

VERMONT NATURAL RESOURCES COUNCIL, INC.

REVIEW REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2013

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Vermont Natural Resources Council, Inc.
Montpelier, Vermont

We have reviewed the accompanying statement of financial position of Vermont Natural Resources Council, Inc. (a not-for-profit organization) as of June 30, 2013, and the related statements of activities, cash flows and functional expenses for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe the results of our procedures provide a reasonable basis for our report.

Based on our review we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

Fothergill Segale & Valley, CPAs

FOTHERGILL SEGALE & VALLEY, CPAs
Montpelier, VT 05602
Vermont Public Accountancy License #110

November 19, 2013

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013

ASSETS

CURRENT ASSETS

| | | |
|----------------------|------------|---------|
| Cash | \$ 145,669 | |
| Grants receivable | 18,246 | |
| Accounts receivable | 2,275 | |
| Pledges receivable | 10,950 | |
| Prepaid expenses | 7,063 | |
| Prepaid awards | 2,499 | |
| Total current assets | | 186,702 |

PROPERTY AND EQUIPMENT

| | | |
|---------------------------------------|-----------|---------|
| Building | 477,984 | |
| Furniture and equipment | 137,380 | |
| | 615,364 | |
| Less accumulated deprec./amortization | (326,296) | |
| Total property and equipment | | 289,068 |

OTHER ASSETS

| | | |
|---------------------------------|-----------|--------------|
| Book inventory | 5,424 | |
| Investments - Legal Fund | 670,136 | |
| Investments - General and other | 1,452,283 | |
| Total other assets | | 2,127,843 |
| Total assets | | \$ 2,603,613 |

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | | |
|---|-----------|--------|
| Accounts payable | \$ 13,272 | |
| Health and dependent care reimbursement plans | 1,191 | |
| Accrued wages and taxes | 10,083 | |
| Accrued vacation | 48,122 | |
| Total current liabilities | | 72,668 |

NET ASSETS

| | | |
|-----------------------------------|-----------|--------------|
| Unrestricted | | |
| Designated for endowment purposes | 200,000 | |
| Designated for specific purposes | 851,331 | |
| Total designated (Note 6) | 1,051,331 | |
| Undesignated | 854,611 | |
| Total unrestricted | 1,905,942 | |
| Temporarily restricted | 625,003 | |
| Total net assets (Exhibit B) | | 2,530,945 |
| Total liabilities and net assets | | \$ 2,603,613 |

See Independent Accountant's Review Report
and Notes to Financial Statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

| | Unrestricted | Temporarily Restricted | Total |
|---|---------------------|---------------------------|---------------------|
| SUPPORT AND REVENUES | | | |
| Renewals and gifts | \$ 616,727 | \$ 0 | \$ 616,727 |
| Grants | 0 | 444,334 | 444,334 |
| Interest/dividends, net of \$19,411 investment exp. | 35,433 | 0 | 35,433 |
| Unrealized gain on investments | 106,359 | 0 | 106,359 |
| Realized gain on investments | 62,485 | 0 | 62,485 |
| Special events | 84,898 | 0 | 84,898 |
| Donated services | 15,373 | 0 | 15,373 |
| Other | 38,077 | 0 | 38,077 |
| Total | 959,352 | 444,334 | 1,403,686 |
| Net assets released from restrictions | 402,764 | (402,764) | 0 |
| Total support and revenues | 1,362,116 | 41,570 | 1,403,686 |
| EXPENSES | | | |
| Program Services | | | |
| Water | 93,365 | 0 | 93,365 |
| Forest, wildlife and public lands | 121,162 | 0 | 121,162 |
| Sustainable communities | 175,879 | 0 | 175,879 |
| Energy | 183,692 | 0 | 183,692 |
| General program services | 285,064 | 0 | 285,064 |
| Total program services | 859,162 | 0 | 859,162 |
| Supporting Services | | | |
| Administrative | 99,878 | 0 | 99,878 |
| Development | 96,700 | 0 | 96,700 |
| Total supporting services | 196,578 | 0 | 196,578 |
| Total expenses | 1,055,740 | 0 | 1,055,740 |
| CHANGE IN NET ASSETS | 306,376 | 41,570 | 347,946 |
| NET ASSETS - July 1, 2012 | 1,599,566 | 583,433 | 2,182,999 |
| NET ASSETS - June 30, 2013 (Exhibit A) | \$ 1,905,942 | \$ 625,003 | \$ 2,530,945 |

See Independent Accountant's Review Report
and Notes to Financial Statements.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM (TO) OPERATING ACTIVITIES:

| | |
|--|-------------------|
| Change in net assets | <u>\$ 347,946</u> |
| Adjustment to reconcile change in net assets to cash provided by operating activities: | |
| Depreciation and amortization | 27,372 |
| Unrealized gain on investments | (106,359) |
| Realized gain on investments | (62,485) |
| (Increase) decrease in current assets: | |
| Grants receivable | 8,211 |
| Accounts receivable | 7,319 |
| Pledges receivable | 65,000 |
| Prepaid expenses | 19,282 |
| Increase (decrease) in current liabilities: | |
| Accounts payable | 3,982 |
| Accrued wages and taxes | (2,172) |
| Other accrued liabilities | (37,827) |
| Total adjustments | <u>(77,677)</u> |
| Net cash flows from operating activities | <u>270,269</u> |

CASH FLOWS FROM (TO) INVESTING ACTIVITIES:

| | |
|---|--------------------|
| Purchase of equipment/building improvements | (6,640) |
| Sales of investments | 895,070 |
| Purchases of investments | <u>(1,156,652)</u> |
| Net cash flows to investing activities | <u>(268,222)</u> |

NET INCREASE IN CASH

2,047

CASH - JULY 1, 2012

143,622

CASH - JUNE 30, 2013

\$ 145,669

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

| | |
|----------|------|
| Interest | \$ 0 |
| Taxes | 74 |

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

| EXPENSES | Program Services | | | | | Total Program Services | Supporting Services | | Total Supporting Services | Total Functional Expenses |
|----------------------------|------------------|--------------------------------------|----------------------------|------------|------------|------------------------------|---------------------|-------------|---------------------------------|---------------------------------|
| | Water | Forest Wildlife & Public Lands | Sustainable Communities | Energy | General | | Admin. | Development | | |
| Wages | \$ 60,459 | \$ 72,683 | \$ 67,607 | \$ 102,001 | \$ 115,987 | \$ 418,737 | \$ 72,379 | \$ 52,804 | \$ 125,183 | \$ 543,920 |
| Payroll taxes | 5,631 | 5,123 | 6,019 | 8,429 | 10,110 | 35,312 | 6,041 | 4,379 | 10,420 | 45,732 |
| Grants awarded | 3,042 | 10,000 | 67,738 | 12,479 | 0 | 93,259 | 0 | 0 | 0 | 93,259 |
| Equipment maintenance | 888 | 1,040 | 860 | 929 | 877 | 4,594 | 1,028 | 1,370 | 2,398 | 6,992 |
| Vehicle lease | 517 | 517 | 517 | 520 | 514 | 2,585 | 517 | 517 | 1,034 | 3,619 |
| Insurance | 1,250 | 1,473 | 1,678 | 1,990 | 2,545 | 8,936 | 2,265 | 1,203 | 3,468 | 12,404 |
| Licenses and dues | 328 | 353 | 1,834 | 208 | 184 | 2,907 | 221 | 184 | 405 | 3,312 |
| Office supplies | 1,224 | 1,258 | 1,794 | 1,685 | 2,535 | 8,496 | 1,805 | 1,545 | 3,350 | 11,846 |
| Postage | 226 | 229 | 294 | 419 | 730 | 1,898 | 249 | 4,620 | 4,869 | 6,767 |
| Printing and artwork | 0 | 0 | 0 | 2,715 | 56,590 | 59,305 | 0 | 11,334 | 11,334 | 70,639 |
| Professional services | 7,832 | 14,895 | 11,940 | 27,391 | 5,375 | 67,433 | 2,072 | 10,144 | 12,216 | 79,649 |
| Rent and facilities | 1,822 | 1,822 | 1,822 | 1,822 | 1,822 | 9,110 | 1,822 | 1,821 | 3,643 | 12,753 |
| Advertising | 0 | 0 | 0 | 372 | 4,890 | 5,262 | 0 | 144 | 144 | 5,406 |
| Subscriptions/publications | 235 | 268 | 2,508 | 3,293 | 584 | 6,888 | 269 | 305 | 574 | 7,462 |
| Property taxes | 1,132 | 1,132 | 1,132 | 1,132 | 1,132 | 5,660 | 1,132 | 1,132 | 2,264 | 7,924 |
| Telephone | 537 | 531 | 519 | 796 | 561 | 2,944 | 553 | 506 | 1,059 | 4,003 |
| Staff training | 368 | 148 | 593 | 439 | 480 | 2,028 | 68 | 240 | 308 | 2,336 |
| Interns | 2,502 | 531 | 537 | 6,156 | 600 | 10,326 | 124 | 0 | 124 | 10,450 |
| Travel | 949 | 819 | 1,102 | 1,948 | 2,906 | 7,724 | 881 | 574 | 1,455 | 9,179 |
| Special events | 0 | 429 | 98 | 581 | 63,461 | 64,569 | 531 | 0 | 531 | 65,100 |
| Accounting | 978 | 1,270 | 1,846 | 1,926 | 2,964 | 8,984 | 1,046 | 1,014 | 2,060 | 11,044 |
| Miscellaneous, meetings | 694 | 3,167 | 538 | 1,342 | 2,543 | 8,284 | 2,958 | 24 | 2,982 | 11,266 |
| Electricity | 327 | 327 | 327 | 346 | 327 | 1,654 | 327 | 327 | 654 | 2,308 |
| Bank fees | 0 | 0 | 0 | 0 | 0 | 0 | 998 | 0 | 998 | 998 |
| Depreciation | 2,424 | 3,147 | 4,576 | 4,773 | 7,347 | 22,267 | 2,592 | 2,513 | 5,105 | 27,372 |
| Total expenses | \$ 93,365 | \$ 121,162 | \$ 175,879 | \$ 183,692 | \$ 285,064 | \$ 859,162 | \$ 99,878 | \$ 96,700 | \$ 196,578 | \$ 1,055,740 |

See Independent Accountant's Review Report
and Notes to Financial Statements.

VERMONT NATURAL RESOURCES COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Vermont Natural Resources Council, Inc. (the Council) was formed to protect Vermont's natural resources and environment for present and future generations through research, policy analysis, education, and advocacy. The Council provides the following program services:

Water - As Vermont continues to grow, pollution run off increases and the stress on our groundwater resources grows due both to development and erratic weather patterns caused by climate change; we need to ensure that we use all available tools to protect Vermont's water resources. Key to protecting our water resources is to increase public awareness of the importance of and threats to Vermont's groundwater.

Forest, wildlife and public lands - Advance policies and strategies to promote forestland conservation for sustainable forest management, carbon sequestration and storage, wildlife habitat, ecosystem services, and our working landscape.

Sustainable communities - This campaign will put in place the policies, programs and tools needed to enable Vermont communities to confront the challenges of the 21st century, including climate change, energy depletion, sprawling development patterns, and the erosion of community vitality due to national and global economic pressures.

Energy – The Council helps to build a more informed and involved public which actively advances creative tools and proven strategies to reduce greenhouse gas emissions. By working with key partners to organize local energy committees in strategic communities across Vermont, by collaborating with an increasingly diversified stratum of Vermonters and by cultivating greater leadership from the grassroots to the State House and beyond, VNRC helps Vermont save energy, curb greenhouse gas emissions and move towards a cleaner, greener, renewable energy future.

General – The Council provides general services to protect Vermont's natural resources that aren't specific to one of the above four programs.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting

The accompanying financial statements are presented using the accrual basis of accounting.

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in accordance with Accounting Standards Codification. Under these standards, the Council 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. The Council did not have any permanently restricted net assets as of June 30, 2013.

VERMONT NATURAL RESOURCES COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents

The Council considers all liquid investments with a maturity of three months or less to be cash equivalents.

Investments

Marketable securities are carried at fair value. Donated investments are recorded at their fair value on the date of receipt.

The Council has applied the provisions of SFAS 157 “Fair Value Measurement” (now FASB ASC 820-10). This provision provides fair value measurement and disclosure principles for certain financial and non-financial assets and liabilities. For the Council, this affects its investments and certain disclosures regarding them. It does not affect the measurement of the investments, which continue to be reflected at fair value.

Accounts Receivable

The Council uses the direct write-off method to record bad debts for trade receivables. All receivables at June 30, 2013 are considered collectible.

Contributions

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in accordance with Accounting Standards Codifications regarding contributions. 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 contribution was made. 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 and reported in the statement of activities as net assets released from restrictions.

Donated Property and Services

Donated assets, if any, are recorded at their fair value at date of gift, if determinable.

Property and Equipment

Property and equipment costing in excess of \$500 and having an estimated useful life of one year or more are capitalized at cost and depreciated using the straight line method over the estimated useful lives. The estimated useful lives are as follows:

| | |
|----------------------------|--------------|
| Buildings and improvements | 40 years |
| Furniture and equipment | 5 – 10 years |
| Vehicles | 5 years |

VERMONT NATURAL RESOURCES COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Taxes

Vermont Natural Resources Council, Inc. is a not-for-profit organization and is exempt from Federal and State income taxation under Section 501(c)(3) of the Internal Revenue Code on exempt function income. As required, the Council files Form 990-T with the Internal Revenue Service to report non-exempt function income in years where reportable income exceeds the threshold for filing. There was no tax due for the year ended June 30, 2013.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 2 – CASH

The Council's cash accounts consisted of the following at June 30, 2012:

| | |
|---------------------------------|-------------------|
| Bank balance - all FDIC insured | \$ 176,012 |
| Reconciling items | <u>(30,343)</u> |
| Total book balance | <u>\$ 145,669</u> |

The difference between the book and bank balance is due to outstanding checks.

NOTE 3 – PLEDGES RECEIVABLE

At June 30, 2013 pledges receivable were as follows:

| | |
|------------------------------------|------------------|
| Unrestricted - Fund for the Future | <u>\$ 10,950</u> |
|------------------------------------|------------------|

The pledges are to be received in fiscal year 2014.

VERMONT NATURAL RESOURCES COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

NOTE 4 – INVESTMENTS

The cost and fair value at June 30, 2013 is as follows:

| | Cost | Fair Value | Fair Value Over (Under) Cost | Unreal. Loss Less Than 12 Months |
|-----------------------|---------------------|---------------------|------------------------------------|--|
| U.S. Gov. obligations | \$ 8,257 | \$ 8,246 | \$ (11) | \$ (11) |
| Bonds | 590,772 | 593,330 | 2,558 | 0 |
| Stocks | 571,300 | 790,207 | 218,907 | 0 |
| Exchange traded funds | 433,778 | 482,248 | 48,470 | 0 |
| CDs | 15,125 | 15,088 | (37) | (37) |
| Cash equivalents | 233,300 | 233,300 | 0 | 0 |
| Total | <u>\$ 1,852,532</u> | <u>\$ 2,122,419</u> | <u>\$ 269,887</u> | <u>\$ (48)</u> |

For the year ended June 30, 2013, unrealized gains were \$106,359 for an accumulated unrealized gain of \$269,887.

The fair value of the investments above was obtained from the brokerage holding the securities and is deemed to be valued at “Level 1” – quoted prices in an active market.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent contributions and grants made with donor imposed restrictions. The balance of the temporarily restricted net assets at June 30, 2013 is as follows:

| | |
|--|-------------------|
| Sustainable communities: | |
| Smarth Growth Vermont | \$ 1,853 |
| Forest: | |
| Forest roundtable | 2,353 |
| Cox - staying connected | 33,297 |
| Norcross Wildlife Foundation - projector | 60 |
| Water: | |
| GMCR - communicating pressing water issues | 20,819 |
| Taxing groundwater | 11,336 |
| Energy: | |
| Block | 9,362 |
| VEIC - toolbox energy & transportation | 277 |
| VECAN | 10,504 |
| Legal | 535,142 |
| Total | <u>\$ 625,003</u> |

VERMONT NATURAL RESOURCES COUNCIL, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013
 (Continued)

NOTE 6 – DESIGNATED NET ASSETS

Designated net assets represent funds that are earmarked by the Board for specific purposes. The balance of designated net assets at June 30, 2013 is as follows:

| | |
|---------------------|----------------------------|
| Endowment | \$ 200,000 |
| Fund for the future | 737,868 |
| Albright Fund | 54,558 |
| Red Arnold | 26,205 |
| Act 250 | <u>32,700</u> |
| Total | <u><u>\$ 1,051,331</u></u> |

NOTE 7 – OPERATING LEASES

In November 2007, the Council entered into an operating lease for a copier. The lease expired in 2012 but continues on a month to month basis.

In May 2011, the Council entered into an operating lease for a mailing machine and scale. Future minimum lease payments are as follows:

| | |
|---------|------------------------|
| FY 2013 | \$ 891 |
| FY 2014 | 891 |
| FY 2015 | 891 |
| FY 2016 | <u>891</u> |
| Total | <u><u>\$ 3,564</u></u> |

In March 2012, the Council entered into a lease agreement for a vehicle. Future minimum lease payments are as follows:

| | |
|---------|------------------------|
| FY 2013 | \$ 3,640 |
| FY 2014 | 3,640 |
| FY 2015 | <u>2,426</u> |
| Total | <u><u>\$ 9,706</u></u> |

Lease expense during fiscal year 2013 was \$5,271.

NOTE 8 – LOBBYING EXPENSE

Lobbying expenses totaling \$7,812 are included in various program services on Exhibit B as they are an integral component of the mission and programs of the Council as follows:

| | |
|-------------------------|------------------------|
| Water | \$ 4,485 |
| Forest | 887 |
| Energy | 1,659 |
| Sustainable communities | 540 |
| General programs | <u>241</u> |
| Total | <u><u>\$ 7,812</u></u> |

VERMONT NATURAL RESOURCES COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

NOTE 9 – LINE OF CREDIT

The Council has a line of credit of \$50,000 with the Vermont State Employees Credit Union at a rate of 1% over Wall Street Journal Prime Rate. The credit line matures on June 14, 2014. No funds have been drawn on that line of credit as of November 19, 2013.

NOTE 10 - DONATED SERVICES

The value of donated services and items included as in-kind contributions in the financial statements for the year ended June 30, 2013 are as follows:

| | <u>General Program</u> |
|----------------|----------------------------|
| Special events | <u>\$ 15,373</u> |

NOTE 11 – CONCENTRATION

Major Donors and Grantor

The Council had two major donors that accounted for 66% of its total renewals and gifts income. The Council also had one grantor that accounted for 21% of its total grant revenue.

NOTE 12 – CONTINGENCY

The Council receives grant funds which are subject to be returned to the grantor if funds are not used for the purposes outlined in the grant agreement. The Council anticipates all grant funds to be used as outlined in the grant agreement and therefore does not anticipate any grant funds will need to be returned to the grantor.

NOTE 13 – ENDOWMENT FUND

Board-designated Endowment

In 2002, the Board of Directors had designated \$200,000 of unrestricted net assets as a general endowment fund to support the mission of the Council. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The Council has a spending policy of appropriating for distribution each year, 4 to 5% of its board-designated endowment fund's fair value in the spring of the fiscal year in which the distribution is planned. In establishing this policy, the Council considered the long-term expected investment return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its general endowment fund to remain approximately \$200,000.

VERMONT NATURAL RESOURCES COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

NOTE 13 – ENDOWMENT FUND (Continued)

The Council has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well diversified asset mix, which includes corporate bonds, money market funds and U.S. government securities. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Composition of and changes in endowment net assets for the year ended June 30, 2013 were as follows:

| | <u>Unrestricted Net Assets</u> |
|--|------------------------------------|
| Board-designated endowment net assets, beginning of year | \$ 204,414 |
| Net investment income (expense) | 21,431 |
| Expenditures | <u>(25,845)</u> |
| Board-designated endowment net assets, end of year | <u>\$ 200,000</u> |

NOTE 14 – SUBSEQUENT EVENT

Management has evaluated subsequent events through November 19, 2013, the date which the financial statements were available for issue.

In July 2013, the Council acquired the assets of Vermont League of Conservation Voters, another non-profit organization. The assets are estimated at approximately \$47,000 and consist of unrestricted cash.