CUMBERLAND RIVER COMPACT

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

MARCH 31, 2019

CUMBERLAND RIVER COMPACT

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March 31, 2019

PURYEAR & NOONAN, CPAs

Independent Auditor's Report

To the Board of Directors of
Cumberland River Compact
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Cumberland River Compact (the Organization) which comprise the statements of financial position as of March 31, 2019, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 entity'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 entity'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 Organization as of March 31, 2019, and the 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 19, 2019

Cumberland River Compact
Statement of Financial Position
March 31, 2019

Assets

Current Assets	
Cash	$ 1,627,753
Resticted cash	5,950,726
Accounts receivable	315,332
Promises to give	39,893
Grants receivable	90,427
Prepaid expenses	26,015
Deposits	9,027
Total Current Assets	8,059,173
Property and Equipment	
Furniture and Equipment	141,725
Leashold Improvements	83,895
Vehicles	14,000
Less - Accumulated Depreciation	(154,562)
Net Property and Equipment	85,058
Other Assets	
Promised to give - due in more than one year	15,000
Total Other Assets	15,000
Total Assets	$ 8,159,231

Liabilities and Net Assets

Current Liabilities	
Accounts payable	$ 11,789
Deferred lease liability	14,518
Deferred ILF program revenue	6,232,264
Other current liabilities	10,476
Total Current Liabilities	6,269,047
Net Assets	
Without donor restrictions	1,741,766
Without donor restrictions - board designated	50,000
With donor restrictions	98,418
Total Net Assets	1,890,184
Total Liabilities and Net Assets	$ 8,159,231

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

Cumberland River Compact
Statement of Activities and Changes in Net Assets
For the Year Ended March 31, 2019

	Without Donor Unrestricted	With Donor Restricted	Total
Revenues and Support			
Contributions	$ 643,825	$ -	$ 643,825
ILF program income	320,589	-	320,589
Government grants	103,914	-	103,914
Other grants	191,189	-	191,189
In-kind contributions	32,679	-	32,679
Fundraising events	93,707	-	93,707
Membership contributions	17,812	-	17,812
Program service fees	206,175	-	206,175
Investment income	42,812	-	42,812
Other Income	59,883	-	59,883
Net assets released from restriction	236,463	(236,463)	-
Total Revenues and Support	1,949,048	(236,463)	1,712,585
Expenses			
Program services	1,024,620	-	1,024,620
General and administrative	361,865	-	361,865
Fundraising	125,179	-	125,179
Total Expenses	1,511,664	-	1,511,664
Change in Net Assets	437,384	(236,463)	200,921
Net Assets - Beginning of Year	1,354,382	334,881	1,689,263
Net Assets - End of Year	$ 1,791,766	$ 98,418	$ 1,890,184

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

Cumberland River Compact
Statement of Cash Flows
For the Year Ended March 31, 2019

Cash Flows from Operating Activities	
Change in net assets	$ 200,921
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used for) Operating Activities	
Depreciation expense	28,111
(Increase) decrease in receivables	(230,172)
(Increase) decrease in prepaid expenses	(11,242)
Increase (decrease) in accounts payable and other current liabilities	(220,361)
Increase (decrease) in deferred lease liability	7,683
Increase (decrease) in deferred ILF program revenue	6,232,264
Net Cash Provided by (Used for) Operating Activities	6,007,204
Cash Flows from Investing Activities	
Proceeds from maturing certificates of deposit	150,640
Net Cash Provided by Investing Activities	150,640
Net Change in Cash	6,157,844
Cash - Beginning of Year	1,420,635
Cash - End of Year	$ 7,578,479
Balance Sheet Presentation	
Cash	$ 1,627,753
Restricted cash	5,950,726
	$ 7,578,479

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

Cumberland River Compact
Statement of Functional Expenses
For the Year Ended March 31, 2019

	Program Services	General and Administrative	Fundraising	Total
Salaries and benefits	$ 370,820	$ 115,209	$ 27,601	$ 513,630
Contract labor	266,040	8,002	14,057	288,099
Marketing and fundraising	79,802	9,530	72,833	162,165
Occupancy costs	127,316	78,800	50	206,166
Supplies	119,860	9,819	4,682	134,361
Insurance	6,322	8,175	-	14,497
Repairs and maintenance	14,817	9,880	-	24,697
Meetings	10,808	6,782	2,706	20,296
Professional fees	2,218	52,574	483	55,275
Telephone	3,117	11,678	-	14,795
Travel expenses	10,011	403	368	10,782
Other expenses	13,489	22,902	2,399	38,790
Depreciation	-	28,111	-	28,111
Total Functional Expenses	$ 1,024,620	$ 361,865	$ 125,179	$ 1,511,664

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

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 (ILF) Program (see note 4).

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 without donor restrictions and net assets with 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. 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, restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. At March 31, 2019, there were $98,418 of restricted net assets.

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, 2019 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 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, 2019 was $28,111.

Measure of Operation
The Statement of Activities 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, 2019.

Program and Supporting Services – Functional Expenses
The following program and supporting services are included in the accompanying financial statements on the Statements 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.

Income Taxes
The Organization is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, 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 (2016-2018), or expected to be taken in the Organization's 2019 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, 2019.

In-Kind Contributions

During 2019, 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 in-kind contributions of food, drinks, and auction items for their annual fundraising event in the amount of $32,679.

NOTE 2 - ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

On August 16, 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities.* The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. There was no effect in change in the net assets as a result of this adoption.

NOTE 3 - LIQUIDITY AND AVAILABILITY

The Organization has $1,774,305 of financial assets consisting of unrestricted cash and unrestricted receivables, of which $98,418 is subject to donor restrictions of time or purpose, therefore, leaving $1,675,887 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 4 - STREAM RESTORATION IN-LIEU FEE PROGRAM

The Organization operates in a Compensatory Mitigation Stream Restoration In-Lieu Fee (ILF) Program regulated by the United States Army Corps of Engineers (US Corps of Engineers). The purpose of the 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 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 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 Program Account can be used to cover administrative costs such as costs associated with the establishment and operation of the 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 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 Program. A reasonable basis has been used to determine how much overhead can be allocated.

The Organization would recognize 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 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, 2019, the Organization recognized $320,589 in Program related revenue which was entirely from the administrative portion of the ILF credits sold and earned $32,696 in interest income on the restricted cash funds. The restricted cash balance at year end was $5,950,726, and there was deferred revenue related to the ILF Program of $6,232,264 at year end.

NOTE 5 - LEASE COMMITMENTS

The Organization signed an amended lease agreement to rent 7,369 square feet of office space starting October 2017 that required monthly payments of $15,400 with an annual escalating clause. The lease expires November 2022. The Organization paid $198,478 in rent payments during the year ended March 31, 2019. Future minimum lease payments for the next five years are as follows:

2020	$ 197,739
2021	202,558
2022	208,520
2023	123,727
Total	$ 732,544

NOTE 6 - 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 Organizations various programs and totaled $98,414 at March 31, 2019. Net assets of $236,463 were released from donor restrictions during the year by incurring expenses which satisfied the restricted purpose.

NOTE 7 - 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 Internal Revenue Service Code, and a discretionary option to make an additional profit-sharing contribution. There are no eligibility service requirements. The Organization contributed $10,232 to the plan for the year ended March 31, 2019.

NOTE 8 - CONCENTRATION OF CREDIT RISK

The Organization maintains its checking and savings accounts at financial institutions who's 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 9 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 19, 2019, the date that the financial statements were available to be issued.

NOTE 10 - 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, the new 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 will be effective for the Organization for the year ending March 31, 2020. 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. The standard, as amended, will be effective for annual reporting periods beginning after December 15, 2020. Accordingly, this ASU will be effective for the Organization for the year ending March 31, 2022. The Organization is currently evaluating the impact that adoption of this ASU will have on the Organization's financial position and results of operations.