

CUMBERLAND RIVER COMPACT
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

MARCH 31, 2022

CUMBERLAND RIVER COMPACT

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Independent Auditor's Report

To the Board of Directors
Cumberland River Compact
Nashville, Tennessee

Opinion

We have audited the accompanying financial statements of Cumberland River Compact (the Organization), a non-profit organization, which comprise the statement of financial position as of March 31, 2022, and the related statements of activities and changes in net assets, 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 Cumberland River Compact as of March 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 Auditor's Responsibilities for the Audit of the Financial Statements section of this report. We are required to be independent of the Organization and to meet our ethical responsibilities in accordance with the relevant ethical requirements related 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 these 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 the Organization's ability to continue as a going concern within one year after the date the financial statements are available to be issued.

(Auditor's report continued on next page)

Auditor's 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 auditor's 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 the Organization'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 the Organization'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 audits, significant audit findings, and certain internal control related matters that we identified during the audits.



Puryear & Noonan, CPAs
Nashville, Tennessee
August 11, 2022

**Cumberland River Compact
Statement of Financial Position
March 31, 2022**

Assets

Current Assets

Cash	\$ 1,974,587
Restricted cash	16,677,731
Accounts receivable	19,801
Pledges receivable	8,125
Grants receivable	177,199
Prepaid expenses and other	105,725
Total Current Assets	<u>18,963,168</u>

Property and Equipment

Furniture and equipment	96,727
Land	38,700
Leasehold improvements	4,235
Vehicles	52,871
Less - accumulated depreciation	(99,676)
Property and Equipment, net	<u>92,857</u>

Total Assets	<u><u>\$ 19,056,025</u></u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 170,417
Deferred lease liability	760
Deferred ILF program revenue	16,238,312
Other current liabilities	15,100
Total Current Liabilities	<u>16,424,589</u>

Net Assets

Without donor restrictions	2,457,980
Without donor restrictions - board designated	50,000
With donor restrictions	123,456
Total Net Assets	<u>2,631,436</u>

Total Liabilities and Net Assets	<u><u>\$ 19,056,025</u></u>
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See independent auditor's report and accompanying notes to financial statements.

Cumberland River Compact
Statement of Activities and Changes in Net Assets
For the Year Ended March 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Support			
Contributions	\$ 460,218	\$ -	\$ 460,218
ILF program income	2,016,492	-	2,016,492
Government grants	213,204	-	213,204
Other grants	63,075	-	63,075
In-kind contributions	38,700	-	38,700
Fundraising events	10,000	-	10,000
Program service fees	216,359	-	216,359
Investment income	33,309	-	33,309
Other income	147,171	-	147,171
Net assets released from restriction	320,530	(320,530)	-
Total Revenues and Support	<u>3,519,058</u>	<u>(320,530)</u>	<u>3,198,528</u>
Expenses			
Program services	2,771,894	-	2,771,894
General and administrative	386,784	-	386,784
Fundraising	78,208	-	78,208
Total Expenses	<u>3,236,886</u>	<u>-</u>	<u>3,236,886</u>
Change in Net Assets	282,172	(320,530)	(38,358)
Net Assets - Beginning of Year	<u>2,225,808</u>	<u>443,986</u>	<u>2,669,794</u>
Net Assets - End of Year	<u><u>\$ 2,507,980</u></u>	<u><u>\$ 123,456</u></u>	<u><u>\$ 2,631,436</u></u>

See independent auditor's report and accompanying notes to financial statements.

**Cumberland River Compact
Statement of Functional Expenses
For the Year Ended March 31, 2022**

	Program Services	General and Administrative	Fundraising	Total
Salaries and benefits	\$ 457,532	\$ 134,278	\$ 52,755	\$ 644,565
Contract labor	116,652	8,509	300	125,461
Marketing and fundraising	39,602	8,234	22,771	70,607
Occupancy costs	47,260	35,932	-	83,192
Supplies	320,900	16,440	-	337,340
Insurance	-	13,852	-	13,852
Repairs and maintenance	16,751	23,494	-	40,245
Meetings	1,651	2,374	160	4,185
Professional fees	1,745,283	61,182	1,772	1,808,237
Conferences	799	-	-	799
Travel expenses	12,745	823	-	13,568
Printing and publications	2,088	425	-	2,513
Dues and subscriptions	3,145	12,720	450	16,315
Equipment rental	7,212	4,787	-	11,999
Other Expenses	-	43,478	-	43,478
Depreciation	274	20,256	-	20,530
Total Functional Expenses	\$ 2,771,894	\$ 386,784	\$ 78,208	\$ 3,236,886

See independent auditor's report and accompanying notes to financial statements.

**Cumberland River Compact
Statement of Cash Flows
For the Year Ended March 31, 2022**

Cash Flows from Operating Activities

Change in net assets \$ (38,358)

Adjustments to Reconcile Change in Net Assets

to Net Cash Provided by (Used for) Operating Activities

Depreciation expense	20,530
Forgiveness of PPP loan	(120,785)
In-kind contribution of land	(38,700)
Loss on disposal of property and equipment	43,390
(Increase) decrease in receivables	(16,051)
(Increase) decrease in prepaid expenses and other	(36,292)
Increase (decrease) in accounts payable and other current liabilities	35,387
Increase (decrease) in deferred lease liability	(14,220)
Increase (decrease) in deferred ILF program revenue	1,191,737

Net Cash Provided by (Used for) Operating Activities	<u>1,026,638</u>
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Cash Provided from Investing Activities

Purchases of property and equipment	<u>(17,128)</u>
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Net Cash Provided by (Used for) Investing Activities	<u>(17,128)</u>
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Net Change in Cash	1,009,510
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Cash - Beginning of Year	<u>17,642,808</u>
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Cash - End of Year	<u><u>\$ 18,652,318</u></u>
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Balance Sheet Presentation

Cash	\$ 1,974,587
Restricted cash	<u>16,677,731</u>
	<u><u>\$ 18,652,318</u></u>

See independent auditor's report and accompanying notes to financial statements.

CUMBERLAND RIVER COMPACT
Notes to Financial Statements
March 31, 2022

Note 1 - Summary of Significant Accounting Policies

Organization and Purpose

Cumberland River Compact (the Organization) was incorporated under the laws of the State of Tennessee in the City of Nashville as a nonprofit organization in 1997. The Organization's mission is to enhance the health and enjoyment of the Cumberland River and its tributaries through education, collaboration and action. The Organization's revenue and support comes primarily from donations from individuals, foundations, and businesses, as well as from both government and private grants. In addition, the Organization is operating in a stream restoration In-Lieu Fee Program (ILF Program) (see Note 3).

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting which means that revenues are recognized when earned rather than when collected and expenses are recorded when incurred rather than when disbursed.

Use of Estimates

Management of the Organization has made a number of assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities to prepare these financial statement in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Actual results could differ from these estimates.

Financial Statement Presentation

For financial statement presentation, the Organization reports its financial information according to two classes of net assets (net assets with and without restrictions) based on the existence or absence of donor-imposed restrictions.

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. Net assets without restrictions may be designated for specific purposes by action of the Board of Directors (the Board). The Board has designated \$50,000 for operating reserves.

Net Assets With Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions in the Statement of Activities and Changes in Net Assets as net assets released from restrictions. At March 31, 2022, there were \$123,456 of net assets restricted for stormwater runoff.

Accounts Receivable

The Organization considers accounts receivable to be fully collectible at year end. Accordingly, no allowance for doubtful accounts has been recorded.

Grants Receivable

The Organization has been awarded several reimbursement-type state and federal governmental grants. Grants receivable at March 31, 2022 consists primarily of costs incurred on reimbursable grants that had not yet been reimbursed to the Organization.

Pledges Receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value and included in current assets. For multi-year pledges, the amounts promised in subsequent years are discounted, if significant, and included in other assets. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method based on the following estimated useful lives of the assets.

Furniture and equipment	5 - 7 years
Leasehold improvements	15 years
Vehicles	5 years

Significant additions and betterments are capitalized. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred. Depreciation expense for the year ended March 31, 2022 was \$20,530.

Measure of Operations

The Statement of Activities and Changes in Net Assets reports changes in net assets, including net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing activities and interest and investment income. Non-operating activities are limited to resources that generate return from other investments, permanently restricted contributions, net assets released for capital expenditures, and other activities considered to be of a more unusual/or non-reoccurring nature.

There were no non-operating activities for the year ended March 31, 2022.

Program and Supporting Services - Functional Expenses

The following program and supporting services are included in the accompanying financial statements on the Statement of Functional Expenses.

Program Services - includes activities carried out to fulfill the Organization's mission to enhance the health and enjoyment of the Cumberland River and its tributaries through education, collaboration and action.

Supporting Services - General and Administrative - relates to the overall direction of the Organization. These expenses are not identifiable with a particular program, event or fundraising, but are indispensable to the conduct of those activities and are essential to the Organization. Specific activities include organizational oversight, business management, record keeping, budgeting, financing, and other administrative activities.

Supporting Services - Fundraising - includes cost of activities directed toward appeals for financial support and the cost of solicitations and creation and distribution of fundraising materials.

Classification of Expenses

Expenses are classified functionally as a measure of service efforts and accomplishments. Direct expenses, incurred for a single function, are allocated entirely to that function. Joint expenses applicable to more than one function are allocated on the basis of objectively summarized information or management estimates.

Revenue Recognition

The Organization's revenue and support comes primarily from public support through contributions, government grants, project services, the ILF program, and rent from River Center. Contributors donate directly to the Organization to support the operations, expansion, and the charitable causes that the Organization sponsors. The Organization records the contributions when received either as contributions with or without donor restrictions based upon the presence or absence of donor-imposed restrictions.

Revenue from contracts with customers is recognized based on the following five steps model:

- Identification of the contract with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price
- Recognition of revenue when, or as, the Organization satisfies a performance obligation.

The Compact receives support from the community for the multiple projects that it performs to improve the water quality of the Cumberland River and its connected tributaries. Contributions from many of these individuals are given and have no barrier to recognition. These are recognized when given. The Compact categorizes the donors into

Major Donors and Compact Signers. The Major Donors are contributions that are given without barriers for recognition. The Compact has grants that have barriers to recognition. These grants are designated toward specific projects and may only be recognized once performance obligations are satisfied by the Organization.

The Compact performs many restoration projects that can span several fiscal years. The revenue from these projects are earned when the performance obligations are completed.

The Compact subleases (short-term rental) office space for special events. Revenue is recognized upon completion of the event.

PPP Loan

The Organization received a loan in accordance with the Paycheck Protection Program (PPP) section of the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). U.S. GAAP provides organizations with two alternatives for reporting the loan and any future forgiveness: 1) proceeds can be treated as debt and future forgiveness recognized as income when the loan or any portion thereof is formally discharged; or 2) proceeds can be treated as a conditional contribution where they recognize a refundable advance and derecognize the liability, and recognize income, as the conditions for forgiveness are substantially met or explicitly waived. The Organization received an initial PPP loan in the amount of \$111,460 and a second PPP loan in the amount of \$120,785 during the year ended March 31, 2021. The initial loan was forgiven during the fiscal year ended March 30, 2021 and recognized as income. The second loan was forgiven during the fiscal year ended March 31, 2022, and is recorded in other income on the Statement of Activities and Changes in Net Assets.

Income Taxes

The Organization is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC), and therefore, no provision for federal or state income taxes is applicable.

The Organization has adopted the guidance in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740 on accounting for uncertainty in income taxes. For all tax positions taken by the Organization, management believes it is clear that the likelihood is greater than 50 percent that the full amount of the tax positions taken will be ultimately realized. Therefore, management believes that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for the open tax years (2019-2021), or expected to be taken in the Organization's 2022 tax returns. The Organization identifies its major tax jurisdiction's as the U.S. Federal and the State of Tennessee. However, the Organization is not currently under audit nor has the Organization been contacted by any of these jurisdictions. The Organization is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change in the next twelve months. The Organization incurred no interest or penalties during the year ended March 31, 2022.

In-Kind Contributions

During 2022, many individuals volunteered their time and performed a variety of tasks that assisted the Organization with program services and fundraising events. No amounts have been reflected in the financial statements for these donated services since the volunteers' time did not meet the criteria for recognition under U.S. GAAP.

In addition, the Organization has received an in-kind contribution of land that is valued, based on property tax appraisal, at \$38,700. The Organization plans to use the land for educational purposes.

Fair Value Measurements

The Organization follows FASB ASC 820-10, *Fair Value Measurements*, with the respect to its financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. U.S. GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Organization groups assets at the fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels are as follows:

Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 - Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data.

U.S. GAAP requires disclosure of an estimate of fair value of certain financial instruments. The Organization's significant financial instruments are cash, inventory, donations receivable, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair values.

Note 2 - Liquidity and Availability

The Organization has \$2,179,712 of financial assets consisting of unrestricted cash and current receivables, of which \$123,456 is subject to donor restrictions of time or purpose, therefore, leaving \$2,056,256 available to meet cash needs for general expenditures. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 3 - Stream Restoration In-Lieu Fee (ILF) Program

The Organization operates in a Compensatory Mitigation Stream Restoration ILF Program regulated by the United States Army Corps of Engineers (US Corps of Engineers). The purpose of the ILF Program is to satisfy compensatory mitigation requirements for permits issued under Section 404 and/or Section 401 of the Clean Water Act. The objectives of the ILF Program are as follows:

- Implement effective stream restoration, enhancement, establishment and preservation projects to compensate for the loss of ecological functions affected by permitted activities;
- Provide a watershed-level alternative to permittee-responsible mitigation, which will compensate for lost stream functions and services with projects appropriate to the service area;
- Meet current and expected demand for mitigation credits in the service area;
- Provide a mechanism and source of revenue for stream restoration projects in the Cumberland River Basin in Tennessee.

The process starts when a project (development or infrastructure) seeks permits from Tennessee Department of Environment and Conservation (TDEC) and/or the US Corps of Engineers to impact water. After the permittee and regulators have agreed that all avoidable impacts have been eliminated, the regulators issue permits with a requirement to purchase a specified number of compensatory mitigation credits that will offset the unavoidable impacts to water resources. The permittee then purchases compensatory mitigation credits from a marketplace. The Organization's ILF Program is a seller of compensatory mitigation stream restoration credits in that marketplace. When the Organization sells those credits to the permittee, those funds are recorded as deferred revenue and set aside as restricted cash. The Organization works with the US Corps of Engineers and TDEC to mitigate for the permitted stream impacts through a highly regulated stream restoration process.

Ten percent (10%) of the credits sold plus the proportionate amount of any interest accrued to the ILF Program account shall be used for contingency actions related to disasters, long-term management, and site protection. Fifteen percent (15%) of the credits sold plus a proportionate amount of any interest accrued to the ILF Program

account can be used to cover administrative costs such as costs associated with the establishment and operation of the ILF Program, research, planning, and program management. Once a mitigation project has been approved, the remaining seventy-five (75%) of the advanced mitigation funds can be utilized to fund the ILF Program related expenses of the mitigation project. As costs are incurred, the Organization recognizes revenue at the same rate as the related costs. The Organization is also allowed to allocate a portion of their general overhead costs to the administrative costs of the ILF Program. A reasonable basis has been used to determine how much overhead can be allocated.

The Organization recognizes revenue as costs are incurred until the US Corps of Engineers and TDEC approve that the restoration project is complete, and the credits can be released. After the project is completed, if the project has a surplus, meaning more credits in value were released than the costs the Organization incurred to complete the project, the excess funds remaining in the ILF Program account after the above obligations are satisfied, must continue to be used for the restoration, establishment and enhancement, and/or preservation of aquatic resources and associated upland buffers. Therefore, the Organization will only recognize revenue as the costs are incurred that are qualifying according to the US Corps of Engineers' governing rules at that time.

For the fiscal year ended March 31, 2022, the Organization recognized \$2,016,492 in ILF Program related revenue and earned \$33,309 in interest income on the restricted cash funds. The restricted cash balance related to the ILF Program at year end was \$16,677,731, and there was deferred revenue related to the ILF Program of \$16,238,312 at year end.

Note 4 - Lease Commitments

The Organization signed a new lease agreement to rent 3,042 square feet of office space from October 2021 through September 2023 that required monthly payments of \$8,365 through September 2022 and \$8,616 from October 2022 through September 2023. Future minimum lease payments for the next two fiscal years are as follows:

Fiscal 2023	\$101,886
Fiscal 2024	<u>51,696</u>
Total	<u><u>\$153,582</u></u>

The Organization leased office space and various office and program equipment with a total rental expense of approximately \$78,000 for the year ended March 31, 2022.

Note 5 - Net Assets with Donor Restrictions

Net assets with donor restrictions consist of various grants restricted by the grantors, both governmental and non-governmental, for use in the Organization's various programs and totaled \$123,456 at March 31, 2022. Net assets of \$320,530 were released from donor restrictions during the year by incurring expenses which satisfied the restricted purpose.

Note 6 - Employee Retirement Plan

The Organization has adopted a simple 401(k) retirement plan that covers substantially all of its employees. The Organization has a discretionary option to match an eligible participant's compensation up to the maximum allowed by the IRC, and a discretionary option to make an additional profit-sharing contribution. There are no eligibility service requirements. The Organization contributed \$13,344 to the plan for the year ended March 31, 2022.

Note 7 - Concentration of Credit Risk

The Organization maintains its checking and savings accounts at financial institutions whose balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per bank. Account balances at times may exceed federally insured limits.

Note 8 - Subsequent Events

Management has evaluated subsequent events through August 11, 2022, the date that the financial statements were available to be issued. The Organization is not aware of any material subsequent events.

Note 9 - Accounting Standards Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASC 842), which requires lessees to recognize assets and liabilities for most leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee is not expected to significantly change under such guidance. The standard, as amended, will be effective for annual reporting periods beginning after December 15, 2021. Accordingly, this ASU will be effective for the Organization for the year ending March 31, 2023. The Organization is currently evaluating the impact that - operations.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial*

Assets, whose purpose is to clarify the presentation and disclosure of contributed nonfinancial assets with the intention to provide the reader of the financial statements a clearer understanding of what type of nonfinancial assets were received and how they are used and recognized by the nonprofit entity. ASU 2020-07 should be applied on a retrospective basis and effective for annual periods beginning after June 15, 2021. The Organization is currently evaluating the impact that adoption of this ASU will have on the Organization's financial statements.