the accompanying financial statements since the amounts are immaterial in nature. Other nonprofessional volunteer services cannot be estimated and thus are not disclosed.

**Use of Estimates**

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**BAYSAIL**  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 2 - FIXED ASSETS**

Fixed assets consist of the following as of December 31, 2006:

Land	\$	250,000
Furniture and equipment		<u>998,960</u>
		1,248,960
Less accumulated depreciation		<u>464,861</u>
	\$	<u>784,099</u>

**NOTE 3 - NOTE PAYABLE**

Note payable to Chemical Bank is payable in monthly interest only installments at the bank's prime rate. This note is secured by a separate security agreement in certain collateral including but not limited to, the Schooner Appledore V. The note is due in full on June 30, 2007.

**NOTE 4 - LEASE COMMITMENTS**

The Organization leases office and storage space under a lease, which began on April 1, 2006 and will expire on March 30, 2009. Monthly installments of \$500 are due in advance on the first day of each month. Total rent expense for the year was \$10,035. Minimum future rental payments are as follows:

2007	\$	6,000
2008		6,000
2009		<u>1,500</u>
	\$	<u>13,500</u>