

*Financial Statements*

FRIENDS OF GREAT SMOKY  
MOUNTAINS NATIONAL PARK

Year Ended December 31, 2009

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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, 2009, 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 above present fairly, in all material respects, the financial position of Friends of Great Smoky Mountains National Park as of December 31, 2009, 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 16, 2010

FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

**STATEMENT OF FINANCIAL POSITION**

December 31, 2009

**ASSETS**

**CURRENT ASSETS**

Cash		\$ 2,257,944
Certificates of deposit		4,632,846
Prepaid expenses		10,709
Pledges receivable		120,000
Accounts receivable		<u>181,029</u>

**TOTAL CURRENT ASSETS** 7,202,528

**PROPERTY AND EQUIPMENT**

Computer equipment	\$ 64,882	
Office equipment	83,619	
Leasehold improvements	<u>56,631</u>	
	205,132	
Accumulated depreciation	<u>(101,819)</u>	103,312

**OTHER ASSETS**

Beneficial interest in assets held by others	166,374	
Deposit	<u>275</u>	<u>166,649</u>
		<u>\$ 7,472,490</u>

See the accompanying notes to the financial statements.

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 33,796	
Deferred revenue	<u>122,551</u>	

<b>TOTAL CURRENT LIABILITIES</b>		156,346
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**NET ASSETS**

Unrestricted	\$ 2,055,722	
Temporarily restricted	3,018,435	
Permanently restricted	<u>2,241,986</u>	<u>7,316,144</u>

\$ 7,472,490

FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

**STATEMENT OF ACTIVITIES**

Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
Contributions and grants	\$ 376,637	\$ 664,460	\$ 1,038,551	\$ 2,079,648
Less: Amounts designated by donors for other organizations	0	(180,100)	0	(180,100)
License plate revenue:				
State of Tennessee	441,422	0	0	441,422
State of North Carolina	387,980	0	0	387,980
Special events, net of direct expenses	356,830	0	0	356,830
In-kind contributions	135,241	0	0	135,241
Investment income net of expenses	137,611	0	55,832	193,442
Retail sales	689	0	0	689
Miscellaneous	11,353	0	0	11,353
	<u>1,847,763</u>	<u>484,360</u>	<u>1,094,382</u>	<u>3,426,506</u>
Net assets released from restrictions	538,814	(538,814)	0	0
	<u>2,386,577</u>	<u>(54,454)</u>	<u>1,094,382</u>	<u>3,426,506</u>
<b>EXPENSES</b>				
Program services:				
Park projects	1,150,515	0	0	1,150,515
Salaries	89,194	0	0	89,194
Payroll taxes	6,823	0	0	6,823
Rent	7,388	0	0	7,388
Insurance	7,744	0	0	7,744
Office	1,611	0	0	1,611
Computer	2,072	0	0	2,072
Travel	4,802	0	0	4,802
Utilities	1,301	0	0	1,301
Telephone	2,729	0	0	2,729
	<u>1,274,179</u>	<u>0</u>	<u>0</u>	<u>1,274,179</u>

FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

**STATEMENT OF ACTIVITIES**

(continued)

Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Management and general:				
Salaries	121,087	0	0	121,087
Payroll taxes	9,263	0	0	9,263
Rent	10,030	0	0	10,030
Utilities	1,766	0	0	1,766
Insurance	10,513	0	0	10,513
Telephone	3,704	0	0	3,704
Accounting and legal	13,000	0	0	13,000
Bank charges	12,993	0	0	12,993
Computer services	2,813	0	0	2,813
Meals and entertainment	3,937	0	0	3,937
Supplies	2,187	0	0	2,187
Postage	19,259	0	0	19,259
Staff	1,466	0	0	1,466
Professional services	25,855	0	0	25,855
Repairs and maintenance	4,228	0	0	4,228
Dues and subscriptions	4,393	0	0	4,393
Travel	8,098	0	0	8,098
Printing	6,019	0	0	6,019
Depreciation	9,954	0	0	9,954
Board	4,780	0	0	4,780
Volunteer support	4,811	0	0	4,811
Miscellaneous	5,221	0	0	5,221
	<u>285,377</u>	<u>0</u>	<u>0</u>	<u>285,377</u>

FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

**STATEMENT OF ACTIVITIES**

(continued)

Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Fundraising:				
Salaries	178,420	0	0	178,420
Payroll taxes	13,953	0	0	13,953
Rent	14,779	0	0	14,779
Utilities	2,602	0	0	2,602
Insurance	15,491	0	0	15,491
Telephone	5,458	0	0	5,458
Office	3,223	0	0	3,223
Printing	38,927	0	0	38,927
Computer	4,145	0	0	4,145
Travel	9,605	0	0	9,605
Advertising and promotion	105,486	0	0	105,486
Gifts	8,600	0	0	8,600
Newsletter	9,962	0	0	9,962
Public relations	44,766	0	0	44,766
Telethon	41,680	0	0	41,680
Resale items	298	0	0	298
	<u>497,396</u>	<u>0</u>	<u>0</u>	<u>497,396</u>
	<u>2,056,953</u>	<u>0</u>	<u>0</u>	<u>2,056,953</u>
<b>CHANGE IN NET ASSETS</b>	329,625	(54,454)	1,094,382	1,369,553
<b>NET ASSETS AT THE BEGINNING OF THE YEAR</b>	<u>1,726,097</u>	<u>3,072,889</u>	<u>1,147,604</u>	<u>5,946,590</u>
<b>NET ASSETS AT THE END OF THE YEAR</b>	<u>\$ 2,055,722</u>	<u>\$ 3,018,435</u>	<u>\$ 2,241,986</u>	<u>\$ 7,316,144</u>

See the accompanying notes to the financial statements.



FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

**STATEMENT OF CASH FLOWS**

Year Ended December 31, 2009

<b>CASH PROVIDED(USED) BY OPERATING ACTIVITIES</b>		<b>\$ 1,369,553</b>
Change in net assets		\$ 1,369,553
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	\$ 9,954	
Decrease(increase) in:		
Prepaid expenses	19,738	
Accounts receivable	(40,199)	
Increase(decrease) in:		
Accounts payable	1,120	
Deferred revenue	(1,774)	<u>(11,161)</u>
 <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		 <b>1,358,392</b>
 <b>CASH PROVIDED(USED) BY INVESTING ACTIVITIES</b>		
(Increase) in:		
Certificates of deposit	(1,078,417)	
Beneficial interest in assets held by others	(25,778)	<u>(1,104,195)</u>
 <b>NET CASH (USED) BY INVESTING ACTIVITIES</b>		 <u>(1,104,195)</u>
<b>NET INCREASE IN CASH</b>		<b>254,197</b>
 <b>CASH AT THE BEGINNING OF THE YEAR</b>		 <u>2,003,745</u>
 <b>CASH AT THE END OF THE YEAR</b>		 <u><u>\$ 2,257,944</u></u>

See the accompanying notes to the financial statements.

## FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

### NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

#### **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.

FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2009

Financial Instruments

The following methods and assumptions were used by Friends of the Smokies in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, and accounts receivable: The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.

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 2009 was \$9,954.

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.

FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2009

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

The 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.

FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2009

**NOTE D - 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.

Rent expense for 2009 was \$32,197, net of sublease income.

Future minimum lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 40,716
2011	23,751

**NOTE E - 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, 2009, Friends of the Smokies had no major concentrations of credit risk except for uninsured bank deposits.

FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2009

**NOTE F - 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, 2009 are as follows:

Program services: Toyota vehicles for National Park Service	\$ 24,162
Fundraising:	
Special events food and lodging	5,757
Marketing and promotion	94,109
Management and general:	
Consulting services	6,265
Maintenance	3,050
Other	<u>1,898</u>
	<u>\$ 135,241</u>

**NOTE G – TEMPORARILY RESTRICTED NET ASSETS**

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

Smokies Fund	\$ 1,131,635
National Park Service	603,545
Greenbriar renovations	360,261
Log Cabin renovations	10,150
Trails Now	150,088
Parks as Classrooms	614,577
Scholarships	41,784
Brook Trout restoration	53,897
Purchase Knob-Burroughs Welcome	17,840
Hemlock Preservation and Beetle Lab	13,716
Oconoluftee Visitor Center	20,000
Other	<u>941</u>
	<u>\$ 3,018,435</u>

FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2009

**NOTE H - NET ASSETS RELEASED FROM RESTRICTIONS**

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

	Release of Temporarily Restricted <u>Net Assets</u>	Unrestricted <u>Net Assets</u>	<u>Total</u>
Park amenities/facility improvements	\$ 98,670	\$ 154,540	\$ 253,210
Appalachian Bear Center	0	20,000	20,000
Air/water quality research	0	500	500
All Taxa Biodiversity Inventory	0	25,000	25,000
Trail and shelter management	43,429	224,532	267,960
Hemlock preservation	32,080	32,280	64,360
Parks as Classrooms	307,430	74,948	382,378
Great Smoky Mountains Institute at Tremont:			
Annual support	0	17,375	17,375
Grants received and paid out	1,896	0	1,896
Cades Cove projects	32,280	0	32,280
Brook trout restoration	6,506	0	6,506
Purchase Knob Science Learning Center	11,072	20,949	32,020
Frasier Fir preservation	2,500	0	2,500
Other park wide initiatives	<u>2,952</u>	<u>41,575</u>	<u>44,527</u>
	<u>\$ 538,814</u>	<u>\$ 611,701</u>	<u>\$ 1,150,515</u>

FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2009

**NOTE I – 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, 2009, all endowment net assets are permanently restricted, the income from which is expendable to support the following purposes:

Brook Trout restoration	\$ 14,201
Trail maintenance	41,095
Foothill Striders	8,318
Scholarships	42,080
Trails Forever endowment	<u>1,969,917</u>
	2,075,610
Funds held by others for the benefit of Friends of Great Smoky Mountains National Park:	
Community Foundation of Western North Carolina	67,324
East Tennessee Foundation	<u>99,050</u>
	<u>166,374</u>
	<u>\$ 2,241,986</u>

**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:



FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2009

- (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 is made in accordance with donor stipulations. Distributions from the endowment for the year ended December 31, 2009 were \$1,530.

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, 2009 were \$900,000.

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 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 if, 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.

FRIENDS OF GREAT SMOKY MOUNTAINS NATIONAL PARK

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

December 31, 2009

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 Community Foundation of Western North Carolina for the year ended December 31, 2009 are as follows:

	<u>Total</u>
Balance at December 31, 2008	\$ 140,595
Interest	3,840
Unrealized gain	13,612
Realized gain	11,662
Endowment Fees	(1,804)
Distribution for park projects	<u>(1,530)</u>
Balance at December 31, 2009	<u>\$ 166,374</u>

Changes in endowment net assets held by Friends of the Smokies for the year ended December 31, 2009 are as follows,

	<u>Total</u>
Balance at December 31, 2008	\$ 1,007,007
Interest	30,054
Contributions	<u>1,038,551</u>
Balance at December 31, 2009	<u>\$ 2,075,610</u>

**NOTE J – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through April 16, 2010, which is the date the financial statements were available to be issued.