CUMBERLAND RIVER COMPACT

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

MARCH 31, 2023

CUMBERLAND RIVER COMPACT

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March 31, 2023

PURYEAR &
NOONAN, CPAs

Independent Auditor's Report

The Board of Directors
Cumberland River Compact
Nashville, TN

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, 2023, and the related statement 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 the Organization as of March 31, 2023, and the changes in its net assets and cash flows for the years 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 other 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 the 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 that the financial statements are available to be issued.

(Auditor's report continued on next page)

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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 audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Puryear & Noonan, CPAs PLLC

Puryear & Noonan, CPAs
Nashville, Tennessee
October 9, 2023

Cumberland River Compact
Statement of Financial Position
March 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Assets			
Current Assets			
Cash and cash equivalents	$ 1,986,769	$ -	$ 1,986,769
Restricted cash	31,161,000	-	31,161,000
Certificates of deposit	483,756	-	483,756
Accounts receivable	44,107	-	44,107
Pledges receivable	3,750	-	3,750
Grant receivable	711,100	-	711,100
Prepaid expenses and other	106,179	-	106,179
Total Current Assets	34,496,661	-	34,496,661
Property and equipment, net	121,135	-	121,135
Right-of-use assets	181,365	-	181,365
Total Assets	$ 34,799,161	$ -	$ 34,799,161
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	$ 938,301	$ -	$ 938,301
Accrued expenses and liabilities	85,247	-	85,247
Deferred ILF program revenue	30,590,464	-	30,590,464
Current portion of lease liability	104,173	-	104,173
Total Current Liabilities	31,718,185	-	31,718,185
Lease liability, excluding current portion	77,192	-	77,192
Total Liabilities	31,795,377	-	31,795,377
Net Assets			
Without donor restrictions	2,953,784	-	2,953,784
Without donor restrictions - Board designated	50,000	-	50,000
Total Net Assets	3,003,784	-	3,003,784
Total Liabilities and Net Assets	$ 34,799,161	$ -	$ 34,799,161

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, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	$ 468,987	$ -	$ 468,987
ILF program income	2,499,525	-	2,499,525
Government grants	122,807	-	122,807
Other grants	133,134	-	133,134
Program services fees	962,015	-	962,015
Fundraising events	47,872	-	47,872
Contribution of nonfinancial assets	1,201	-	1,201
Interest Income	473,154	-	473,154
Other income	522	-	522
Net assets released from restrictions	123,456	(123,456)	-
Total Revenue and Support	4,832,673	(123,456)	4,709,217
Expenses			
Program Services			
Program	3,710,623	-	3,710,623
Supporting Services			
Management and general	486,608	-	486,608
Fundraising	139,638	-	139,638
Total Expenses	4,336,869	-	4,336,869
Increase (Decrease) in Net Assets	495,804	(123,456)	372,348
Net Assets - Beginning of Year	2,507,980	123,456	2,631,436
Net Assets - End of Year	$ 3,003,784	$ -	$ 3,003,784

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

Cumberland River Compact
Statement of Cash Flows
For the Year Ended March 31, 2023

Cash Flows from Operating Activities		
Increase (Decrease) in Net Assets	$	372,348
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used for) Operating Activities		
Depreciation and amortization		14,591
(Increase) Decrease in Operating Assets		
Accounts receivable		(25,757)
Grant receivable		(533,901)
Pledges receivable		4,375
Prepaid expenses and other		997
Right-of-use assets		(181,365)
Increase (Decrease) in Operating Liabilities		
Accounts payable		767,884
Accrued expenses and liabilities		69,386
Deferred ILF program revenue		14,352,152
Lease liabilities		181,365
Net Cash Provided by (Used for) Operating Activities		15,022,075
Cash Flows from Investing Activities		
Purchases of property and equipment		(42,868)
Net Cash Used for Investing Activities		(42,868)
Cash Flows from Financing Activities		
Purchases of certificate of deposits		(483,756)
Net Cash Used for Financing Activities		(483,756)
Increase in Cash and cash equivalents and Cash Equivalents		14,495,451
Cash and cash equivalents and Cash Equivalents - Beginning of Year		18,652,318
Cash and cash equivalents and Cash Equivalents - End of Year	$	33,147,769
Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position		
Cash and Cash Equivalents	$	1,986,769
Restricted Cash		31,161,000
	$	33,147,769

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

Cumberland River Compact
Statement of Functional Expenses
For the Year Ended March 31, 2023

		Supporting Services		
	Program	**Management General**	**Fundraising**	**Total**
Salaries and benefits	$ 669,065	$ 158,463	$ 52,821	$ 880,349
Contract labor	224,118	4,875	-	228,993
Marketing and fundraising	29,775	18,252	85,397	133,424
Occupancy costs	-	134,821	-	134,821
Supplies and fees	527,794	11,600	-	539,394
Insurance	-	9,983	-	9,983
Repairs and maintenance	2,732	23,832	-	26,564
Meetings	1,542	1,643	284	3,469
Professional fees	2,212,993	93,422	677	2,307,092
Travel expenses	23,571	1,829	21	25,421
Dues and subscriptions	2,008	10,020	79	12,107
Equipment rental	16,726	3,363	359	20,448
Other expenses	-	213	-	213
Depreciation and amortization	299	14,292	-	14,591
Total Expenses	$ 3,710,623	$ 486,608	$ 139,638	$ 4,336,869
Percent of Total Expenses	86%	11%	3%	

See independent auditor's report and accompanying notes to 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 educate, restore, and outreach to keep water healthy. The Organization works on root problems of water pollution, both urban and rural, their goal is to give people the tools to be smart, impactful stewards of their watershed and to constructively partner in policy planning with government agencies. 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 4).

Basis of Accounting
The accompanying financial statements of the Organization are prepared using the accrual basis of accounting, under which revenues are recognized when earned rather than when collected and expenses are recognized when incurred rather than when disbursed.

Cash Equivalents
For purposes of the Statement of Cash Flows, cash equivalents include any liquid investments with an original maturity of three months or less. The Organization held $438,003 of certificates of deposit as cash equivalents as March 31, 2023.

Financial Statement Presentation
The accompanying financial statements of the Organization report its financial information according to the following net asset classifications:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions and may be extended for any purpose in performing the primary objectives of the Organization. Net assets without donor 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. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statement of Activities and Changes in Net Assets. Donor restricted contributions whose restrictions are met in the same reporting period are reported with net assets without donor restrictions. As of March 31, 2023, there were no net assets with donor restrictions.

Measure of Operations
The Statement of Activities and Changes in Net Assets report changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing activities. Non-operating activities are limited to resources that generate return from donor-restricted contributions, net assets released for capital expenditure, and other activities considered to be of a more unusual or non-recurring nature. There were no non-operating activities for the year ended March 31, 2023.

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

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.

Use of Estimates
Management and the Organization have made a number of estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Actual results could differ from these 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 established a fair value hierarchy that prioritized 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 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 cash equivalents, certificates of deposit, receivables and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

Accounts Receivable
The Organization considers accounts receivables to be fully collectible at year-end. Accordingly no allowance for doubtful accounts has been recorded as of March 31, 2023.

Grants Receivable
The Organization has been awarded several reimbursement-type state and federal governmental grants. Grant's receivable at March 31, 2023 consists primarily of costs incurred on reimbursable grants that had not been reimbursed to the Organization.

Pledges Receivable
Unconditional promises to give (pledges) that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management's assessment of many factors, including

when the receivable is expected to be collected, the creditworthiness of the other parties, the Organization's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivables collectibility. Amortization of the discounts is included in support from contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. An allowance for uncollectible pledges is recorded when the Organization determines, based on historical experience and collection efforts, that a contribution receivable is uncollectible. No allowance for uncollectible pledges receivables was considered necessary as of March 31, 2023.

Property and Equipment

Property and equipment are stated at cost or, if donated, at their estimated market value at the date of gift, less accumulated depreciation. Depreciation is provided over the assets' estimated useful lives using the straight-line method. Property, equipment, and automobiles are depreciated over five to forty years. Leasehold improvements are amortized over the shorter of their estimated lives or the respective lease term.

Expenditures for maintenance and repairs and items less than $2,500 are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in other income on the Statement of Activities and Changes in Net Assets.

Right-of-Use Assets and Liabilities

Right-of-use (ROU) assets represent the right to use the underlying assets for the lease term and the lease liabilities represent the obligation to make lease payments arising from the leases. ROU assets and liabilities are recognized at commencement date based on the present value of future lease payments over the lease term, which includes only payments that are fixed and determinable at the time of commencement. When readily determinable, the Organization uses the interest rate implicit in a lease to determine the present value of future lease payments. For leases where the implicit rate is not readily determinable, the Organization's incremental borrowing rate is used. The Organization calculates its incremental borrowing rate on a periodic basis using a third-party financial model that estimates the rate of interest the Organization would have to pay to borrow an amount equal to the total lease payments on a collateralized basis over a term similar to the lease. The Organization applies its incremental borrowing rate using a portfolio approach. The ROU assets also includes any lease payments made prior to commencement and is recorded net of any lease incentives received. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise such options.

Revenue Recognition

Contributions

The Organization 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 Organization categorizes the donors into Major Donors and Compact Signers. The Major Donors are contributions that are given without barriers for recognition. The Organization 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 Organization performs many restoration projects that can span several fiscal years. The revenue from these projects are earned when the performance obligations are completed.

Grants
Grants are recorded and recognized as revenue when grant funds are received or unconditionally pledged, if there are no performance requirements in the grant agreement. In accordance with industry guidance, revenue from lending program grants are recognized as revenue and support when the funds are received. For any grant agreements that include performance obligations, revenue is recognized when the related performance obligations are met. Funds from grants with a performance requirement which are received in advance are recorded as deferred revenue and recognized as revenue when the performance requirements are met.

Special Fundraising Event Revenue - The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event - the exchange component, and a portion represents a contribution to the Organization. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the special events, which ultimately benefit the donor rather than the Organization, are recorded as costs of direct donor benefits in the Statement of Activities and Changes in Net Assets, if material. The performance obligation is delivery of the event, which is usually accompanied by a presentation. The event fee is set by the Organization. Topic 606 requires allocation of the transaction price to the performance obligations. Accordingly, the Organization separately presents in its Statement of Activities and Changes in Net Assets or notes to the financial statements the exchange and contribution components of the gross proceeds from special events. Special event fees collected by the Organization in advance of its delivery are initially recognized as liabilities (deferred revenue) and recognized as special event revenue after delivery of the event. For special event fees received before year-end for an event to occur after year-end, the Organization follows AICPA guidance where the inherent contribution is conditioned on the event taking place and is therefore treated as a refundable advance along with the exchange component.

Contributions of NonFinancial Assets
The Organization recognizes contributed nonfinancial assets within revenues in the Statement of Activities and Changes in Net Assets consisting of donated trees. Unless otherwise noted, contributed nonfinancial assets do not have any donor-imposed restrictions. The Organization records contributed nonfinancial assets at fair value when determinable, otherwise at value indicated by the donor, if material.

The Organization estimated the value of the contributed trees to be $1,201 and included as both revenues and expenses in in-kind tree contribution on the Statement of Activities and Changes in Net Assets and in program supplies and fees on the Statement of Functional Expenses.

Deferred Revenue
Deferred revenue consists of ILF program contributions. Revenue is recognized as the expenses are incurred and the related services are performed.

Income Taxes
The Organization is exempt from income taxes under the provisions of Internal Revenue Code Section (IRCS) 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements.

The Organization follows FASB 740-10, *Accounting for Uncertainty in Income Taxes*, as it relates to uncertain tax positions. For all tax positions taken by the Organization, management believes it is clear that the likelihood is greater than 50% that the full amount of the tax position 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 for the three most recent years filed, or expected to be taken in the Organization's current year tax return. 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 either of these jurisdictions. As of March 31, 2023, the Organization has accrued no interest and no penalties related to uncertain tax positions.

Advertising and Promotion Costs
Advertising and promotion costs are expensed as incurred and $29,138 were expensed during 2023.

Events Occurring After Reporting Date
The Organization has evaluated events and transactions that occurred between April 1, 2023 and October 9, 2023 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Note 2 - Adoption of New Accounting Pronouncement

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. ASU 2020-07 was issued to increase the transparency about the measurement of contributed nonfinancial assets recognized by not-for-profit organizations, as well as the amount of those contributions used in an Organization’s programs and other activities. The Organization adopted the new standard effective April 1, 2022. There was no effect on Statement of Activities and Changes in Net Assets as a result of this adoption.

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 which requires lessees to recognize leases on the Statement of Financial Position and disclose key information about leasing arrangements. ASU 2016-02 was subsequently amended by ASU 2018-01, *Land Easement Practical Expedient for Transition* to Topic 842; ASU 2018-10, *Codification Improvements* to Topic 842*, Leases*; and ASU 2018-11, *Targeted Improvements*. ASU 2016-02 establishes a ROU that requires a lessee to recognize a ROU asset and lease liability on the Statement of Financial Position for all leases with a term longer than 12 months. Leases are also classified as finance or operating, with classification affecting the pattern and classification of expense recognition on the Statement of Activities and Changes in Net Assets. The Organization adopted the new standard effective April 1, 2022 using the optional alternative method of adoption. This method allows the Organization to apply the new requirements to only those leases that exist as of April 1, 2022. There was no effect on the Statement of Activities and Changes in Net Assets as a result of this adoption.

Using the adoption of the new lease standard, the Organization has elected to apply the following package of practical expedients:

- Contracts need not be reassessed to determine whether they are or contain leases.
- All existing leases that were previously classified as operating leases continue to be classified as operating leases, and all existing leases that were previously classified as capital leases continue to be classified as finance leases.
- Initial direct costs need not be reassessed.

The Organization has also elected the following practical expedients: (1) not to separate lease components from non-lease components, (2) as an accounting policy election, to apply the short-term lease exception, which does not require the capitalization of leases with terms of 12 months or less, (3) the use of hindsight in determining the lease term and in assessing impairment of ROU assets, and (4) to apply the option not to assess whether existing or expired land easements that were not previously evaluated are or contain a lease.

As a result of this adoption of the new lease accounting guidance, the Organization recognized on April 1, 2022 lease liabilities of $275,604, which represents the present value of the remaining operating and financing lease payments of $296,584, discounted at an incremental borrowing rate of 3.5% and related ROU assets.

Note 3 - Availability and Liquidity

The Organization's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Statement of Financial Position date, are as follows:

	2023
Cash and cash equivalents	$ 1,986,769
Certificates of deposit	483,756
Accounts receivable	44,107
Pledges receivable	3,750
Grant receivable	711,100
Financial assets as of March 31, 2023	3,229,482
Less: Board designations	(50,000)
Financial assets available to meet general expenditures over the next twelve months	$ 3,179,482

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 come due. The designation by the Board may be drawn upon in the event of financial distress.

Note 4 - 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, 2023, the Organization recognized $2,499,525 in ILF Program related revenue and earned $473,154 in interest income on the restricted cash funds. The restricted cash balance related to the ILF Program at year end was $31,161,000, and there was deferred revenue related to the ILF Program of $29,883,453 at year end.

Note 5 - Property and Equipment

Property and equipment at March 31, 2023, consists of the following:

Land	$ 38,700
Closing costs	1,495
Leasehold improvements	4,235
Computer equipment	40,274
Furniture and fixtures	11,350
Automobiles	91,248
	187,302
Less: Accumulated depreciation and amortization	(66,167)
	$ 121,135

Depreciation and amortization expense related to property and equipment totaled $14,591 for the year ended March 31, 2023.

Note 6 - Lease Arrangements

The Organization has entered into an operating lease agreement to lease office space that expires on December 31, 2024. Cash payments under this lease amounted to $100,380 as of March 31, 2023.

Future minimum annual lease payments payable under the operating lease as of March 31, 2023 are as follows:

Year	Amount
2024	$ 104,173
2025	73,381
	177,554
Less imputed lease interest	(5,293)
	$ 172,261

The following table presents the operating expense related to all the Organization's leased property for the year ended March 31, 2023:

Operating lease costs	$	106,470
Short-term and immaterial lease costs		20,448

The following table presents the weighted-average remaining lease term and discount related to the operating lease:

Weighted - average remaining lease term	1.75 years
Weighted - average discount rate	3.25%

The Organization also has entered into a financing lease agreement to lease equipment that expires on April 20, 2027. Cash payments under this lease amounted to $2,432 as of March 31, 2023.

Future minimum annual lease payments payable under the financing lease as of March 31, 2023 are as follows:

Year		Amount
2024	$	2,432
2025		2,432
2026		2,431
2027		2,376
		9,671
Less imputed lease interest		(567)
	$	9,104

The following table presents the weighted-average remaining lease term and discount related to the financing lease:

Weighted - average remaining lease term	4 years
Weighted - average discount rate	3.25%

Note 7 - Net Assets With Donor Restrictions

Net assets with donor restrictions consist of various grants restricted by the grantors, both governmental and non-governmental. As of March 31, 2023, there were no net assets with donor restrictions. Net assets of $123,456 were released from donor restrictions during the year by incurring expenses which satisfied the restricted purpose related to Root Nashville.

Note 8 - 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 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 $18,562 to the plan for the year ended March 31, 2023.

Note 9 - Credit Risk and Other Concentrations

The Organization generally maintains its checking and savings accounts at financial institutions whose balances are insured by the Federal Deposit Insurance Corporation (FDIC) up statutory limits. The standard FDIC insurance amount is limited up to $250,000 per depositor, per insured bank. Therefore, amounts in excess of this $250,000 held by the Organization as of, and during the year ended March 31, 2023 were uninsured and uncollateralized.

Note 10 - Concentrations

The Organization received 21% of total revenues and support from one organization in 2023. As of March 31, 2023, this donor accounted for 69% of grant receivable .

Note 11 - Contingent Liabilities

The Organization is involved in various legal actions arising in the normal course of its activities. In the opinion of management, such matters will not have a material adverse effect on the Organization's financial position. As these matters develop, it is reasonably possible management's estimate of their effect could change and an accrual for additional liabilities could be required.

Note 12 - Accounting Standard Not Yet Adopted

From time-to-time, new accounting pronouncements are issued by the FASB or other standards setting bodies that the Organization adopts as of the specified effective date. Unless otherwise discussed, management believes the impact of any other recently issued standards that are not yet effective are either not applicable at this time or will not have a material impact on the financial statements upon adoption.