

THE TENNESSEE RIVER GORGE TRUST, INC.

ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2017

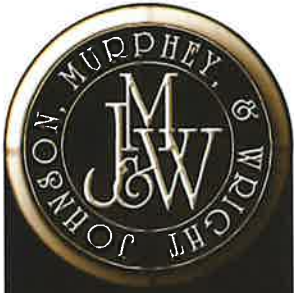
JOHNSON, MURPHEY & WRIGHT, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CHATTANOOGA, TENNESSEE

I. INTRODUCTORY SECTION

THE TENNESSEE RIVER GORGE TRUST, INC.
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December 31, 2017

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II. FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tennessee River Gorge Trust, Inc.

We have audited the accompanying financial statements of Tennessee River Gorge Trust, Inc., which comprise the Statement of Financial Position as of December 31, 2017, and the related Statements of Activities, Cash Flows, and Functional Expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

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 Tennessee River Gorge Trust, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplemental Information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Chattanooga, Tennessee
February 20, 2018

Johnson, Murphey & Wright, P.C.

THE TENNESSEE RIVER GORGE TRUST, INC.
Statement of Financial Position
December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted (Hampton Endowment)</u>	<u>Total</u>
ASSETS				
Cash	\$ 119,000	\$ -	\$ -	\$ 119,000
Investments	4,257,746	235,504	869,775	5,363,025
Accounts receivable	141,663	-	-	141,663
Pledges receivable	11,500	-	-	11,500
Fixed assets - net	<u>8,789,813</u>	<u>-</u>	<u>-</u>	<u>8,789,813</u>
TOTAL ASSETS	<u>\$ 13,319,722</u>	<u>\$ 235,504</u>	<u>\$ 869,775</u>	<u>\$ 14,425,001</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 1,900	\$ -	\$ -	\$ 1,900
Accrued liabilities	<u>67,663</u>	<u>-</u>	<u>-</u>	<u>67,663</u>
Total liabilities	<u>69,563</u>	<u>-</u>	<u>-</u>	<u>69,563</u>
Net Assets				
Unrestricted:				
Undesignated	12,992,799	-	-	12,992,799
Board designated	257,360	-	-	257,360
Temporarily restricted	-	235,504	-	235,504
Permanently restricted	<u>-</u>	<u>-</u>	<u>869,775</u>	<u>869,775</u>
Total net assets	<u>13,250,159</u>	<u>235,504</u>	<u>869,775</u>	<u>14,355,438</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,319,722</u>	<u>\$ 235,504</u>	<u>\$ 869,775</u>	<u>\$ 14,425,001</u>

The accompanying notes are an integral part of the financial statements.

THE TENNESSEE RIVER GORGE TRUST, INC.
Statement of Activities
Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted (Hampton Endowment)</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE				
Contributions and grants	\$ 345,919	\$ 45,589	\$ -	\$ 391,508
In-kind contributions	8,663	-	-	8,663
Rent and royalties	264,199	-	-	264,199
Investment return, net	469,575	-	150,223	619,798
Special events	91,073	-	-	91,073
Other revenue	900	-	-	900
Reclassification of endowment earnings	-	150,223	(150,223)	-
Net assets released from restrictions	45,589	(45,589)	-	-
Total public support and revenue	<u>1,225,918</u>	<u>150,223</u>	<u>-</u>	<u>1,376,141</u>
EXPENSES				
Program services				
Land preservation	186,061	-	-	186,061
Land stewardship	406,103	-	-	406,103
Outreach and education	100,591	-	-	100,591
Total program services	<u>692,755</u>	<u>-</u>	<u>-</u>	<u>692,755</u>
Supporting services				
Administrative	72,474	-	-	72,474
Fund-raising	79,130	-	-	79,130
Total supporting services	<u>151,604</u>	<u>-</u>	<u>-</u>	<u>151,604</u>
Total expenses	<u>844,359</u>	<u>-</u>	<u>-</u>	<u>844,359</u>
Change in net assets before extraordinary item	381,559	150,223	-	531,782
Gain on sale of carbon off-set	<u>2,166,780</u>	<u>-</u>	<u>-</u>	<u>2,166,780</u>
Change in net assets	2,548,339	150,223	-	2,698,562
NET ASSETS - beginning	<u>10,701,820</u>	<u>85,281</u>	<u>869,775</u>	<u>11,656,876</u>
NET ASSETS - end	<u>\$ 13,250,159</u>	<u>\$ 235,504</u>	<u>\$ 869,775</u>	<u>\$ 14,355,438</u>

The accompanying notes are an integral part of the financial statements.

THE TENNESSEE RIVER GORGE TRUST, INC.
Statement of Cash Flows
Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	<u>\$ 2,698,562</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	40,130
Net realized and unrealized (gain) loss on investments	(621,342)
(Increase) decrease in accounts receivable	(7,579)
(Increase) decrease in prepaid expenses	40,122
Increase (decrease) in accounts payable	(1,544)
Increase (decrease) in accrued liabilities	<u>6,531</u>
Net cash provided (used) in operating activities	<u>(543,682)</u>
Net cash provided (used) by operating activities	<u>2,154,880</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(2,486,273)
Proceeds from sale of investments	489,000
Acquisition of fixed assets	<u>(216,258)</u>
Net cash provided (used) by investing activities	<u>(2,213,531)</u>
Net increase (decrease) in cash	(58,651)

Cash - beginning	<u>177,651</u>
Cash - end	<u>\$ 119,000</u>

The accompanying notes are an integral part of the financial statements.

THE TENNESSEE RIVER GORGE TRUST, INC.
Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services				Supporting Services			Total
	Land Preservation	Land Stewardship	Outreach and Education	Program Services	Administrative	Fund-Raising		
Salaries	\$ 12,321	\$ 139,676	\$ 43,374	\$ 195,371	\$ 58,690	\$ 14,164	\$	\$ 268,225
Employee benefits	1,716	19,456	6,042	27,214	8,175	1,973		37,362
Payroll taxes	1,177	13,348	4,145	18,670	5,609	1,354		25,633
Total salaries and related expenses	15,214	172,480	53,561	241,255	72,474	17,491		331,220
Travel	-	12,391	-	12,391	-	-		12,391
Supplies and equipment	9,181	-	-	9,181	-	-		9,181
In-kind expenses	8,663	-	-	8,663	-	-		8,663
Rent	25,252	-	-	25,252	-	-		25,252
Fund-raising	-	-	-	-	-	41,957		41,957
Marketing	-	-	-	-	-	19,682		19,682
Utilities	5,682	-	-	5,682	-	-		5,682
Bird research	-	41,064	-	41,064	-	-		41,064
Education	-	-	47,030	47,030	-	-		47,030
Training	2,226	-	-	2,226	-	-		2,226
Dues	8,314	-	-	8,314	-	-		8,314
Land management and taxes	-	150,609	-	150,609	-	-		150,609
Professional fees	35,895	29,559	-	65,454	-	-		65,454
Insurance	35,504	-	-	35,504	-	-		35,504
Total expenses before depreciation	145,931	406,103	100,591	652,625	72,474	79,130		804,229
Depreciation	40,130	-	-	40,130	-	-		40,130
Total expenses	\$ 186,061	\$ 406,103	\$ 100,591	\$ 692,755	\$ 72,474	\$ 79,130	\$	\$ 844,359

The accompanying notes are an integral part of the financial statements.

THE TENNESSEE RIVER GORGE TRUST, INC.
Notes to Financial Statements
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Nature of Activities

The Tennessee River Gorge Trust, Inc. operates as a non-profit entity located in the greater Chattanooga, Tennessee area in order to enrich the community by conservation of Tennessee's Grand Canyon through land protection, education and the promotion of good land stewardship. The Entity's primary revenue sources are contributions and rent.

B. Basis of Presentation - Net Asset Accounting

The Tennessee River Gorge Trust, Inc. follows the recommendations of the Financial Accounting Standards Board (FASB) ASC 958-205-05-6. Under FASB ASC 958-205-05-06, the Entity is required to report 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. In addition, the Entity is required to present a Statement of Cash Flows. At year-end, the Entity had permanently restricted, temporarily restricted and unrestricted net assets.

C. Basis of Accounting

The financial statements are prepared on the accrual basis of accounting and in accordance with the AICPA Audit and Accounting Guide, *Not-for-Profit Organizations*, and Financial Accounting Standards Board (FASB) ASC 958-205-05-6. Under the accrual basis, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. The financial statements reflect all significant receivables, payables and other liabilities. The reserve method is used to estimate the allowance for uncollectible receivables, if any.

D. Restricted and Unrestricted Support and Revenue

The Entity follows the recommendations of the Financial Accounting Standards Board (FASB) ASC 958-605-25. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Revenue is considered to be available for unrestricted use unless specifically restricted by the donor or grantor.

The Entity reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. The Entity chooses to show contributions whose restrictions are met in the same reporting period as unrestricted support.

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Entity considers all unrestricted highly liquid investments purchased with a maturity date of three months or less to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Investments

Investments are stated at fair value, determined based on quoted market prices or estimated values provided by external investment managers or other sources. Any gains or losses, realized or unrealized, are included in the change of net assets in the Statement of Activities. Donated investments are reflected as contributions at their market value at date of receipt. The Entity chooses to show restricted gains and investment income whose restrictions are met in the same reporting period as unrestricted support.

G. Fair Value Measurement

As described in Note 4, the Entity adopted the provisions of ASC 820-10-50 applicable to financial assets and liabilities, as well as for other non-financial assets and liabilities that are carried at fair value on a recurring basis. Adoption of the provisions of ASC 820-10-50 did not have an impact on the measurement of the Entity's financial assets and liabilities but did result in additional disclosures contained in the footnotes herein.

H. Prepayment of Expenses

Expenses extending over more than one accounting period are allocated between accounting periods and reported as an expense of the period in which they relate.

I. Pledges Receivable

Donor promises to give are evaluated on the basis of criteria in FASB ASC 958-310-25. Those that meet the criteria are recognized as revenues or gains in the period the pledge is received and as assets (cash, receivables, etc.) or decrease of liabilities, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Entity uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

J. Inventory

Supplies are expensed when they are purchased, therefore, no inventory is maintained.

K. Fixed Assets

Property and equipment are valued at cost, if purchased, or fair value if contributed. The expenses for equipment in excess of \$5,000 are capitalized. Minor repairs and maintenance are expensed as incurred and additions and improvements that significantly extend the life of assets are depreciated over the remaining useful lives of the related fixed asset. At the time that assets are retired or disposed of, costs and accumulated depreciation are eliminated from the related accounts and gain or loss, if any, is credited or charged to income. Depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows:

Equipment	3-7 years
Building	5-25 years
Vehicles	5 years

L. Donated Property and Equipment

The Entity reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Entity reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Compensated Absences

It is the Entity's policy to accrue vacation and sick leave for the future benefit of its employees. This accrual is recorded as a liability in the Statement of Financial Position.

N. Unearned Revenues

The Entity had no unearned revenues received prior to year-end for the following year.

O. Valuation of Donated Services

Donated services are recognized as contributions in accordance with FASB ASC 958-605-25-16, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased.

The Entity has recorded the value of donated services which meet the requirements of FASB ASC 958-605-25-16. The value of these services is shown as in-kind contributions and in-kind expense on the Statement of Activities.

Also, the Entity depends upon the services donated by its supporters and unskilled volunteers to carry out many of its operations and activities. A substantial number of volunteers have donated significant amounts of their time to the Entity. However, these services do not meet the requirements of FASB ASC 958-605-25-16 and are not recorded on the Statement of Activities.

P. Functional Expense

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Q. Description of Program and Supporting Services

Land preservation

Dedicated to conserving the land.

Land stewardship

Dedicated to ongoing research of the area.

Outreach and education

Dedicated to education and programs.

Administrative

Includes the functions necessary to ensure an adequate working environment; provide coordination and articulation of the Entity's programs; and manage the functioning of the Board of Directors and financial and budgetary responsibilities.

Fund-raising

Provides the structure necessary to encourage and secure financial support from individuals, foundations and corporations.

R. Advertising

Advertising costs are expensed as incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

T. Uncertain Tax Position

The Entity accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefits are estimated based on the cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Entity include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax. Based on its evaluation, the Entity has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. The Entity's evaluation was performed for tax years ended December 31, 2014 through December 31, 2017, for Federal income tax, the years that remain subject to examination by major jurisdictions as of December 31, 2017.

U. Non-profit Entity

The Entity is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal income taxes on related income pursuant to Section 501 of the Code.

V. Events Occurring after Reporting Date

The Entity has evaluated events and transactions that occurred between December 31, 2017, and February 20, 2018 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - CASH

The Tennessee River Gorge Trust, Inc. has a cash carrying amount of \$119,000 and a bank balance of \$123,190 as of December 31, 2017. The entire bank balance is covered by FDIC insurance.

NOTE 3 - INVESTMENTS

Investments at December 31, 2017, are subject to market risks and are stated as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Appreciation (Loss)</u>
Close end funds	\$ 1,071,007	\$ 1,202,798	\$ 131,791
Common stock	\$ 1,780,100	2,200,698	\$ 420,598
Preferred securities	\$ 2,862	3,446	\$ 584
Cash and cash equivalents	\$ 135,766	135,766	\$ -
Corporate bonds and notes	\$ 553,272	558,432	\$ 5,160
Asset backed securities	\$ 41,308	39,358	\$ (1,950)
Mutual funds	\$ 870,319	943,175	\$ 72,856
Government securities	\$ 278,274	<u>279,352</u>	\$ 1,078
Total investments		<u>\$ 5,363,025</u>	

The following schedule components of investment return:

Interest and dividends on investments and bank accounts	\$ 108,378
Realized gains and losses, net	42,886
Unrealized gains and losses, net	513,926
Investment fees	<u>(45,392)</u>
Investment return, net	<u>\$ 619,798</u>

NOTE 4 - FAIR VALUE MEASUREMENT

ASC 820-10-50 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the assets or liability or, in the absence of a principal market the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Fund has the ability to access.
- 2) Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- 3) Level 3 are unobservable inputs for the assets or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the assets or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Entity's own data.)

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2017.

Assets	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	<u>\$ 5,363,025</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,363,025</u>

NOTE 5 - FIXED ASSETS - NET

Activity for the year ended December 31, 2017, was as follows:

	<u>Balance 12-31-16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12-31-17</u>
Land	\$ 8,484,871	\$ 95,110	\$ -	\$ 8,579,981
Buildings	575,340	-	-	575,340
Equipment	61,944	65,649	(9,000)	118,593
Vehicles	<u>46,825</u>	<u>55,499</u>	<u>(16,600)</u>	<u>85,724</u>
Total	9,168,980	<u>\$ 216,258</u>	<u>\$ (25,600)</u>	9,359,638
Accumulated depreciation	<u>(555,295)</u>	<u>\$ (40,130)</u>	<u>\$ 25,600</u>	<u>(569,825)</u>
Fixed assets - net	<u>\$ 8,613,685</u>			<u>\$ 8,789,813</u>

Depreciation expense amounted to \$40,130 for the year ended December 31, 2017.

NOTE 6 - NET ASSETS

Board designated net assets of \$257,360 have been designated in an investment account for carbon offset future compliance expenses.

Temporary restricted net assets of \$235,504 are funds that have been reclassified from permanently restricted endowment earnings to temporarily restricted net assets.

Permanently restricted net assets (Hampton Endowment) of \$869,775 consist of the investments purchased with contributions with donor stipulations that they be invested to provide a permanent source of income.

NOTE 7 - LEASE COMMITMENTS

The Tennessee River Gorge Trust, Inc. occupies office space under a year-to-year operating lease. Expense for rental of office space for the year ended December 31, 2017, was \$25,252.

NOTE 8 - RETIREMENT PLAN

The Entity provides retirement annuity contracts under Section 403(b) of the Internal Revenue Code. The Tax Sheltered Retirement Annuity Plan covers substantially all employees who have completed one year of service of at least 1,000 hours per year and has attained the age of 21. The retirement plan expense was \$12,500 for the year ended December 31, 2017. During 2017, the Entity will match employee contributions up to \$3,500 on a dollar to dollar basis.

NOTE 9 - COMMERCIAL INSURANCE

It is the policy of the Entity to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, and employee health and accident. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 10 - EASEMENTS

The Tennessee River Gorge Trust, Inc. has acquired easements on 1,042 acres since its inception at a cost of \$1,220,286. Some easements have been donated.

NOTE 11 - ENDOWMENT

The Entity's endowment consists of funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Entity's disclosure of its interpretation of the law or laws that underlie the Entity's net asset classification of donor-restricted endowment funds follows.

Interpretation of Relevant Law

The Board of Directors of the Entity has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the original gift amount of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Entity classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Entity considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) the duration and preservation of the fund,
- (2) the purposes of the organization and the donor-restricted endowment fund,
- (3) general economic conditions,
- (4) the possible effect of inflation and deflation,
- (5) the expected total return from income and the appreciation of investments,
- (6) other resources of the organization and
- (7) the investment policies of the Entity.

NOTE 11 - ENDOWMENT (Continued)

Return Objectives and Risk Parameters

The Entity has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

The Board of Directors establishes all policies for the Entity's permanently restricted Hampton Endowment Fund (HEF). The HEF should be managed with a long-term investment horizon for growth and capital appreciation. The fund has a long-term targeted rate of inflation (measured by CPI) CPI +6%.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The HEF can have up to 5% annual cash distribution for general operating purchases.

The Entity's disclosure of its endowment net asset composition by type of fund as of December 31, 2017, follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 235,504	\$ 869,775	\$ 1,105,279
Board-designated endowment funds	-	-	-	-
Total funds	<u>\$ -</u>	<u>\$ 235,504</u>	<u>\$ 869,775</u>	<u>\$ 1,105,279</u>

The Entity's disclosure of changes in endowment net assets for the year ended December 31, 2017, follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 85,281	\$ 869,775	\$ 955,056
Investment return:				
Investment income	-	-	150,223	150,223
Net appreciation of investments	-	-	-	-
Total investment return	-	-	150,223	150,223
Contributions	-	45,589	-	45,589
Appropriated for expenditure	-	(45,589)	-	(45,589)
Reclassifications	-	150,223	(150,223)	-
Other changes	-	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 235,504</u>	<u>\$ 869,775</u>	<u>\$ 1,105,279</u>

NOTE 12 - TRGT CARBON OFF-SET PROJECT

The Tennessee River Gorge Trust entered into a contract with Finite Carbon, a third party consulting firm, on November 20, 2014. The purpose of the contract was to work with Finite Carbon to prepare a project that would be entered into the California Air Resources Board's carbon off-set market for sale. Finite Carbon conducted a full inventory on approximately 5,500 acres of TRGT land holdings and then mathematically calculated the number of sequestered metric tonnes of carbon within the forest. The tonnages were compared to the geographic forest condition index established by the U.S. Forest Service. All of the tonnes of sequestered carbon that were above the forest condition index were then verified and validated by a third party and later issued as marketable carbon off-sets.

TRGT paid Finite Carbon for their services with an agreed upon 53,007 carbon off-sets. The remaining 219,981 carbon off-sets were sold to a buyer on February 7, 2017 for \$10.05 per metric tonne (off-set). Tennessee River Gorge Trust received \$2,210,809 on March 3, 2017.

The Tennessee River Gorge Trust submitted the Official Project Development Annual Report (OPDR) to the California Air Resources Board as required for 2017.

NOTE 13 - RELATED PARTY TRANSACTION

During the year, the Entity rented property to a board member for \$1,500.

A board member is the attorney for a person with whom the Entity has a prior agreement to purchase interests in real property.

NOTE 14 - EXTRAORDINARY ITEM

As discussed in Note 12, the Tennessee River Gorge Trust received \$2,210,809 from the carbon off-set project. This income, less all related expenses, totaled \$2,166,780 and is listed in the Statement of Activities as an extraordinary item.

NOTE 15 - DONATED SERVICES

Donated services are listed as in-kind contributions and in-kind expenses and are as follows:

Venue rent	\$ 7,500
Supplies	163
Food	<u>1,000</u>
Total	<u>\$ 8,663</u>

SUPPLEMENTAL INFORMATION

THE TENNESSEE RIVER GORGE TRUST, INC.
Comparative Schedule of Financial Position
December 31, 2017 and 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted (Hampton Endowment)	2017 Total	2016 Total
ASSETS					
Cash	\$ 119,000	\$ -	\$ -	\$ 119,000	\$ 177,651
Investments	4,257,746	235,504	869,775	5,363,025	2,744,410
Accounts receivable	141,663	-	-	141,663	145,584
Pledges receivable	11,500	-	-	11,500	-
Prepaid expenses	-	-	-	-	40,122
Fixed assets - net	8,789,813	-	-	8,789,813	8,613,685
TOTAL ASSETS	\$ 13,319,722	\$ 235,504	\$ 869,775	\$ 14,425,001	\$ 11,721,452
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable	\$ 1,900	\$ -	\$ -	\$ 1,900	\$ 3,444
Accrued liabilities	67,663	-	-	67,663	61,132
Total liabilities	69,563	-	-	69,563	64,576
Net Assets					
Unrestricted:					
Undesignated	12,992,799	-	-	12,992,799	10,701,820
Board designated	257,360	-	-	257,360	-
Temporarily restricted	-	235,504	-	235,504	85,281
Permanently restricted	-	-	869,775	869,775	869,775
Total net assets	13,250,159	235,504	869,775	14,355,438	11,656,876
TOTAL LIABILITIES AND NET ASSETS	\$ 13,319,722	\$ 235,504	\$ 869,775	\$ 14,425,001	\$ 11,721,452

THE TENNESSEE RIVER GORGE TRUST, INC.
Comparative Schedule of Activities
Years Ended December 31, 2017 and 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted (Hampton Endowment)	2017 Total	2016 Total
PUBLIC SUPPORT AND REVENUE					
Contributions and grants	\$ 345,919	\$ 45,589	\$ -	\$ 391,508	\$ 269,075
In-kind contributions	8,663	-	-	8,663	-
Rent and royalties	264,199	-	-	264,199	254,350
Investment return, net	469,575	-	150,223	619,798	133,391
Special events	91,073	-	-	91,073	102,204
Neon income	-	-	-	-	19,380
Other revenue	900	-	-	900	3,250
Reclassification of endowment earnings	-	150,223	(150,223)	-	-
Net assets released from restrictions	45,589	(45,589)	-	-	-
Total public support and revenue	<u>1,225,918</u>	<u>150,223</u>	<u>-</u>	<u>1,376,141</u>	<u>781,650</u>
EXPENSES					
Program services					
Land preservation	186,061	-	-	186,061	168,460
Land stewardship	406,103	-	-	406,103	340,780
Outreach and education	100,591	-	-	100,591	67,628
Total program services	<u>692,755</u>	<u>-</u>	<u>-</u>	<u>692,755</u>	<u>576,868</u>
Supporting services					
Administrative	72,474	-	-	72,474	73,785
Fund-raising	79,130	-	-	79,130	61,574
Total supporting services	<u>151,604</u>	<u>-</u>	<u>-</u>	<u>151,604</u>	<u>135,359</u>
Total expenses	<u>844,359</u>	<u>-</u>	<u>-</u>	<u>844,359</u>	<u>712,227</u>
Change in net assets before extraordinary item	381,559	150,223	-	531,782	69,423
Gain on sale of carbon off-set	2,166,780	-	-	2,166,780	-
Change in net assets	2,548,339	150,223	-	2,698,562	69,423
NET ASSETS - beginning	<u>10,701,820</u>	<u>85,281</u>	<u>869,775</u>	<u>11,656,876</u>	<u>11,587,453</u>
NET ASSETS - end	<u>\$ 13,250,159</u>	<u>\$ 235,504</u>	<u>\$ 869,775</u>	<u>\$ 14,355,438</u>	<u>\$ 11,656,876</u>

THE TENNESSEE RIVER GORGE TRUST, INC.
Comparative Schedule of Functional Expenses
Years Ended December 31, 2017 and 2016

	Program Services				Supporting Services			2016 Total
	Land Preservation	Land Stewardship	Outreach and Education	Total Program Services	Administrative	Fund- Raising	2017 Total	
Salaries	\$ 12,321	\$ 139,676	\$ 43,374	\$ 195,371	\$ 58,690	\$ 14,164	\$ 268,225	\$ 194,168
Employee benefits	1,716	19,456	6,042	27,214	8,175	1,973	37,362	39,288
Payroll taxes	1,177	13,348	4,145	18,670	5,609	1,354	25,633	21,660
Total salaries and related expenses	15,214	172,480	53,561	241,255	72,474	17,491	331,220	255,116
Travel	-	12,391	-	12,391	-	-	12,391	10,254
Supplies and equipment	9,181	-	-	9,181	-	-	9,181	17,084
In-kind expenses	8,663	-	-	8,663	-	-	8,663	-
Rent	25,252	-	-	25,252	-	-	25,252	25,252
Fund-raising	-	-	-	-	-	41,957	41,957	38,934
Marketing	-	-	-	-	-	19,682	19,682	9,224
Utilities	5,682	-	-	5,682	-	-	5,682	5,523
Bird research	-	41,064	-	41,064	-	-	41,064	53,391
Neon income	-	-	-	-	-	-	-	17,177
Climate change vulnerability assessment	-	-	-	-	-	-	-	2,094
Education	-	-	47,030	47,030	-	-	47,030	6,107
Training	2,226	-	-	2,226	-	-	2,226	2,123
Dues	8,314	-	-	8,314	-	-	8,314	4,950
Land management and taxes	-	150,609	-	150,609	-	-	150,609	149,422
Professional fees	35,895	29,559	-	65,454	-	-	65,454	62,441
Interest	-	-	-	-	-	-	-	75
Insurance	35,504	-	-	35,504	-	-	35,504	22,273
Total expenses before depreciation	145,931	406,103	100,591	652,625	72,474	79,130	804,229	681,440
Depreciation	40,130	-	-	40,130	-	-	40,130	30,787
Total expenses	\$ 186,061	\$ 406,103	\$ 100,591	\$ 692,755	\$ 72,474	\$ 79,130	\$ 844,359	\$ 712,227