

**Tennessee Environmental Council
(A NONPROFIT ORGANIZATION)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2022

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Tennessee Environmental Council

Opinion

We have audited the accompanying financial statements of Tennessee Environmental Council (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tennessee Environmental Council as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Tennessee Environmental Council and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Tennessee Environmental Council's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Tennessee Environmental Council's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Tennessee Environmental Council's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Murfreesboro, Tennessee
September 14, 2023

Dempsey Montreone + Follin P&C

TENNESSEE ENVIRONMENTAL COUNCIL
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022

ASSETS

Assets:	
Cash	\$ 217,770
Accounts receivable	12,152
Grants receivable	20,589
Property and equipment, less accumulated depreciation of \$27,715	2,312
Right-of-use asset - operating lease, less accumulated amortization of \$11,063	<u>27,920</u>
 TOTAL ASSETS	 <u><u>\$ 280,743</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 34,450
Accrued expenses	47,422
Unearned contract service revenue	21,750
Line of credit	1,819
Operating lease liability	<u>27,920</u>
 TOTAL LIABILITIES	 <u>133,361</u>
Net assets:	
Without donor restrictions	100,882
With donor restrictions	<u>46,500</u>
 TOTAL NET ASSETS	 <u>147,382</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 280,743</u></u>

See accompanying notes to the financial statements.

TENNESSEE ENVIRONMENTAL COUNCIL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Program support and revenues:			
Contributions	\$ 353,331	\$ 54,774	\$ 408,105
Contributions - in kind	-	5,313	5,313
Grants	55,771	200,106	255,877
Contract services	22,828	-	22,828
Net assets released from donor restrictions	221,893	(221,893)	-
TOTAL PROGRAM SUPPORT AND REVENUES	653,823	38,300	692,123
Expenses:			
Program services	651,840	-	651,840
Management and general	36,971	-	36,971
TOTAL EXPENSES	688,811	-	688,811
Other income and expense:			
Interest income	61	-	61
Interest expense	(371)	-	(371)
TOTAL OTHER INCOME AND EXPENSE	(310)	-	(310)
Change in Net Assets	(35,298)	38,300	3,002
NET ASSETS BEGINNING OF YEAR, AS RESTATED	136,180	8,200	144,380
NET ASSETS END OF YEAR	\$ 100,882	\$ 46,500	\$ 147,382

See accompanying notes to the financial statements.

TENNESSEE ENVIRONMENTAL COUNCIL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Program Services					Management and General	Total
	Tree Day Program	Pollinator Program	Recycle Tennessee Program	Watershed Program	Total Program Services		
Advertising	\$ 3,177	\$ 6,354	\$ 1,059	\$ -	\$ 10,590	\$ -	\$ 10,590
Bad debts	-	1,250	-	-	1,250	-	1,250
Contract labor	-	29,365	-	1,152	30,517	-	30,517
Communications	3,750	10,825	4,828	-	19,403	-	19,403
Depreciation	-	-	-	-	-	580	580
Dues and subscriptions	-	10,449	-	-	10,449	2,789	13,238
Meals	1,006	7,424	289	279	8,998	74	9,072
Insurance	-	347	-	-	347	5,198	5,545
Miscellaneous	-	148	-	665	813	48	861
Professional development	225	310	699	106	1,340	-	1,340
Payroll taxes	7,110	6,620	6,334	5,974	26,038	1,397	27,435
Professional fees	6,362	9,105	9,234	3,824	28,525	7,296	35,821
Rent	3,414	3,101	3,296	2,922	12,733	639	13,372
Equipment rental and maintenance	4,209	1,357	816	4,324	10,706	-	10,706
Salaries and benefits	96,296	89,660	85,783	80,912	352,651	18,925	371,576
Service fees	-	1,527	-	-	1,527	10	1,537
Sponsorships	-	2,059	-	-	2,059	-	2,059
Supplies	56,756	33,449	1,618	16,869	108,692	-	108,692
Travel	6,642	6,629	3,041	8,890	25,202	15	25,217
TOTAL EXPENSES	\$ 188,947	\$ 219,979	\$ 116,997	\$ 125,917	\$ 651,840	\$ 36,971	\$ 688,811

See accompanying notes to the financial statements.

TENNESSEE ENVIRONMENTAL COUNCIL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 3,002
Reconciliation of the change in net assets to net cash provided by operating activities:	
Depreciation	580
Changes in assets and liabilities:	
Decrease in accounts receivable	23,325
Increase in grants receivable	(20,589)
Increase in accounts payable	13,546
Increase in accrued expenses	10,906
Decrease in unearned contract service revenue	<u>(3,250)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>27,520</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Decrease in line of credit	<u>(3,193)</u>
NET INCREASE IN CASH	24,327
CASH, BEGINNING OF YEAR	<u>193,443</u>
CASH, END OF YEAR	<u><u>\$ 217,770</u></u>

See accompanying notes to the financial statements.

**TENNESSEE ENVIRONMENTAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Tennessee Environmental Council (“the Organization”) is a nonprofit corporation located in Nashville, Tennessee. The Organization was founded in 1970 and is a conservation organization incorporated to help people and communities improve our environment.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, *Leases* (“ASU 2016-02”), which along with subsequent amendments, superseded prior lease accounting requirements. The updated standard requires balance sheet recognition for all leases with lease terms greater than one year including a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. The Organization adopted the provisions of ASU 2016-02 and all of the related amendments effective January 1, 2022 using a modified retrospective approach. As a result of implementation of ASU 2016-02, assets and liabilities increased by \$38,983 as of January 1, 2022.

In January 2022, the Organization adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The adoption of this guidance did not have a material impact on the Organization’s financial statements.

Net Assets

Financial statement presentation follows the recommendations of generally accepted accounting principles. Under those provisions, net assets and revenues, gains, and losses are classified based on the absence or existence and nature of donor-imposed restrictions as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions.

Net assets with donor restrictions - Net assets subject to donor-imposed restrictions that can be filled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.

Accounts Receivable

Accounts receivable are stated at the amount that management expects to collect on outstanding balances. The carrying amount of accounts receivable is reduced by a valuation allowance, if necessary, which reflects the Organization’s best estimate of the amounts that will not be collected. The allowance is estimated based on the Organization’s historical loss experience, and existing economic conditions. Once management determines a balance cannot be collected, it is written off through a charge to the allowance for doubtful accounts. As of December 31, 2022, management did not believe an allowance was necessary.

**TENNESSEE ENVIRONMENTAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost at the date of purchase. The Organization's policy is to capitalize purchases with a cost of \$1,000 or more. Betterments which materially add to the value of the related assets and materially extend the useful life of the assets are capitalized. Normal replacements and minor equipment purchases are included as expenses of the operating unrestricted net assets. When property and equipment is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in unrestricted net assets. Depreciation is computed using the straight-line method over the estimated useful life of the asset, generally five years.

Revenue Recognition

Contributions received are recorded as net assets with or without donor restrictions, and are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as increases in net assets with donor restrictions. When a restriction is fulfilled (that is, when a stipulated time restriction ends or the purpose of restriction is accomplished), net assets with donor restrictions are reclassified and reported in the statements of activities as net assets without donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as net assets without donor restrictions.

The Organization receives grants from private and governmental agencies. Typically, these are cost reimbursement grants for a particular project and are accounted for as conditional contributions. The Organization recognizes revenues on these grants as the funds are spent. Any unused funds are forfeited and if any expenditures are disallowed, the Organization would be required to refund amounts received.

The Organization receives revenue from contracts with customers for various environmental projects. The Organization provides labor and supplies to complete the contracted project. Revenue from contracted services is recognized over time as services are completed.

Contributed Services

Individuals and Board of Director members may volunteer their time and perform a variety of tasks that assist the Organization. The value of these contributions is not reflected in the financial statements since the volunteers' time does not meet the criteria for recognition.

Contributed Goods

Contributed goods are recorded as contributions at fair value at the date of donation. Such contributions are reported as increases in unrestricted net assets unless the donor has restricted the contributed asset to a specific purpose. Assets contributed with explicit restrictions regarding their use are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the contributed assets are placed in service as instructed by the donor.

TENNESSEE ENVIRONMENTAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. In general, most expenses can easily be identified and charged to a specific program.

Income Taxes

The Organization is a not-for-profit organization that is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3) and classification by the Internal Revenue Service as an other than private foundation. Accordingly, no provision for federal income taxes is included in the accompanying financial statements.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Management has analyzed the tax positions taken by the Organization and has concluded that as of December 31, 2022, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

As of December 31, 2022, the Organization has accrued no interest and no penalties related to uncertain tax positions. It is the Organization’s policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Organization files a U.S. Federal information tax return. The Organization is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2022, 2021, and 2020.

Advertising

The costs of advertising are expensed as incurred.

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.

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2022:

Furniture and equipment	\$ 30,027
Accumulated depreciation	<u>(27,715)</u>
Property and equipment, net	<u><u>\$ 2,312</u></u>

During the year ending December 2022, depreciation expense totaled \$580.

TENNESSEE ENVIRONMENTAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE C – ACCRUED EXPENSES

Accrued expenses consist of the following as of December 31, 2022:

Accrued payroll and bonuses	\$ 40,180
Accrued payroll taxes	<u>7,242</u>
Accrued expenses	<u><u>\$ 47,422</u></u>

NOTE D – UNEARNED CONTRACT SERVICE REVENUE

On August 20, 2020, the Organization made an agreement with Tennessee Valley Authority (“TVA”) to provide services to build pollinator habitats at three select locations.

In 2021, the Organization received funds from TVA in the amount of \$25,000 for the habitat project at Middle Tennessee Electric Membership Corporation. Approximately 25% of the services were completed by the Organization in 2022. \$18,750 of the funds received are deferred until 2023 when the remaining services will be completed by the Organization.

In 2022, the Organization received funds from TVA in the amount of \$6,000 for the habitat project at Stratford STEM Magnet School. Approximately 50% of the services were completed by the Organization in 2022. \$3,000 of the funds received are deferred until 2023 when the remaining services will be completed by the Organization.

NOTE E – LINE OF CREDIT

The Organization has a line of credit with a financial institution in the amount of \$15,000. The line matures on July 25, 2023. Interest payments are due monthly at 6.4% interest with the principal due at maturity. The note is secured by all accounts owned by the Organization. The amount due on the line of credit is \$1,819 as of December 31, 2022.

NOTE F – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions contain donor-imposed restrictions that direct the use of the donation as specified and are satisfied either by the passage of time (time restrictions) or by fulfilling the donor-imposed purpose (purpose restriction). As of December 31, 2022, net assets with donor restrictions for the purpose of supporting 2023 Tree Day include the following:

Community Foundation of Middle Tennessee	\$ 7,500
Tractor Supply Company Foundation	10,000
Atmos Energy	10,000
Tennessee Valley Authority	5,000
One Tree Planted	<u>14,000</u>
	<u><u>\$ 46,500</u></u>

Net assets released from restrictions amounted to \$221,893 for the year ended December 31, 2022.

TENNESSEE ENVIRONMENTAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE G – RESTATEMENT OF NET ASSETS

During the year ended December 31, 2022, the Organization made a prior period adjustment to properly account for employee bonuses earned in 2021 and paid in 2022. The adjustment is as follows:

Net assets, as originally stated	\$ 170,630
Adjustment for bonus accrual	<u>(26,250)</u>
Net assets, as restated	<u><u>\$ 144,380</u></u>

NOTE H – CONTRIBUTED GOODS

Contributed goods for the year ended December 31, 2022 are as follows:

Truck rental	\$ 3,709
Gas cards	500
Tires	<u>1,104</u>
	<u><u>\$ 5,313</u></u>

In 2022, \$4,209 of the contributed goods received were donor restricted for the Tree Day program, and \$1,104 of the contributed goods were donor restricted for the Watershed program. As of December 31, 2022, all donor restrictions were released.

NOTE I – OPERATING LEASE

The Organization entered into an operating lease for office space in 2009. The original lease has been extended multiple times and will expire February 28, 2025 with an option to renew. Rent is due monthly in the amount of \$1,113. The Lessor can terminate the lease with a 12-month written notice to the Organization. For the year ended December 31, 2022, total rent expense was \$13,372 and was included in management and general and program expenses in the accompanying financial statements.

It is the Organization's policy to use their incremental borrowing rate as the discount rate (6.4% at December 31, 2022) for the operating lease. The weighted average remaining lease term for the operating lease is 25 months. The operating lease is presented as a right-of-use asset and related operating lease liability on the statement of financial position as of December 31, 2022 in the amount of \$27,920.

The future minimum payments under the lease for the next five years are as follows:

2023	\$ 13,357
2024	13,357
2025	<u>3,339</u>
	30,053
Less effects of discounting	<u>(2,133)</u>
	<u><u>\$ 27,920</u></u>

**TENNESSEE ENVIRONMENTAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE J – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization has \$263,692 in financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash of \$217,770, accounts receivable of \$12,152, grants receivable of \$20,589, and unused line of credit of \$13,181. \$46,500 of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position date. As part of its liquidity management, the Organization has a policy to structure its financial assets to be available as general expenditures and related liabilities become due.

NOTE K – LITIGATION

In 2022, the Organization had pending litigation against the Tennessee Department of Environment and Conservation appealing an environmental permit addressing stormwater. The Organization voluntarily dismissed the lawsuit, and the case was formally closed on August 7, 2022.

NOTE L – SUBSEQUENT EVENTS

As of September 14, 2023, no other events or transactions have transpired that would have a material effect on the balances reported herein as of December 31, 2022 or that would significantly impact the Organization's ongoing operations.