

TENNESSEE ENVIRONMENTAL COUNCIL
FINANCIAL STATEMENTS
DECEMBER 31, 2010

TABLE OF CONTENTS

FINANCIAL STATEMENTS:

Report of Independent Certified Public Accountants	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5
Audit Finding	8
Management Letter	9



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Report of Independent Certified Public Accountants

To the Board of Directors
Tennessee Environmental Council, Inc.
Nashville, TN 37228

We have audited the accompanying statement of financial position of Tennessee Environmental Council, Inc. (a nonprofit organization) as of December 31, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. The financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on the 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 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 Tennessee Environmental Council, Inc. as of December 31, 2010, 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.

A handwritten signature in black ink that reads "Terry Horne CPA". The signature is fluid and cursive, with the letters "CPA" written in a slightly more formal, blocky style at the end.

May 24, 2011

TENNESSEE ENVIRONMENTAL COUNCIL, INC.

Statement of Financial Position

December 31, 2010

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 10,689
Contracts Receivable	10,000
<i>Total Current Assets</i>	<u>20,689</u>

Property and Equipment

Property and Equipment, at Cost,	
Net of Accumulated Depreciation (Note 6)	5,270
<i>Total Property and Equipment</i>	<u>5,270</u>

Other Assets

Investment Funds	1,712
<i>Total Other Assets</i>	<u>1,712</u>

Total Assets

\$ 27,671

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$ 2,841
Accrued Payroll Liabilities	2,005
Current Portion of Long Term Debt	0
<i>Total Current Liabilities</i>	<u>4,846</u>

Long-Term Liabilities

Notes Payable	0
Less Current Portion of Long Term Debt	0
<i>Total Long-Term Liabilities</i>	<u>0</u>

Total Liabilities

4,846

Net Assets

Net Assets - Unrestricted	22,825
<i>Total Net Assets</i>	<u>22,825</u>

Total Liabilities and Net Assets

\$ 27,671

The accompanying notes are an integral part of this financial statement.

TENNESSEE ENVIRONMENTAL COUNCIL, INC.

Statement of Activities

For The Year Ended December 31, 2010

Support and Revenues:

Fundraising Revenue	\$ 95,584
Program Events Revenue	62,104
Grant Revenue	45,731
Total Support and Revenues	203,419

Expenses:

Salaries and Benefits	124,503
Direct Program Expenses	37,317
Rent	11,827
Telephone and Postage	7,293
Contract Services	7,286
Dues, Printing and Other Expenses	5,745
Supplies	2,249
Travel and Training	2,614
Depreciation	2,453
Insurance	752
Interest	535
Total Expenses	202,574

Excess (Deficiency) of Support and Revenues Over Expenses from Operations	845
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Other Income and Expenses:

Interest Income	298
Rent Income	1,450

Total Other Income and Expenses	1,748
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Total Excess (Deficiency) of Support and Revenues Over Expenses	2,593
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Net Assets:

Increase (decrease) in Unrestricted Net Assets	2,593
Beginning of Year	20,232

End of Year	\$ 22,825
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The accompanying notes are an integral part of this financial statement.

TENNESSEE ENVIRONMENTAL COUNCIL, INC.

Statement of Cash Flows

For The Year Ended December 31, 2010

Cash Flows from Operating Activities:

Excess (Deficiency) of Support and Revenues Over Expenses	\$ 2,593
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Adjustments to Reconcile Net Income to Cash Provided From Operations:

Depreciation	(2,453)
(Increase) Decrease in Contracts Receivable	(6,419)
(Increase) Decrease in Investments Funds	(106)
Increase (Decrease) in Accounts Payable	(14,169)
Increase (Decrease) in Accrued Payroll Liabilities	1,870

Net Cash Provided by Operating Activities:	<u>(18,684)</u>
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Cash Flows Used in Investing Activities:

Purchases of Property, Plant and Equipment	0
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Cash Used in Investing Activities	<u>0</u>
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Cash Flows Provided by Financing Activities:

Increase (Decrease) in Line of Credit Payable	<u>(3,150)</u>
Cash Provided by Financing Activities	<u>(3,150)</u>

Net Increase (Decrease) in Cash	<u>(21,834)</u>
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Cash at Beginning of The Year	66,686
Prior Period Adjustments (Note 6)	(34,163)

Cash at End of The Year	<u><u>\$ 10,689</u></u>
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Supplemental Data:

Interest Paid in Financing Activities	\$ 535
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The accompanying notes are an integral part of this financial statement.

TENNESSEE ENVIRONMENTAL COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

(1) Organization

The Tennessee Environmental Council, Inc. (Organization) is a voluntary health and welfare organization created within guidelines of state statutes and the Internal Revenue Code. The organization's mission is to educate and advocate for the protection of Tennessee's environment and public health.

(2) Summary of Significant Accounting Policies

(a) Basis of accounting

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting.

(b) Financial statement presentation

The Organization presents its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations* as promulgated by the Financial Accounting Standards Board. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, as required by SFAS No. 117, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

(c) Nature of The Business

Tennessee Environmental Council is a not-for-profit corporation organized under the laws of the State of Tennessee. The Organization provides education and advocacy for the protection of Tennessee's environment and public health.

(d) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

TENNESSEE ENVIRONMENTAL COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

(e) Income tax status

Tennessee Environmental Council, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, The Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

(f) Property and equipment

Property and equipment are depreciated over the estimated useful lives of the respective classes of assets using the straight-line method of depreciation. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Expenditures for repairs and maintenance are charged to expense as incurred, and additions and improvements that significantly extend the lives of the assets are capitalized at cost.

(g) Cash and Equivalents

Cash as reported is comprised of checking and savings accounts.

(3) Fair Value of Financial Instruments

- A. Cash-The carrying amount reported is the reconciled bank account balances, which are considered to be fair values.
- B. Accounts Receivable-The carrying amount reported is the estimated net collectible amount which is considered the fair value.
- C. Accounts Payable and Other Liabilities-The carrying amounts reported are the amounts equaled to the required payments. The reported amounts are considered the fair values.

(4) Property and Equipment

A summary of property and equipment at December 31, 2010 is as follows:

Furniture and Equipment	\$ 31,340
Accumulated Depreciation	(26,069)
	\$ 5,271

TENNESSEE ENVIRONMENTAL COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

(5) Lease Obligations

The Organization leases office space from K & N Office Limited Partnership on a two year lease expiring on December 31, 2011. This lease requires monthly payments of \$450.

(6) Prior Period Adjustments

During the audit it was noted that there were several unrecorded transactions relating to the 2009 fiscal year. These transactions include the unrecorded disposal of land, unrecorded Earth Day liabilities, unrecorded depreciation expense, and unrecorded grant revenue and receivables. The necessary adjustments were made to record these transactions

Audit Finding

Condition: The Organization did not record several transactions in accordance with Generally Accepted Accounting Principles (GAAP).

- Cash in Regions Bank account was overstated by \$57,156
- Property and Equipment was overstated by \$18,375
- Earth Day liability was understated by \$13,876
- Grant revenue was overstated by \$10,634

Criteria: Generally Accepted Accounting Principles

Context: The audit risk review disclosed possible errors in account balances. Subsequent analysis and test disclosed significant errors in account balances noted above.

Cause: Failure to follow established accounting policies and procedures regarding compliance with GAAP.

Effect: As a result of these non-compliances with GAAP, accurate financial statements cannot be generated, without adjustments.

Recommendation: It is recommended that the accounting policies and procedures be established to ensure that all transactions are properly recorded in the Organization's general ledger in accordance with GAAP. Procedures should include recording disposal of assets when occurred and recording grant revenue when revenue is earned. Procedures should also be established to perform a monthly review of account balances in the general ledger to ensure they are correct.

Auditee's Response: Management concurs with the above audit finding. The accounting policies and procedures will be established as recommended above.



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MANAGEMENT LETTER

Board of Directors
Tennessee Environmental Council, Inc.
Nashville, TN 37228

In planning and performing our audit of the financial statements of Tennessee Environmental Council, Inc. for the year ended December 31, 2010, we considered the Organization's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated May 24, 2011 on the financial statements of Tennessee Environmental Council, Inc.

I. Cash Disbursement Control

1. The cash disbursement system does not document proper authorization and approval of invoices. These procedures are essential elements that are required by internal accounting controls for an effective cash disbursement system. Management should initial invoices to document proper authorization and approval. While testing of the cash disbursements did not disclose any improper invoices, internal accounting controls recommend approval of disbursements to ensure that each expenditure is authorized.
2. During the test of Cash Disbursements it was disclosed that several disbursements were to an employee of the Organization. Due to the perceived conflict of interest, it is recommended that such invoices contain a written approval from the governing board.

II. Payroll Controls

1. Procedures have not been established to ensure that the Organization has properly updated wage authorizations. Proper accounting procedures require that payroll increases and effective dates should be properly noted in the employee's personnel files. These increases should be noted as approved by the proper authorizing official.

III. Contract Services

1. Several contractual services purchased during the audit period were not supported by written and signed contracts. All services purchased should be supported by written agreements detailing services to be performed and the compensation to be paid.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the board of directors, management and others within the Organization.

May 24, 2011

A handwritten signature in black ink that reads "Jacy Hone CPA". The signature is written in a cursive, flowing style.