

Cumberland River Compact
Financial Statements
March 31, 2004

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Cumberland River Compact (a nonprofit organization) as of March 31, 2004 and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 misstatements. 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 audit provides 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 Cumberland River Compact as of March 31, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2004, on our consideration of Cumberland River Compact's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

McKerley & Noonan, P.C.
October 15, 2004

**Cumberland River Compact
Notes to Financial Statements
For the Year Ended March 31, 2004**

Note 1 - Description and Purpose of Organization

Nature of Organization

Cumberland River Compact (the Organization) is a non-profit organization that's mission is to enhance the water quality of the Cumberland River and its tributaries through education and by promoting cooperation among citizens, businesses, and agencies in Kentucky and Tennessee. 100% of the Organization's income comes from donations from individuals, companies, and foundations, as well as government grants.

Program and Supporting Services

The following programs and supporting services are included in the accompanying financial statements:

Water Quality Advisory – A tool to foster furthering relationships between technical agencies. Meetings were conducted to educate and brochures were developed and printed.

Watershed – Community outreach meetings where citizens request water quality information and speakers and the Organization arrange discussions.

Marina – Education of the boating community. Watershed location signs were located in several marinas and parks with talks given, exhibits and slide shows.

Neuhoff – The creation of a Center for Living Watershed, designed and built with water quality enhancing and conserving techniques and an educational program.

Land Program – Organized a conservation easement conference aimed at educating specific professions whose jobs have a significant impact on the watershed. The conference reached CPA's, attorneys, appraisers, land trusts and landowners.

Outreach – A program to educate teachers and young people. Organized the Splash Bash Teacher Training and Festival.

Catfish Out of Water – To raise awareness, through public art, about the value of the Cumberland River to our quality of life.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Organization have been prepared on the accrual basis of accounting which means that revenues are recognized when earned and expenses are recorded when incurred. The significant accounting policies of the Organization are described below to enhance the usefulness of the financial statements to the reader.

**Cumberland River Compact
Notes to Financial Statements
For the Year Ended March 31, 2004**

Note 2 - Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in accordance with the generally accepted accounting principles 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 statements presentation, the Organization reports its financial information according to three classes of net assets (unrestricted net assets, temporarily restricted net assets and permanently restricted net assets) based on the existence or absence of donor-imposed restrictions.

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations. Monies received without restriction or released from restriction are generally used to finance the normal day-to-day operations of the Organization.

Temporarily Restricted Net Assets

Net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily 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, 2004 temporarily restricted net assets of \$10,400 represent funds subject to restricted use in the Organization's watershed program.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. As of March 31, 2004, there were no permanently restricted net assets.

Grants Receivable

The Organization has several reimbursement type governmental grants. Grants receivable at March 31, 2004 represent costs incurred on the grants that had not yet been reimbursed.

**Cumberland River Compact
Notes to Financial Statements
For the Year Ended March 31, 2004**

Note 2 - Summary of Significant Accounting Policies (continued)

Fixed Assets

Fixed assets are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Significant additions and betterments are capitalized. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred.

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.

Note 3 – Credit Risk

The Organization maintains at various times cash balances in excess of \$100,000 in high credit quality banks, which are insured by the Federal Deposit Insurance Corporation up to \$100,000.

Note 4 – In-Kind Contributions

Many individuals volunteer their time and perform a variety of tasks that assist 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 does not meet the criteria for recognition under SFAS No. 116.

The Organization received an in-kind contribution of used furniture from a donor during the fiscal year ending March 31, 2004. The estimate value of the furniture was \$10,000 and is reflected in fixed assets and in-kind contributions in the financial statements.

Note 5 – Grant Income

The Organization received \$85,000 from grants issued by various nonprofit foundations. In addition, the Organization received approximately \$129,000 from various governmental agencies, including the Environmental Protection Agency, the Department of Agriculture, and the Department of Environment and Conservation.

**Report on Compliance and on Internal Control over Financial
Reporting Based on an Audit of Financial Statements Performed
In Accordance with Government Auditing Standards**

To the Board of Directors of
Cumberland River Compact

We have audited the financial statements of Cumberland River Compact (a nonprofit organization) as of and for the year ended March 31, 2004, and have issued our report thereon dated October 15, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether Cumberland River Compact's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Cumberland River Compact's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McKerley & Noonan, P.C.
Nashville, Tennessee
October 15, 2004

**Cumberland River Compact
Statement of Financial Position
March 31, 2004**

Assets

Current Assets

Cash in Bank	\$ 244,866
Grants Receivable	30,940
Total Current Assets	<u>275,806</u>

Fixed Assets

Computers and Equipment	7,854
Furniture	10,000
Less: Accumulated Depreciation	(4,805)
Total Fixed Assets	<u>13,049</u>

Total Assets

\$ 288,855

Liabilities and Net Assets

Current Liabilities

Accounts Payable	\$ 72,202
Payroll Tax Liabilities	3,145
Total Current Liabilities	<u>75,347</u>

Net Assets

Unrestricted	203,108
Temporarily Restricted	10,400
Total Net Assets	<u>213,508</u>

Total Liabilities and Net Assets

\$ 288,855

**Cumberland River Compact
Statement of Cash Flows
For the Year Ended March 31, 2004**

Cash Flows from Operating Activities

Change in Net Assets	\$	95,203
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**Adjustments to Reconcile Change in Net Assets
to Net Cash Provided by Operating Activities**

Depreciation		2,528
In-Kind Contributions		(10,000)
(Increase) Decrease in Grant Receivable		(10,232)
(Increase) Decrease in Inventory		64,375
Increase (Decrease) in Deferred Revenue		(105,050)
Increase (Decrease) in Accounts Payable		70,365
Increase (Decrease) in Payroll Liabilities		2,848
Total Adjustments		14,834

Net Cash Provided by Operating Activities		110,037
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Cash Flows from Investing Activities

Cash Payments for the Purchase of Fixed Assets		(1,275)
Net Cash Used by Investing Activities		(1,275)

Net Increase (Decrease) in Cash		108,762
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Cash in Bank Beginning of Year		136,104
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Cash in Bank End of Year	\$	244,866
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Cumberland River Compact
Statement of Activities and Changes in Net Assets
For the Year Ended March 31, 2004

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions	\$ 233,546	\$ -	\$ 233,546
Grant Income	45,000	168,904	213,904
Catfish Catillion	118,763	-	118,763
Other Income	1,932	-	1,932
In-Kind Contributions	10,000	-	10,000
Net Assets Released from Restrictions	168,904	(168,904)	-
Total Support and Revenue	578,145	-	578,145
Fundraising Expenses			
Web Page	900	-	900
Payroll	6,358	-	6,358
Printing and Postage	3,667	-	3,667
Catfish Catillion	78,854	-	78,854
Total Fundraising Expenses	89,779	-	89,779
Administrative Expenses			
Accounting	1,046	-	1,046
Contract Labor	2,000	-	2,000
Fees	250	-	250
Payroll	667	-	667
Depreciation	2,528	-	2,528
Other	284	-	284
Total Administrative Expenses	6,775	-	6,775
Program Expenses			
Water Quality Advisory	782	-	782
Watershed	81,398	-	81,398
Marina	27,578	-	27,578
Neuhoff	3,109	-	3,109
Land Program	59,685	-	59,685
Outreach	17,423	-	17,423
Catfish Out of Water	183,214	-	183,214
Other	13,199	-	13,199
Total Program Expenses	386,388	-	386,388
Total Expenses	482,942	-	482,942
Change in Net Assets	95,203	-	95,203
Net Assets at Beginning of Year	107,905	10,400	118,305
Net Assets at End of Year	\$ 203,108	\$ 10,400	\$ 213,508