Financial Statements

FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

Year Ended December 31, 2010
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<th>TABLE OF CONTENTS</th>
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</tbody>
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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Directors
Friends of Great Smoky Mountains National Park
Sevierville, Tennessee

We have audited the accompanying statement of financial position of Friends of Great Smoky Mountains National Park as of December 31, 2010, and the related statements of activities 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. 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 in the first paragraph present fairly, in all material respects, the financial position of Friends of Great Smoky Mountains National Park 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.

Mitchell Emert + Hill

April 26, 2011
### LIABILITIES AND NET ASSETS

#### CURRENT LIABILITIES
- Accounts payable: $9,179
- Deferred revenue: $126,909

**TOTAL CURRENT LIABILITIES**: $136,088

#### NET ASSETS
- Unrestricted: $2,869,114
- Temporarily restricted: $2,793,901
- Permanently restricted: $3,441,627

**TOTAL NET ASSETS**: $9,104,642

**TOTAL**: $9,240,730
FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

STATEMENT OF ACTIVITIES

Year Ended December 31, 2010

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUPPORT AND REVENUE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions and grants</td>
<td>$ 322,295</td>
<td>$ 516,960</td>
<td>$ 1,131,894</td>
<td>$ 1,971,150</td>
</tr>
<tr>
<td>Less: Amounts designated by donors</td>
<td>0</td>
<td>(11,705)</td>
<td>0</td>
<td>(11,705)</td>
</tr>
<tr>
<td>organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>License plate revenue:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State of Tennessee</td>
<td>418,465</td>
<td>0</td>
<td>0</td>
<td>418,465</td>
</tr>
<tr>
<td>State of North Carolina</td>
<td>364,660</td>
<td>0</td>
<td>0</td>
<td>364,660</td>
</tr>
<tr>
<td>Special events, net</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of direct expenses</td>
<td>238,332</td>
<td>0</td>
<td>0</td>
<td>238,332</td>
</tr>
<tr>
<td>In-kind contributions</td>
<td>146,318</td>
<td>0</td>
<td>0</td>
<td>146,318</td>
</tr>
<tr>
<td>Investment income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>net of expenses</td>
<td>22,226</td>
<td>62,180</td>
<td>67,747</td>
<td>152,153</td>
</tr>
<tr>
<td>Retail sales</td>
<td>563</td>
<td>0</td>
<td>0</td>
<td>563</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>3,011</td>
<td>0</td>
<td>0</td>
<td>3,011</td>
</tr>
<tr>
<td></td>
<td>1,515,869</td>
<td>567,436</td>
<td>1,199,641</td>
<td>3,282,946</td>
</tr>
<tr>
<td>Net assets released</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>from restrictions</td>
<td>791,970</td>
<td>(791,970)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>2,307,839</td>
<td>(224,534)</td>
<td>1,199,641</td>
<td>3,282,946</td>
</tr>
</tbody>
</table>

EXPENSES

Program services:

- Park projects          654,992  0  0  654,992
- Salaries                90,810  0  0  90,810
- Payroll taxes           6,947   0  0  6,947
- Rent                    5,837   0  0  5,837
- Insurance               10,004  0  0  10,004
- Office                  1,683   0  0  1,683
- Computer                1,769   0  0  1,769
- Travel                  4,351   0  0  4,351
- Utilities               1,734   0  0  1,734
- Telephone               2,939   0  0  2,939
|                                      | 781,066      | 0                      | 0                      | 781,066 |
## Friends of Great Smoky Mountains National Park

### Statement of Activities

(continued)

Year Ended December 31, 2010

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management and general:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>119,853</td>
<td>0</td>
<td>0</td>
<td>119,853</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>9,169</td>
<td>0</td>
<td>0</td>
<td>9,169</td>
</tr>
<tr>
<td>Rent</td>
<td>7,704</td>
<td>0</td>
<td>0</td>
<td>7,704</td>
</tr>
<tr>
<td>Utilities</td>
<td>2,289</td>
<td>0</td>
<td>0</td>
<td>2,289</td>
</tr>
<tr>
<td>Insurance</td>
<td>13,204</td>
<td>0</td>
<td>0</td>
<td>13,204</td>
</tr>
<tr>
<td>Telephone</td>
<td>3,878</td>
<td>0</td>
<td>0</td>
<td>3,878</td>
</tr>
<tr>
<td>Accounting and legal</td>
<td>13,360</td>
<td>0</td>
<td>0</td>
<td>13,360</td>
</tr>
<tr>
<td>Bank charges</td>
<td>12,779</td>
<td>0</td>
<td>0</td>
<td>12,779</td>
</tr>
<tr>
<td>Computer services</td>
<td>2,335</td>
<td>0</td>
<td>0</td>
<td>2,335</td>
</tr>
<tr>
<td>Meals and entertainment</td>
<td>4,806</td>
<td>0</td>
<td>0</td>
<td>4,806</td>
</tr>
<tr>
<td>Supplies</td>
<td>2,222</td>
<td>0</td>
<td>0</td>
<td>2,222</td>
</tr>
<tr>
<td>Postage</td>
<td>14,250</td>
<td>0</td>
<td>0</td>
<td>14,250</td>
</tr>
<tr>
<td>Professional services</td>
<td>18,147</td>
<td>0</td>
<td>0</td>
<td>18,147</td>
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<tr>
<td>Repairs and maintenance</td>
<td>4,412</td>
<td>0</td>
<td>0</td>
<td>4,412</td>
</tr>
<tr>
<td>Dues and subscriptions</td>
<td>6,747</td>
<td>0</td>
<td>0</td>
<td>6,747</td>
</tr>
<tr>
<td>Travel</td>
<td>6,061</td>
<td>0</td>
<td>0</td>
<td>6,061</td>
</tr>
<tr>
<td>Printing</td>
<td>4,643</td>
<td>0</td>
<td>0</td>
<td>4,643</td>
</tr>
<tr>
<td>Depreciation</td>
<td>8,677</td>
<td>0</td>
<td>0</td>
<td>8,677</td>
</tr>
<tr>
<td>Board</td>
<td>13,985</td>
<td>0</td>
<td>0</td>
<td>13,985</td>
</tr>
<tr>
<td>Volunteer support</td>
<td>2,492</td>
<td>0</td>
<td>0</td>
<td>2,492</td>
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<tr>
<td>Miscellaneous</td>
<td>4,436</td>
<td>0</td>
<td>0</td>
<td>4,436</td>
</tr>
<tr>
<td></td>
<td>275,448</td>
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<td>0</td>
<td>275,448</td>
</tr>
</tbody>
</table>
FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

STATEMENT OF ACTIVITIES
(continued)

Year Ended December 31, 2010

<table>
<thead>
<tr>
<th>Fundraising:</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>201,542</td>
<td>0</td>
<td>0</td>
<td>201,542</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>16,500</td>
<td>0</td>
<td>0</td>
<td>16,500</td>
</tr>
<tr>
<td>Rent</td>
<td>12,955</td>
<td>0</td>
<td>0</td>
<td>12,955</td>
</tr>
<tr>
<td>Utilities</td>
<td>3,599</td>
<td>0</td>
<td>0</td>
<td>3,599</td>
</tr>
<tr>
<td>Insurance</td>
<td>22,203</td>
<td>0</td>
<td>0</td>
<td>22,203</td>
</tr>
<tr>
<td>Telephone</td>
<td>6,522</td>
<td>0</td>
<td>0</td>
<td>6,522</td>
</tr>
<tr>
<td>Office</td>
<td>3,736</td>
<td>0</td>
<td>0</td>
<td>3,736</td>
</tr>
<tr>
<td>Printing</td>
<td>33,845</td>
<td>0</td>
<td>0</td>
<td>33,845</td>
</tr>
<tr>
<td>Computer</td>
<td>3,926</td>
<td>0</td>
<td>0</td>
<td>3,926</td>
</tr>
<tr>
<td>Travel</td>
<td>9,656</td>
<td>0</td>
<td>0</td>
<td>9,656</td>
</tr>
<tr>
<td>Advertising and promotion</td>
<td>39,705</td>
<td>0</td>
<td>0</td>
<td>39,705</td>
</tr>
<tr>
<td>Gifts</td>
<td>1,347</td>
<td>0</td>
<td>0</td>
<td>1,347</td>
</tr>
<tr>
<td>Newsletter</td>
<td>12,516</td>
<td>0</td>
<td>0</td>
<td>12,516</td>
</tr>
<tr>
<td>Public relations</td>
<td>32,778</td>
<td>0</td>
<td>0</td>
<td>32,778</td>
</tr>
<tr>
<td>Telethon</td>
<td>36,965</td>
<td>0</td>
<td>0</td>
<td>36,965</td>
</tr>
<tr>
<td>Resale items</td>
<td>139</td>
<td>0</td>
<td>0</td>
<td>139</td>
</tr>
<tr>
<td></td>
<td>437,933</td>
<td>0</td>
<td>0</td>
<td>437,933</td>
</tr>
<tr>
<td></td>
<td>1,494,448</td>
<td>0</td>
<td>0</td>
<td>1,494,448</td>
</tr>
</tbody>
</table>

CHANGE IN NET ASSETS

|                      | 813,392      | (224,534)              | 1,199,641              | 1,788,499 |

NET ASSETS AT THE BEGINNING OF THE YEAR

|                      | 2,055,722    | 3,018,435              | 2,241,986              | 7,316,143 |

NET ASSETS AT THE END OF THE YEAR

|                      | $2,869,114   | $2,793,901             | $3,441,627             | $9,104,642 |

See the accompanying notes to the financial statements.
FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

STATEMENT OF CASH FLOWS

Year Ended December 31, 2010

CASH PROVIDED (USED) BY OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$1,788,499</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by operating activities:</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>$8,677</td>
</tr>
<tr>
<td>(Increase) in:</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(8,538)</td>
</tr>
<tr>
<td>Pledges receivable</td>
<td>(95,660)</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(8,160)</td>
</tr>
<tr>
<td>(Decrease) increase in:</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(24,616)</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>4,358</td>
</tr>
<tr>
<td></td>
<td>(123,939)</td>
</tr>
</tbody>
</table>

NET CASH PROVIDED BY OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,664,560</td>
</tr>
</tbody>
</table>

CASH PROVIDED (USED) BY INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in certificates of deposit</td>
<td>1,218,301</td>
</tr>
<tr>
<td>(Increase) in beneficial interest in assets held by others</td>
<td>(14,481)</td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>(782,914)</td>
</tr>
</tbody>
</table>

NET CASH PROVIDED BY INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>420,906</td>
</tr>
</tbody>
</table>

NET INCREASE IN CASH

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,085,466</td>
</tr>
</tbody>
</table>

CASH AT THE BEGINNING OF THE YEAR

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,257,944</td>
</tr>
</tbody>
</table>

CASH AT THE END OF THE YEAR

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,343,410</td>
</tr>
</tbody>
</table>

See the accompanying notes to the financial statements.
NOTE A - DESCRIPTION OF ORGANIZATION

Friends of Great Smoky Mountains National Park (Friends of the Smokies) is a non-profit North Carolina corporation with offices in Sevierville, Tennessee and Waynesville, North Carolina. Friends of the Smokies was established in 1993 to assist the National Park Service in its mission to preserve and protect the Great Smoky Mountains National Park by raising funds and public awareness, and providing volunteers for needed projects.

Friends of the Smokies primary purposes are to preserve, restore, and enhance the natural beauty and features, the ecological systems and the cultural and historical heritage of Great Smoky Mountains National Park; to enhance educational, interpretive, and research opportunities relating to Great Smoky Mountains National Park; to increase public awareness, enjoyment, and appreciation of Great Smoky Mountains National Park; to support the efforts of the National Park Service and other organizations and individuals in furtherance of the foregoing, and to provide support and assistance to the National Park Service in constructing or improving park facilities such as trails, visitor centers, and support facilities to better serve the visiting public.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of 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 the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions they may undertake in the future, actual results could differ from those estimates. Estimates are used when accounting for fair value of pledges, allowances for uncollectible receivables, depreciation, allocation of expenses, and contingencies, among others.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest-bearing deposits. For purposes of the statement of cash flows, Friends of the Smokies considers cash on deposit with financial institutions and all cash investments with original maturities of three months or less to be cash and cash equivalents.
Property and Equipment

Property and equipment are recorded at cost or estimated cost if actual cost is not available. Donated property and equipment are recorded at the estimated fair value at the date of receipt. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Depreciation expense for the year ended December 31, 2010 was $10,730.

Support and Revenue

Contributions are recorded as support when cash or other assets are received. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts of cash and other assets that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, depending on the nature of the restriction. 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. Restricted grants and contributions whose restrictions are met in the same reporting period as they are received are reported as unrestricted. Revenue from services is recognized when the service is rendered.

Contributions of property and equipment and other long-lived assets with explicit restrictions that specify how the assets are to be used, including cash contributed to acquire such assets, are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the expiration of donor restrictions is reported when the donated or acquired assets are placed in service.

Agency Transactions

Friends of the Smokies acts as an agent in certain cases to facilitate the receipt and transfer of charitable gifts to other organizations that benefit the Great Smoky Mountains National Park. Contributions received are recorded by Friends of the Smokies as revenue. Designated contributions disbursed to other organizations are presented in the accompanying statement of activities as a reduction of support and revenue.
Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Costs are charged to program services, management and general and fundraising functions based on direct expenses incurred. Indirect expenses are allocated among the program and supporting services benefited.

State License Plate Revenue

State of Tennessee has provided for the sale of specially earmarked Friends of Great Smoky Mountains National Park license plates. The funds produced from the sale of such plates, less the expense incurred in designing and manufacturing the plates, are deposited in a State of Tennessee general fund reserve account known as the Friends of Great Smoky Mountains endowment fund. The endowment fund maintains a principal balance of $500,000. All revenues produced from the sale of the plates and the earned interest of the fund are to be used exclusively for the assistance of the National Park Service in the care of the Great Smoky Mountains National Park. The Commissioner of Finance and Administration makes disbursements of such funds on a quarterly basis to Friends of the Smokies.

State of North Carolina has approved Friends of the Smokies as one of the organizations participating in its State attraction license plates program. Quarterly distributions are made to the specific organizations, based upon each organization’s proportion of State attraction plates sold. The revenue received from the sale of such plates, is to be used for educational materials, preservation programs, capital improvements for the portion of the park that is located in North Carolina, and operating expenses of the park.

NOTE C - INCOME TAX STATUS

Friends of the Smokies is exempt from federal income taxes under section 501(c)(3) of the U.S. Internal Revenue Code, except on unrelated business income.
NOTE D - PLEDGES RECEIVABLE

Pledges receivable are recorded at the present value of estimated future cash flows using a discount rate of 2.5%. Unconditional pledges receivable at December 31, 2010, are as follows:

Amounts due in:
  Less than one year $ 84,483
  One to four years 142,333
  Less discount to present value (11,157)

Net pledges receivable restricted for Trail Forever endowment $ 215,659

NOTE E - LEASE OBLIGATIONS

Friends of the Smokies leases two office facilities under operating leases. The lease agreement for the office space in Tennessee will expire in July 2011. Future minimum lease payments under this lease are $23,751. Rent expense for the year ended December 31, 2010 was $26,247, net of sublease income.

NOTE F - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject Friends of the Smokies to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents are maintained in demand deposit accounts which, at times, may exceed federally insured limits. Friends of the Smokies has not experienced any losses and does not believe it is exposed to any significant credit risk on such accounts. By their nature, all such financial instruments involve risk, including the credit risk of nonperformance by counterparties. Exposure to credit risk is managed through various monitoring procedures. At December 31, 2010, Friends of the Smokies had no major concentrations of credit risk except for uninsured bank deposits.
NOTE G - DONATED MATERIALS AND SERVICES

Donated materials and services are recorded in the financial statements at their estimated fair market value. The donated services and materials for the year ended December 31, 2010 are as follows:

Fundraising:
   Special events food and lodging $ 97,397
   Marketing and promotion 28,036
Management and general:
   Consulting services 15,975
   Rent 3,498
   Other 1,412

$ 146,318

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of cash and temporary investments held for the following purposes:

   Smokies Fund (for administration and operation) $ 1,172,025
   National Park Service 779,771
   Greenbrier renovations 27,545
   Log Cabin renovations 10,150
   Trails Now 157,279
   Parks as Classrooms 467,255
   Scholarships 39,923
   Brook Trout restoration 67,437
   Purchase Knob-Burroughs Welcome 20,739
   Hemlock Preservation and Beetle Lab 30,836
   Oconoluftee Visitor Center 20,000
   Other 941

$ 2,793,901
NOTE I - NET ASSETS RELEASED FROM RESTRICTIONS

Friends of the Smokies incurred expenses for the following Park projects:

<table>
<thead>
<tr>
<th></th>
<th>Release of</th>
<th>Unrestricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Temporarily</td>
<td>Net Assets</td>
<td>Net Assets</td>
</tr>
<tr>
<td>Park amenities/facility improvements</td>
<td>$ 47,245</td>
<td>$ 188,388</td>
<td>$ 235,633</td>
</tr>
<tr>
<td>Appalachian Bear Center</td>
<td>0</td>
<td>2,875</td>
<td>2,875</td>
</tr>
<tr>
<td>Air/water quality research</td>
<td>0</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Trail and shelter management</td>
<td>33,219</td>
<td>22,297</td>
<td>55,516</td>
</tr>
<tr>
<td>Parks as Classrooms</td>
<td>206,163</td>
<td>9,050</td>
<td>215,213</td>
</tr>
<tr>
<td>Great Smoky Mountains Institute at Tremont:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual support</td>
<td>0</td>
<td>31,956</td>
<td>31,956</td>
</tr>
<tr>
<td>Grants received and paid out</td>
<td>15,000</td>
<td>0</td>
<td>15,000</td>
</tr>
<tr>
<td>Cades Cove projects</td>
<td>9,885</td>
<td>0</td>
<td>9,885</td>
</tr>
<tr>
<td>Purchase Knob Science Learning Center</td>
<td>1,906</td>
<td>22,539</td>
<td>24,446</td>
</tr>
<tr>
<td>Frasier Fir preservation</td>
<td>2,500</td>
<td>0</td>
<td>2,500</td>
</tr>
<tr>
<td>Land purchases</td>
<td>441,165</td>
<td>341,749</td>
<td>782,914</td>
</tr>
<tr>
<td>Other park wide initiatives</td>
<td>34,887</td>
<td>26,581</td>
<td>61,468</td>
</tr>
<tr>
<td>Total</td>
<td>$ 791,970</td>
<td>$ 645,936</td>
<td>$1,437,906</td>
</tr>
</tbody>
</table>

Purchases of property and equipment

Total park project expense

$ 654,992
NOTE J - PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT

Friends of the Smokies endowment consists of approximately seven funds established for a variety of purposes. All of the endowment funds are donor-restricted. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. As of December 31, 2010, all endowment net assets are permanently restricted, the income from which is expendable to support the following purposes:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brook Trout restoration</td>
<td>$18,177</td>
</tr>
<tr>
<td>Foothill Striders</td>
<td>9,587</td>
</tr>
<tr>
<td>Scholarships</td>
<td>44,246</td>
</tr>
<tr>
<td>Trails Forever endowment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,188,763</td>
</tr>
<tr>
<td>Funds held by others for the benefit of Friends of Great Smoky Mountains National Park:</td>
<td>3,260,773</td>
</tr>
<tr>
<td>Community Foundation of Western North Carolina</td>
<td>71,386</td>
</tr>
<tr>
<td>East Tennessee Foundation</td>
<td>109,469</td>
</tr>
<tr>
<td></td>
<td>180,855</td>
</tr>
<tr>
<td></td>
<td>3,441,627</td>
</tr>
</tbody>
</table>

Interpretation of Relevant Law

The Board of Directors of Friends of the Smokies has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Friends of the Smokies 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 organization 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
(7) The investment policies of the organization.

Spending Policy

Distributions from Community Foundation of Western North Carolina are made in accordance with donor stipulations. Distributions from the endowment for the year ended December 31, 2010 were $2,980.

Distribution policies have not yet been established for the remaining funds. Income is being reinvested into the endowment principal until such time as the principal balance reaches the desired level. Friends of the Smokies has received a matching pledge of up to $2,000,000 for the Trails Forever endowment, with the goal of establishing a permanent endowment in the amount of $4,000,000, the income from which is to be used for trail repair and maintenance. Cumulative matching funds received as of December 31, 2010 were $1,300,000.

Investment Return Objective, Risk Parameters and Strategies

Most endowments are invested in money market accounts and certificates of deposit. Friends of the Smokies is developing investment and spending policies, to be approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. The goal of the endowment is to exist in perpetuity, and therefore, provide funding in perpetuity.

Two of Friends of the Smokies endowment funds are held and administered by East Tennessee Foundation and The Community Foundation of Western North Carolina for the benefit of Friends of the Smokies with the income distributed to Friends of the Smokies annually. Friends of the Smokies has granted the foundations variance power, which is defined as the power to modify any restriction or condition on the distribution of funds for the specified charitable purposes or to a specified organization in, in the sole judgment of the foundation's board, such restrictions or conditions become, in effect unnecessary, undesirable, impracticable, incapable of fulfillment, or inconsistent with the charitable needs of the community served.
Assets held by the foundations for the benefit of Friends of the Smokies are recorded in the accompanying statement of financial position as Beneficial Interest in Assets Held by Others.

Changes in endowment net assets held by East Tennessee Foundation and The Community Foundation of Western North Carolina for the year ended December 31, 2010 are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at December 31, 2009</td>
<td>$ 166,374</td>
</tr>
<tr>
<td>Interest</td>
<td>3,354</td>
</tr>
<tr>
<td>Unrealized gain</td>
<td>7,773</td>
</tr>
<tr>
<td>Realized gain</td>
<td>8,325</td>
</tr>
<tr>
<td>Endowment Fees</td>
<td>(1,991)</td>
</tr>
<tr>
<td>Distribution for park projects</td>
<td>(2,980)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 180,855</strong></td>
</tr>
</tbody>
</table>

Changes in endowment net assets held by Friends of Great Smokies for the year ended December 31, 2010 are as follows,

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at December 31, 2009</td>
<td>$ 2,075,610</td>
</tr>
<tr>
<td>Interest</td>
<td>53,266</td>
</tr>
<tr>
<td>Contributions</td>
<td>1,131,894</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 3,260,773</strong></td>
</tr>
</tbody>
</table>

**NOTE K - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through April 26, 2011, which is the date the financial statements were available to be issued.