HARPETH CONSERVANCY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

MARCH 31, 2020

HARPETH CONSERVANCY
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PURYEAR & NOONAN, CPAs

Independent Auditor's Report

To the Board of Directors
Harpeth Conservancy
Brentwood, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Harpeth Conservancy (the Organization) which comprise the statement of financial position as of March 31, 2020, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year then ended and the related notes to the financial statements.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

(Auditor's report continued on next page)

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harpeth Conservancy as of March 31, 2020, and its activities and changes in its net assets, its cash flows, and its functional expenses for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Puryear & Noonan, CPAs PLLC

Puryear & Noonan, CPAs
Nashville, Tennessee
December 18, 2020

Harpeth Conservancy
Statement of Financial Position
March 31, 2020

Assets

Current Assets		
Cash, including restricted amount of $26,220	$	49,199
Inventory		2,243
Prepaid expenses		4,369
Accounts receivable		17,391
Total Current Assets		73,202
Property and Equipment		
Furniture and equipment		10,459
Less - accumulated depreciation		(10,459)
Net Property and Equipment		-
Total Assets	$	73,202

Liabilities and Net Assets

Current Liabilities		
Accounts payable	$	10,712
Due to other organizations		1,017
Deferred revenue		21,500
Total Current Liabilities		33,229
Net Assets		
Net assets without donor restrictions		13,753
Net assets with donor restricitons		26,220
Total Net Assets		39,973
Total Liabilities and Net Assets	$	73,202

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

Harpeth Conservancy
Statement of Activities and Changes in Net Assets
For the Year Ended March 31, 2020

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues and Support			
Contributions	$ 301,420	$ 54,263	$ 355,683
Special events income, net of direct cost of $139,284	159,243	-	159,243
Grant income	3,546	-	3,546
Merchandise sales	1,177	-	1,177
Net assets released from restriction	59,543	(59,543)	-
Total Revenues and Support	524,929	(5,280)	519,649
Expenses			
Program services	431,891	-	431,891
Management and general	23,472	-	23,472
Fundraising	50,004	-	50,004
Total Expenses	505,367	-	505,367
Change in Net Assets	19,562	(5,280)	14,282
Net Assets - Beginning of Year	(5,809)	31,500	25,691
Net Assets - End of Year	$ 13,753	$ 26,220	$ 39,973

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

Harpeth Conservancy
Statement of Cash Flows
For the Year Ended March 31, 2020

Cash Flows from Operating Activities		
Change in net assets	$	14,282
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
(Increase) decrease in grants and accounts receivable		(5,766)
(Increase) decrease in inventory		1,521
(Increase) decrease in prepaid expenses		(2,496)
Increase (decrease) in accounts payable and other liabilities		14,138
Net Cash Provided by Operating Activities		21,679
Change in Cash		21,679
Cash - Beginning of Year		27,520
Cash - End of Year	$	49,199

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

Harpeth Conservancy
Statement of Functional Expenses
For the Year Ended March 31, 2020

	Program Services	Management and General	Fundraising	Total
Salaries and benefits	$ 327,012	$ 11,408	$ 41,827	$ 380,247
Professional fees	15,671	4,663	1,515	21,849
Rent and utilities	33,741	1,484	1,484	36,709
Supplies	32,863	508	4,115	37,486
Contract labor	6,533	219	803	7,555
Insurance	5,228	260	260	5,748
Travel	8,139	-	-	8,139
Other expenses	2,704	4,930	-	7,634
Total Functional Expenses	$ 431,891	$ 23,472	$ 50,004	$ 505,367

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

Note 1 - Summary of Significant Accounting Policies

Organization and Purpose

Harpeth Conservancy, formerly the Harpeth River Watershed Association, Inc., (the Organization), is a science-based conservation organization for the rivers in Tennessee. Founded in 1999, the Organization's mission is to restore and protect clean water and healthy ecosystems for rivers in Tennessee by employing scientific expertise and collaborative relationships to develop, promote and support broad community stewardship and action. The majority of the Organization's income comes from donations from individuals, businesses, and foundations, as well as government grants.

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

Use of Estimates

The preparation of financial statements in accordance with United States generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

For financial statement presentation, the Organization reports its financial information according to two classes of net assets (net assets with donor restrictions and net assets without donor 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.

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 are reclassified to net assets without donor restrictions in the Statement of Activities and Changes in Net Assets as net assets released from restrictions.

Measure of Operations

The Statement of Activities and Changes in Net Assets reports changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those attributable to the Organization's ongoing activities and interest 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-recurring nature.

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 resulting in the programs that help restore and protect clean water and healthy ecosystems for rivers in Tennessee.

***Supporting Services - Management and General* -** 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.

Fair Value Measurements

The Organization follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements*, with 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 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 and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

Cash and Cash Equivalents

The Organization considers all cash funds, cash bank accounts and highly liquid debt instruments, with an original maturity when purchased of three months or less, to be cash and cash equivalents. Restricted cash displayed on the balance sheet at

March 31, 2020 is for grants the Organization received that is purposed-restricted in its intended use.

Accounts Receivable
The Organization has several reimbursement type governmental and foundation grants. Accounts receivable at March 31, 2020 consists of $14,607 awarded prior to March 31, 2020, and received subsequent to year end.

Inventory
Inventory consists of merchandise sold on the Organization's website and is reported at the lower of cost (first-in, first-out method) or net realizable value. It is sold for fundraising purposes.

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

Significant additions and betterments are capitalized. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred. No depreciation expense was incurred during the year ended March 31, 2020.

Income Taxes
The Organization is exempt from federal income taxes under the provisions of the Internal Revenue Code section 501(c)(3), and accordingly, no provision for income taxes is included in the financial statements. Also, the Organization is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code.

The Organization follows FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, as it relates to uncertain tax positions. Any interest and penalties recognized associated with a tax position are classified in operating expenses in the Organization's financial statements.

Donated Supplies and Services
During 2020, 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 ASC 958-605, *Revenue Recognition*.

In addition, the Organization has received various donated contributions of food, drinks, and marketing for their annual fundraising event in the amount of $62,330 which is included in special events income on the Statement of Activities and Changes in Net Assets at fair market value when determinable.

Note 2 - Adoption of New Accounting Pronouncements

On June 21, 2018, the FASB issued the Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* which applies to all entities that receive or make contributions. The criteria for evaluating whether contributions are unconditional (and thus recognized immediately in income) or conditional (for which income recognition is deferred) have been clarified. The focus is whether a gift or grant agreement both (1) specifies a barrier or hurdle that the recipient must overcome to be entitled to the resources, and (2) releases the donor from its obligation to transfer resources (or if assets are advanced, a right to demand their return) if the barrier or hurdle is not achieved. An agreement that contains both is a conditional contribution. An agreement that omits one or both is unconditional. The adoption of this ASU resulted in the treatment of the Organization's contributions as unrestricted, unconditional contributions or donor-restricted, conditional contributions rather than exchange transactions. However, there was no effect on change in net assets as a result of this adoption.

Note 3 - Liquidity and Availability

The Organization has $66,590 of financial assets consisting of cash and receivables, of which $26,220 is subject to donor restrictions of time or purpose, therefore, leaving $40,370 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.

The Organization also has a $50,000 line of credit that has a stated interest rate of prime plus 6%. There were no borrowings on the line of credit during the year ended March 31, 2020.

Note 4 - Lease Commitments

The Organization rents office space on a month to month basis. The Organization paid $35,985 in rent payments during the year ended March 31, 2020, including $1,641 of operating expense allocated to the Organization at the year end.

Note 5 - Net Assets with Donor Restrictions

Net assets, with donor restrictions, totaling $26,220, are available for the purposes of environmental education program, a citizen science program to monitor waterways and stormwater retrofits. Net assets of $59,543 were released from donor restrictions for the year ended March 30, 2020 by incurring expenses satisfying the restrictions specified by donors.

Note 6 - Grant Income

The Organization was awarded $28,000 from the Tennessee Department of Agriculture for a reimbursement grant in the March 31, 2019 fiscal year. The Organization incurred $3,546 in expenses related to this grant during the year ended March 31, 2020. The Organization also was awarded $36,000 from the Maddox Grant to support the core mission and update the Organization's website.

Note 7 - Concentration of Credit Risk

The standard Federal Deposit Insurance Corporation insurance amount is $250,000 per depositor, per insured bank; and, therefore, amounts in excess of this $250,000 held by the Organization during the year ended March 31, 2020 were uninsured and uncollateralized. The Organization has not experienced, nor does it anticipate, any issues with respect to such amounts.

Note 8 - Concentrations

The majority of the Organization's revenue is derived from special events income which are held twice a year. The Organization received 31% of its revenues and support from special events in the year ended March 31, 2020.

Note 9 - Income Taxes

The Organization recognizes the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. Management has analyzed the Organization's tax positions and has concluded that no tax liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for the open tax years (2017 - 2019) or expected to be taken in the Organization's tax return for the year ended March 31, 2020. The Organization identifies its major tax jurisdictions 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 amount of unrecognized tax benefits will change in the next twelve months.

During the year ended March 31, 2020, the Organization did not recognize any interest and penalties relating to taxes, nor were any accrued at March 31, 2020.

Note 10 - Subsequent Events

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, virtually all jurisdictions in the U.S. have declared a state of emergency and have declared a "shelter in place" mandate for all residents and closure of all non-essential businesses. It is anticipated that these impacts will continue for some time. The further effects of these issues are unknown.

On March 27, 2020, the Coronavirus Air, Relief, and Economic Security Act (the Cares Act) was signed into law. One of the features of the CARES Act is the Payroll Protection Program (PPP). Subsequent to year end, the Organization received a PPP loan in the amount of $44,543. This loan will be forgiven if the Organization does the following:

1) Spends the funds on eligible expenses such as payroll, interest on already incurred debt, rent, and utilities during the defined covered period after the funding of the loan,

2) Spends less than 40% of the funds on non-payroll type eligible expenses, and

3) Demonstrates financial need.

The amount of the loan that is not forgiven can be converted up to a five-year loan at 1%. If financial need is not adequately demonstrated, the program may require immediate repayment, and penalties and interest could be assessed to the Organization.

In April 2020, the Organization applied for an Economic Injury Disaster Loan (EIDL) from the Small Business Administration (SBA). In June 2020, the Organization received loan proceeds totaling $150,000. Monthly interest and principal payments totaling $641 will begin one year from the date of the loan. The interest rate is 2.75% and began accruing on the date the Organization received the EIDL money; since no payments are due the first year, an insignificant amount will be added to the principal for accrued interest. The final loan payment will be 30 years from the date of the loan. The SBA has a continuing security interest in the assets of the Organization.

Management has evaluated subsequent events through December 18, 2020, the date that the financial statements were available to be issued.

Note 11 - Accounting Standards Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers,* which establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance. For non-public entities, this standard was originally effective for annual periods beginning after December 15, 2017. In August 2015, the FASB issued ASU 2015-4, *Revenue from Contracts with Customers (Topic 606) - Deferral of Effective Date*, which deferred the effective date for one year. Accordingly, this ASU would have been effective for the Organization for the year ending March 31, 2020. Due to the COVID-19 pandemic, FASB ruled on May 20, 2020 that certain entities may defer by one year the implementation of the ASU, and the Organization has chosen to do so. The standard, as amended, will be effective for the Organization for the year ending March 31, 2021. The Organization is currently evaluating the effect the provisions of ASU 2014-09 will have on the financial statements.

In February 2016, the FASB issued 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. This 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 adoption of this ASU will have on the Organization's financial position and results of operations.