

THE LAND TRUST FOR TENNESSEE, INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS

AND

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

MARCH 31, 2006 AND 2005

THE LAND TRUST FOR TENNESSEE, INC.
NASHVILLE, TENNESSEE
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AND
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Land Trust for Tennessee, Inc.
Nashville, Tennessee

We have audited the accompanying statements of financial position of The Land Trust for Tennessee, Inc. as of March 31, 2006 and 2005, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of The Land Trust for Tennessee Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 audits provide 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 The Land Trust for Tennessee, Inc. as of March 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
June 27, 2006

THE LAND TRUST FOR TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

MARCH 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u> (Restated - Note 11)
<u>ASSETS</u>		
Cash	\$ 708,120	\$ 585,532
Contributions receivable - Note 3	166,830	201,325
Accounts receivable	4,385	-
Prepaid expenses and other	6,499	6,068
Furniture and equipment, net - Note 4	19,964	19,243
Protected land - Note 9	2,014,471	2,014,471
Funds held on behalf of others	<u>5,000</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 2,925,269</u>	<u>\$ 2,826,639</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 5,975	\$ 3,349
Accrued expenses	23,317	4,977
Funds held on behalf of others	<u>5,000</u>	<u>-</u>
TOTAL LIABILITIES	<u>34,292</u>	<u>8,326</u>
COMMITMENTS AND CONTINGENCIES - Note 6		
NET ASSETS		
Unrestricted:		
Designated for protected land	2,014,471	2,014,471
Undesignated	<u>371,535</u>	<u>269,031</u>
Total unrestricted	2,386,006	2,283,502
Temporarily restricted - Note 10	<u>504,971</u>	<u>534,811</u>
TOTAL NET ASSETS	<u>2,890,977</u>	<u>2,818,313</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,925,269</u>	<u>\$ 2,826,639</u>

The accompanying notes are an integral part of the financial statements.

THE LAND TRUST FOR TENNESSEE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

	<u>2006</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT			
Contributions	\$ 203,922	\$ 346,506	\$ 550,428
Donated services	93,178	-	93,178
Special events	167,106	-	167,106
Less: direct benefits to donors	(77,590)	-	(77,590)
Investment income	18,242	-	18,242
Agency fees	3,073	-	3,073
Net assets released from restrictions	<u>376,346</u>	<u>(376,346)</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u>784,277</u>	<u>(29,840)</u>	<u>754,437</u>
EXPENSES			
Program services	553,325	-	553,325
Supporting services:			
Administration	79,796	-	79,796
Fundraising	<u>48,652</u>	<u>-</u>	<u>48,652</u>
TOTAL EXPENSES	<u>681,773</u>	<u>-</u>	<u>681,773</u>
CHANGE IN NET ASSETS	102,504	(29,840)	72,664
NET ASSETS - BEGINNING OF YEAR, as restated - Note 11	<u>2,283,502</u>	<u>534,811</u>	<u>2,818,313</u>
NET ASSETS - END OF YEAR	<u>\$ 2,386,006</u>	<u>\$ 504,971</u>	<u>\$ 2,890,977</u>

The accompanying notes are an integral part of the financial statements.

2005		
Unrestricted	Temporarily Restricted	Total
(Restated - Note 11)		
\$ 117,891	\$ 509,962	\$ 627,853
98,550	-	98,550
140,147	-	140,147
(62,262)	-	(62,262)
5,166	-	5,166
-	-	-
<u>311,191</u>	<u>(311,191)</u>	<u>-</u>
<u>610,683</u>	<u>198,771</u>	<u>809,454</u>
437,480	-	439,062
96,886	-	97,506
<u>64,457</u>	<u>-</u>	<u>62,255</u>
<u>598,823</u>	<u>-</u>	<u>598,823</u>
11,860	198,771	210,631
<u>2,271,642</u>	<u>336,040</u>	<u>2,607,682</u>
<u>\$ 2,283,502</u>	<u>\$ 534,811</u>	<u>\$ 2,818,313</u>

THE LAND TRUST FOR TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u> (Restated - Note 11)
OPERATING ACTIVITIES		
Change in net assets	<u>\$ 72,664</u>	<u>\$ 210,631</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,221	6,470
(Increase) decrease in:		
Contributions receivable	34,495	(79,488)
Accounts receivable	(4,385)	-
Prepaid expenses	(431)	(5,488)
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>20,966</u>	<u>(7,849)</u>
TOTAL ADJUSTMENTS	<u>55,866</u>	<u>(86,355)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	128,530	124,276
NET CASH USED IN INVESTING ACTIVITIES		
Purchase of furniture and equipment	<u>(5,942)</u>	<u>(10,026)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	122,588	114,250
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>585,532</u>	<u>471,282</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 708,120</u>	<u>\$ 585,532</u>

The accompanying notes are an integral part of the financial statements.

THE LAND TRUST FOR TENNESSEE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

	2006				
	Program	Supporting Services			
	Services	Administration	Fundraising	Total	Total
Salaries and related fringe benefits	\$ 345,572	\$ 55,482	\$ 34,636	\$ 90,118	\$ 435,690
Computer expense	2,435	1,569	181	1,750	4,185
Depreciation	3,597	830	794	1,624	5,221
Development/fundraising	-	-	5,615	5,615	5,615
Dues and subscriptions	1,481	1,073	536	1,609	3,090
Easement preparation	7,759	-	-	-	7,759
Education	15,261	2,602	482	3,084	18,345
Events	-	-	77,590	77,590	77,590
Furniture expense	257	350	-	350	607
Office expenses	6,337	1,831	553	2,384	8,721
Insurance	3,201	754	597	1,351	4,552
Interest	222	74	17	91	313
Occupancy	27,892	5,643	4,465	10,108	38,000
Printing and publication	12,540	264	-	264	12,804
Professional services:					
Donated	93,178	-	-	-	93,178
Other	27,481	8,485	88	8,573	36,054
Taxes, licenses and fees	244	27	45	72	316
Telephone	5,868	812	643	1,455	7,323
 TOTAL EXPENSES	 553,325	 79,796	 126,242	 206,038	 759,363
 Less expenses included with revenues on the statement of activities - direct benefits to donors	 - -	 - -	 (77,590) -	 (77,590) -	 (77,590) -
 TOTAL EXPENSES INCLUDED IN THE EXPENSES SECTION OF THE STATEMENT OF ACTIVITIES	 \$ 553,325	 \$ 79,796	 \$ 48,652	 \$ 128,448	 \$ 681,773

The accompanying notes are an integral part of the financial statements.

2005

Program Services	Supporting Services			Total
	Administration	Fundraising		
\$ 233,253	\$ 59,205	\$ 41,710	\$ 100,915	\$ 334,168
2,143	5,111	-	5,111	7,254
4,458	1,029	983	2,012	6,470
-	-	13,388	13,388	13,388
545	1,656	79	1,735	2,280
8,212	97	-	97	8,309
19,601	5,692	636	6,328	25,929
-	-	62,262	62,262	62,262
-	-	-	-	-
4,046	7,916	724	8,640	12,686
3,725	860	821	1,681	5,406
69	94	-	94	163
22,968	5,366	4,599	9,965	32,933
9,164	1,075	416	1,491	10,655
98,550	-	-	-	98,550
24,000	7,925	-	7,925	31,925
1,188	163	435	598	1,786
5,558	697	666	1,363	6,921
437,480	96,886	126,719	223,605	661,085
-	-	(62,262)	(62,262)	(62,262)
<u>\$ 437,480</u>	<u>\$ 96,886</u>	<u>\$ 64,457</u>	<u>\$ 161,343</u>	<u>\$ 598,823</u>

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2006 AND 2005

NOTE 1 - GENERAL

Nature of Business

The Land Trust for Tennessee, Inc. (the "Organization") is a Tennessee not-for-profit organization, incorporated on January 15, 1999, whose purpose is to promote and aid in the preservation of Tennessee's natural landscapes and to protect land with recreational, scenic, ecological, and historical significance for future generations. The goal to preserve Tennessee's land will primarily be accomplished through 1) the acquisition, through donation or purchase, of land or conservation easements on land, and 2) public education concerning Tennessee's natural and historic resources and landowners' options for preserving these resources. The Organization is funded primarily by contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements present the Organization's financial position and results of operations on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

The Organization had no permanently restricted net assets at March 31, 2006 and 2005.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2006 AND 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed at a risk-free interest rate applicable to the year in which the promise is received (4.81% in 2006; 4.16% in 2005). Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible amounts has not been provided on contributions receivable since, in management's opinion, the receivable amounts are fully collectible, based on past history.

Property and Equipment

Property and equipment are stated at acquisition cost, or at estimated fair value at the time of the gift, if donated. Depreciation of these assets is calculated by the straight-line method to allocate the cost of depreciable assets, as so determined, to operations over the estimated useful lives of the assets (three to seven years for equipment and furniture and fixtures).

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

In-kind Contributions

Donated facilities, goods and materials are recognized as contributions in the period received at fair value, if there is an objective and measurable basis for determining such value.

Donated services are recognized as contributions if those services create or enhance nonfinancial assets or the donated service requires specialized skills, was provided by an individual who possesses such skills and would have been purchased by the Organization if not donated. Such services are recognized at fair value as support and expenses in the period the services are performed. The accompanying statements of activities include contributed services of \$93,178 and \$98,550 for legal, engineering, architectural and various other services for the years ended March 31, 2006 and 2005, respectively.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization; however, no values for such in-kind contributions have been included in the financial statements since there is no objective basis by which to measure the values.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2006 AND 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

The following functional expense classifications are included in the accompanying financial statements:

Program services - consist of programs to promote and aid in the preservation of Tennessee's natural landscapes and to protect land with recreational, scenic, ecological and historical significance for future generations.

Administration - includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program or with fundraising. Includes costs associated with providing coordination and articulation of the Organization's program strategy, business management, general record keeping, budgeting, and related purposes.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distributions of fundraising materials.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses and allocation of functional expenses during the reporting period. Actual results could differ from those amounts.

Reclassifications

Certain reclassifications have been made to prior year amounts in order to be comparative with the current year presentation.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2006 AND 2005

NOTE 3 - CONTRIBUTIONS AND CONTRIBUTIONS RECEIVABLE

At March 31, 2006, two contributions receivable from unrelated parties comprised 35% of total receivables (33% in 2005). In addition, pledges totaling \$63,221 are due from members of the Organization's board of directors (\$45,970 in 2005).

Contributions receivable consisted of the following as of March 31:

	<u>2006</u>	<u>2005</u>
		(Restated - Note 11)
Due in less than one year	\$ 72,677	\$ 89,536
Due in one to five years	<u>100,884</u>	<u>121,000</u>
	173,561	210,536
Less: Discount to present value	<u>(6,731)</u>	<u>(9,211)</u>
Subtotal	166,830	201,325
Less: Allowance for uncollectible amounts	<u>-</u>	<u>-</u>
	<u>\$ 166,830</u>	<u>\$ 201,325</u>

In 2006, the Organization received a conditional pledge from Lyndhurst Foundation of ten dollars for every acre that the Organization protects in the South Cumberland/Sequatchie Valley focus area by December 31, 2007, up to a maximum gift of \$50,000. As of March 31, 2006, no conditions for any portion of this pledge have been met.

The Organization has been notified by certain donors that they will recommend to the Community Foundation of Middle Tennessee, Inc. (the "Foundation") that gifts be made to the Organization in 2007, 2008 and 2009, totaling approximately \$193,000 and \$35,000 as of March 31, 2006 and 2005, respectively. The Foundation has final authority over these donor recommendations and, accordingly, the contributions have not been recognized until the period approved by the Foundation.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2006 AND 2005

NOTE 4 - FURNITURE AND EQUIPMENT

Furniture and equipment consisted of the following as of March 31:

	<u>2006</u>	<u>2005</u>
Furniture and fixtures	\$ 473	\$ 473
Equipment	<u>42,364</u>	<u>36,422</u>
	42,837	36,895
Less: accumulated depreciation	<u>(22,873)</u>	<u>(17,652)</u>
Net property and equipment	<u>\$ 19,964</u>	<u>\$ 19,243</u>

NOTE 5 - DONOR-DESIGNATED ENDOWMENT FUNDS IN TRUST

A donor-designated endowment fund has been established with the Community Foundation of Middle Tennessee for the benefit of the Organization. The Community Foundation of Middle Tennessee has the ultimate authority and control over the fund and, therefore, these assets are not included in the financial statements of the Organization. Income distributed to the Organization is recognized by the Organization in the year received. There were no such distributions in 2006 or 2005. Total assets held in this fund approximated \$12,000 at March 31, 2006 (\$11,000 at March 31, 2005).

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2006 AND 2005

NOTE 6 - LEASE OBLIGATIONS

The Organization leases its office facilities under a noncancelable operating lease. The lease expires June 30, 2009. Additionally, the Organization has an operating lease for a satellite office that requires monthly payments of \$300 through September 30, 2006. Total rent expense paid during the year was \$38,000 (\$32,932 in 2005).

Future minimum lease payments required under all noncancelable operating leases that have remaining terms in excess of one year as of March 31, 2006, are as follows:

Year ending March 31,

2007	\$ 30,075
2008	29,575
2009	30,875
2010	<u>7,800</u>
	<u>\$ 98,325</u>

NOTE 7 - PENSION PLAN

The Organization sponsors a defined contribution employee benefit plan for eligible employees. At the discretion of the Board, the Organization contributes to the plan on behalf of all eligible employees based on their compensation. Total pension plan expense of the Organization amounted to \$6,658 in 2006 (\$6,027 in 2005). All employees are eligible to participate in the plan and to receive the Employer discretionary match after two years of service.

NOTE 8 - CONCENTRATION OF CREDIT RISK

The Organization's primary fundraiser, *Once in a Blue Moon*, generated revenues, which are recognized as unrestricted contributions, totaling \$151,050 and \$137,025 in 2006 and 2005, respectively.

The Organization maintains cash deposits at one financial institution which, at times, may exceed federally insured limits. In management's opinion, the risk is mitigated by the use of high quality financial institutions.

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2006 AND 2005

NOTE 9 - PROTECTED LAND

Protected land consists of a tract of land in Tennessee that was purchased by the Organization in a prior year with funds that were donated for that purpose. The land is being held by the Organization for the use of future generations, in accordance with its mission.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of March 31:

	<u>2006</u>	<u>2005</u>
Future years' operations	\$ 166,830	\$ 201,325
Stewardship funds for monitoring and enforcement of protected properties	224,298	168,957
Land protection activities in the South Cumberland Plateau and Sequatchie Valley regions	81,203	80,526
Land conservation program in north Davidson county, Robertson county, Sumner county and Northeast Tennessee	12,164	34,105
Natural resources and historic preservation survey for the Duck River Highland project in southwest Williamson county, northwest Maury county, and eastern Hickman county	-	19,400
Educational and other land protection programs	<u>20,476</u>	<u>30,498</u>
	<u>\$ 504,971</u>	<u>\$ 534,811</u>

THE LAND TRUST FOR TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2006 AND 2005

NOTE 11 - RESTATEMENT OF PRIOR YEAR

A prior period adjustment has been made to temporarily restricted net assets as of April 1, 2005, and the 2005 financial statements have been restated, in order to properly reflect contributions receivable as of March 31, 2005. The adjustment related to a pledge that should not have been recognized as revenue in the 2005 fiscal year under generally accepted accounting principles. (See last paragraph of Note 3 for related disclosure.) The effects of the restatement were (i) to decrease assets and temporarily restricted net assets by \$33,234 as of March 31, 2005, and (ii) to decrease revenues and the change in net assets by \$33,234 for the year then ended. A schedule summarizing the restatement of net assets as of April 1, 2005, follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance - April 1, 2005, as previously reported	\$ 2,283,502	\$ 568,045	\$ 2,851,547
Prior period adjustment:			
To properly reflect contributions receivable	<u>-</u>	<u>(33,234)</u>	<u>(33,234)</u>
Balance - April 1, 2005, as restated	<u>\$ 2,283,502</u>	<u>\$ 534,811</u>	<u>\$ 2,818,313</u>