

2016
Financial Statements
With
Auditor's Letters

BOYS & GIRLS CLUBS OF MIDDLE TENNESSEE

FINANCIAL STATEMENTS

DECEMBER 31, 2016

WITH SUMMARIZED COMPARATIVE TOTALS AS OF DECEMBER 31, 2015

(With Independent Auditor's Report Thereon)

BOYS & GIRLS CLUBS OF MIDDLE TENNESSEE
FINANCIAL STATEMENTS
DECEMBER 31, 2016
WITH SUMMARIZED COMPARATIVE TOTALS AS OF DECEMBER 31, 2015

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PATTERSON, HARDEE & BALLENTINE, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of the Boys & Girls Clubs of Middle Tennessee

We have audited the accompanying financial statements of the Boys & Girls Clubs of Middle Tennessee (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows 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 Boys & Girls Clubs of Middle Tennessee as of December 31, 2016, 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.

Report on Summarized Comparative Information

We have previously audited the Boys & Girls Clubs of Middle Tennessee's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Patterson Harder & Bellentine

March 28, 2017
(except for Note 2, as to
which the date is June 14, 2017)

BOYS & GIRLS CLUBS OF MIDDLE TENNESSEE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
WITH SUMMARIZED COMPARATIVE TOTALS AS OF DECEMBER 31, 2015

	<u>ASSETS</u>	
	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash and cash equivalents	\$ 663,198	\$ 968,872
Grants and contracts receivable	77,373	76,656
Contributions receivable, net	97,119	58,306
Prepaid expenses and deposits	41,792	24,461
Investments	<u>328,018</u>	<u>132,206</u>
Total current assets	<u>1,207,500</u>	<u>1,260,501</u>
Property and Equipment - net	<u>1,449,741</u>	<u>1,218,142</u>
Assets Held for Sale - net	<u>29,965</u>	<u>29,965</u>
Assets Whose Use is Limited:		
Cash	151,524	62,704
Grants receivable	55,058	57,614
Restricted pledges, net	78,547	-
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	28,981	26,608
Investments	938,498	927,298
Membership rights - net of amortization	7,500	37,500
Capital campaign assets:		
Cash	<u>758,737</u>	<u>758,324</u>
Total assets whose use is limited	<u>2,018,845</u>	<u>1,870,048</u>
	<u>\$ 4,706,051</u>	<u>\$ 4,378,656</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Note payable - current portion	\$ 39,229	\$ -
Accounts payable	42,245	32,928
Accrued expenses	<u>81,047</u>	<u>53,537</u>
Total current liabilities	162,521	86,465
Note payable	<u>269,200</u>	<u>-</u>
Total liabilities	<u>431,721</u>	<u>86,465</u>
Net Assets:		
Unrestricted	<u>2,255,485</u>	<u>2,422,143</u>
Restricted Net Assets:		
Temporarily restricted	1,051,366	904,942
Permanently restricted	<u>967,479</u>	<u>965,106</u>
Total restricted net assets	<u>2,018,845</u>	<u>1,870,048</u>
Total Net Assets	<u>4,274,330</u>	<u>4,292,191</u>
	<u>\$ 4,706,051</u>	<u>\$ 4,378,656</u>

See accompanying notes to financial statements.

BOYS & GIRLS CLUBS OF MIDDLE TENNESSEE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015

	2016			Total	Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
Public Support and Revenue:					
Individual gifts and contributions	\$ 701,694	\$ 178,547	\$ 1,000	\$ 881,241	\$ 752,467
Grants and contracts	746,985	19,035	-	766,020	652,957
United Way grants, allocations, and designations	21,534	103,750	-	125,284	113,656
Special events	593,821	-	-	593,821	701,462
Program service fees	520,948	-	-	520,948	414,062
Donated rent	107,267	-	-	107,267	48,790
Investment income (loss) - net	(5,499)	89,717	1,373	85,591	19,170
Other, net of \$38,118 direct expenses	58,643	-	-	58,643	18,798
Net assets released from restrictions	244,625	(244,625)	-	-	-
Total public support and revenue	2,990,018	146,424	2,373	3,138,815	2,721,362
Expenses:					
Program services:					
Comprehensive Youth Development	2,541,264	-	-	2,541,264	2,351,474
Supporting services:					
Management and general	310,457	-	-	310,457	232,062
Fundraising	304,955	-	-	304,955	281,353
Total expenses	3,156,676	-	-	3,156,676	2,864,889
Increase (decrease) in net assets	(166,658)	146,424	2,373	(17,861)	(143,527)
Net assets - beginning of year	2,422,143	904,942	965,106	4,292,191	4,435,718
Net assets - end of year	\$ 2,255,485	\$ 1,051,366	\$ 967,479	\$ 4,274,330	\$ 4,292,191

See accompanying notes to financial statements.

BOYS & GIRLS CLUBS OF MIDDLE TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015

	2016				
	Program Services	Supporting Services			
	Comprehensive Youth Development	Management and General	Fundraising	Total 2016	Total 2015
Salaries	\$ 1,367,632	\$ 149,815	\$ 91,096	\$ 1,608,543	\$ 1,368,841
Employee taxes & benefits	188,093	24,225	14,898	227,216	215,968
Total payroll & related expenses	1,555,725	174,040	105,994	1,835,759	1,584,809
Awards and grants	3,236	-	-	3,236	1,656
Communications	15,393	2,110	-	17,503	15,078
Bad debt	-	-	-	-	102,400
Increase in allowance for doubtful accounts	15,000	-	-	15,000	7,625
Depreciation & amortization	102,244	2,087	30,000	134,331	103,684
Equipment rental and maintenance	43,056	8,240	-	51,296	76,770
Field trips & other youth events	32,319	-	-	32,319	59,312
In-kind expense	107,267	-	-	107,267	48,790
Interest expense	10,043	-	-	10,043	-
Marketing	11,792	-	5,054	16,846	10,309
Membership dues	28,038	2,184	-	30,222	42,475
Miscellaneous	13,650	51,243	2,093	66,986	17,853
Postage	467	1,403	467	2,337	2,048
Professional fees	70,781	25,864	4,456	101,101	85,301
Special events	90,965	-	155,463	246,428	229,704
Supplies	168,566	10,846	173	179,585	192,261
Training and conferences	19,669	14,668	-	34,337	25,928
Transportation	57,696	-	-	57,696	54,841
Travel and mileage	7,665	1,597	1,198	10,460	10,507
Utilities and occupancy costs	187,692	16,175	57	203,924	193,538
	<u>\$ 2,541,264</u>	<u>\$ 310,457</u>	<u>\$ 304,955</u>	<u>\$ 3,156,676</u>	<u>\$ 2,864,889</u>

See accompanying notes to financial statements.

BOYS & GIRLS CLUBS OF MIDDLE TENNESSEE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Decrease in net assets	\$ (17,861)	\$ (143,527)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	134,331	103,684
Realized gain (loss) on investments	12,801	(58,231)
Adjustments to allowance	(11,720)	7,625
Bad debts	39,790	102,400
Present value discount	(13,070)	(3,894)
Dividends and interest reinvested	-	(6,011)
Unrealized gains on investments	(72,756)	81,892
Noncash donation	-	(275)
Change in value of beneficial interest in agency endowment fund	(2,373)	(414)
Changes in:		
Grants and contracts receivable	(717)	(33,103)
Contributions receivable, net	(53,813)	(7,660)
Prepaid expenses and deposits	(17,331)	(10,519)
Assets whose use is limited	(171,053)	85,143
Accounts payable	9,317	(42,464)
Accrued expenses	27,510	(5,030)
Total adjustments	(119,084)	213,143
Net cash provided by (used in) operating activities	(136,945)	69,616
Cash Flows From Investing Activities:		
Proceeds from sale of investment	532,393	299,228
Purchase of investments	(673,621)	-
Purchase of property and equipment	-	(90,695)
Net cash provided by (used in) investing activities	(141,228)	208,533
Cash Flows From Financing Activities:		
Payments on long-term debt	(27,501)	-
Net cash used in financing activities	(27,501)	-
Net increase (decrease) in cash	(305,674)	278,149
Cash and cash equivalents - beginning of year	968,872	690,723
Cash and cash equivalents - end of year	\$ 663,198	\$ 968,872

Supplemental Cash Flow Information

Interest paid during the year ended December 31, 2016 and 2015, was \$10,043 and \$0, respectively.
A loan of \$335,930 was used to finance the purchase of four vehicles.

See accompanying notes to financial statements.

BOYS & GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
WITH SUMMARIZED COMPARATIVE TOTALS AS OF DECEMBER 31, 2015

NOTE 1 – Summary of Significant Accounting Policies

Nature of Activities

In these notes, the terms "Organization", "we", "us" or "our" mean Boys & Girls Clubs of Middle Tennessee. We have chosen to present our name how it is recognized nationally as "Boys & Girls Clubs of Middle Tennessee," rather than our official name of "Boys and Girls Clubs of Middle Tennessee" in accordance with the Secretary of State. We are a nonprofit organization affiliated with the Boys & Girls Clubs of America. Founded in 1917, the Boys & Girls Clubs of Middle Tennessee consist of eight Club facilities throughout the region. The goal of the organization is to enable all young people, especially those who need us most, to reach their full potential as productive, caring, and responsible citizens. We strive to improve each child's life by instilling in them a sense of competence, usefulness, belonging, and power/influence. We focus on three priority outcomes: academic success, healthy lifestyles, good character and citizenship.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, our net assets and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may, or will be, met by our actions and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by us. Generally, the donors of these assets permit us to use all or part of the income earned and any related investments for general or specific purposes.

Prior Year Summarized Financial Information

While comparative information is not required under United States generally accepted accounting principles ("US GAAP"), we believe this information is useful and have included certain summarized financial information from our 2015 financial statements. Such summarized information is not intended to be a complete presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with our financial statements as of and for the year ended December 31, 2015, from which it was derived.

Reclassifications

Certain reclassifications of prior year summarized amounts have been made to conform to the current year presentation.

Revenue

We recognize revenue as it is received or promised to us in accordance with generally accepted accounting principles for non-profit organizations.

BOYS & GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
WITH SUMMARIZED COMPARATIVE TOTALS AS OF DECEMBER 31, 2015

NOTE 1 – Summary of Significant Accounting Policies (continued)

Cash Equivalents

For the purposes of the Statement of Cash Flows, we consider all unrestricted cash and investment instruments purchased with an original maturity date of ninety days or less from the date of issuance to be a cash equivalent. At December 31, 2016, we had cash equivalents in the amount of \$34,837. At December 31, 2015, we had cash equivalents in the amount of \$157,641.

Contributions Receivable

Unconditional promises to give (pledges) are recognized as contribution revenue when the donor's commitment is received. Pledges with payments due to us in future periods are recorded as increases in temporarily restricted or permanently restricted net assets at the estimated present value of future cash flows, net of an allowance for estimated uncollectible promises. Allowance is made for uncollectible contributions receivable based upon our analysis of past collection experience and other judgmental factors. At December 31, 2016 and 2015, an allowance of \$25,000 and \$36,720, respectively, was considered necessary.

In contrast to unconditional promises as described above, conditional promises are not recorded until donor contingencies are substantially met.

Grant Receivable

We recognize grant revenue when the grant is awarded. At December 31, 2016 and 2015, no allowance was considered necessary for uncollectible grant receivables based upon our analysis of past collection experience with grantors.

Prepaid expenses

Prepaid expenses consist of insurance premiums paid by us in advance.

Property and Equipment

Property and equipment is recorded at cost, or, if donated, at the estimated fair market value at the date of donation. Our capitalization policy is to capitalize any expenditure over \$5,000 for property and equipment, and any expenditure over \$500 for leasehold improvements. Depreciation is provided utilizing the straight-line method over the estimated useful lives of the respective assets. Expenditures for repairs and maintenance are charged to expense as incurred.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. At December 31, 2016 and 2015, no assets were considered to be impaired.

Functional Allocation of Expenses

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

Advertising

Advertising is expensed as incurred. Total advertising expense for the years ended December 31, 2016 and 2015, was \$16,846 and \$10,309, respectively.

BOYS & GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
WITH SUMMARIZED COMPARATIVE TOTALS AS OF DECEMBER 31, 2015

NOTE 1 – Summary of Significant Accounting Policies (continued)

Donated Services and Goods

Donated services are recognized if they create or enhance non-financial assets, or the donated service requires specialized skills, was performed by a donor who possesses such skills, and would have been purchased by us if not donated. Such services are recognized at fair value as support and expense in the period the services are performed.

We received donated rent for the years ended December 31, 2016 and 2015, of \$107,267 and \$48,790, respectively. See Note 13.

Income Taxes

We are a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code and are classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements. We do not believe there are any uncertain tax positions. Further, we do not believe that we have any unrelated business income, which would be subject to federal taxes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Values of Financial Instruments

The carrying values of current assets and current liabilities approximate fair values due to short maturities of these instruments.

NOTE 2 – Contributions Receivable

Contributions receivable consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Due in less than one year	\$ 132,119	\$ 68,306
Due in one or more years	<u>90,000</u>	<u>39,790</u>
	222,119	108,096
Less: discounts to net present value	(21,453)	(13,070)
Less: allowance for doubtful accounts	<u>(25,000)</u>	<u>(36,720)</u>
Net contributions receivable	<u>\$ 175,666</u>	<u>\$ 58,306</u>

BOYS & GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
WITH SUMMARIZED COMPARATIVE TOTALS AS OF DECEMBER 31, 2015

NOTE 2 – Contributions Receivable (continued)

Contributions receivable as shown on the financial statements as follows at December 31:

	2016	2015
Contributions receivable, net	\$ 97,119	\$ 58,306
Restricted pledges, net	78,547	-
Net contributions receivable	<u>\$ 175,666</u>	<u>\$ 58,306</u>

As of March 28, 2017, no capital expenditure commitments have been made.

Gross restricted pledges receivable of \$100,000 for golf membership renewal rights in 2017 have been discounted for the time value of money using a discount rate of 4.65%. The rate was determined using the interest method after an allowance had been established. The net restricted pledges for the golf membership rights at December 31, 2016 was \$78,547.

NOTE 3 – Investments

Investments consisted of the following at December 31:

	2016		2015	
	Market Value	Cost	Market Value	Cost
LLC Ownership	\$ 127,130	\$ 133,506	\$ 132,206	\$ 133,506
Equity	786,673	658,693	656,930	616,721
Fixed Income Taxable	277,448	278,835	192,252	195,286
Real Estate	65,176	66,265	52,874	53,071
Commodities	10,089	9,711	25,242	30,223
	<u>1,266,516</u>	<u>\$ 1,147,010</u>	<u>1,059,504</u>	<u>\$ 1,028,807</u>
Less: restricted investments	<u>(938,498)</u>		<u>(927,298)</u>	
	<u>\$ 328,018</u>		<u>\$ 132,206</u>	

Investment income (loss) consisted of the following for the years ended December 31:

	2016	2015
Interest and dividend income	\$ 36,149	\$ 15,407
Realized gain (loss) - net	(12,801)	107,459
Unrealized gain (loss) - net	72,756	(88,330)
Investment fees	<u>(11,886)</u>	<u>(15,366)</u>
Investment income - net	<u>\$ 84,218</u>	<u>\$ 19,170</u>

BOYS & GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
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NOTE 3 – Investments (continued)

At December 31, 2016, our investments were held in a trust, we are the sole beneficiary of this trust.

At December 31, 2016, we owned units of ownership in a limited liability company (LLC). Our ownership is a result of a contribution made in 2010.

We have elected to report other investments that do not have a readily determinable value, at carrying value, except those for which the fair value option has been elected.

We have recognized our LLC ownership interest at fair market value in accordance with generally accepted accounting principles under the fair value option. The fair value of the ownership interest is measured annually based on the values of the underlying investment held in the LLC. As of December 31, 2016 and 2015, the fair value of this ownership interest was \$127,130 and \$132,206, respectively.

NOTE 4 – Fair Value Measurements

We use a framework for measuring fair value and disclosing fair values. We define fair value at the price which would be received to sell an asset in an orderly transaction between market participants at the measurement date. We use this framework for all assets and liabilities measured and reported on a fair value basis and enable the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Each asset and liability carried at fair value is classified into one of the following categories:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Observable market based inputs or unobservable inputs corroborated by market data
- Level 3 - Unobservable inputs not corroborated by market data.

The following table summarizes our financial assets measured at fair value on a recurring basis segregated by level of valuation inputs within the fair value hierarchy utilized to measure fair value as of December 31, 2016:

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Common Stocks-Public	\$ 786,673	\$ 786,673	\$ 786,673	\$ -	\$ -
LLC Ownership	127,130	127,130	-	127,130	-
Fixed Income Taxable	277,448	277,448	277,448	-	-
Real Estate	65,176	65,176	65,176	-	-
Commodities	10,089	10,089	10,089	-	-
Beneficial interest in agency endowment fund	28,981	28,981	-	-	28,981
	<u>\$ 1,295,479</u>	<u>\$ 1,295,479</u>	<u>\$ 1,139,386</u>	<u>\$ 127,130</u>	<u>\$ 28,981</u>

BOYS & GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
WITH SUMMARIZED COMPARATIVE TOTALS AS OF DECEMBER 31, 2015

NOTE 4 – Fair Value Measurements (continued)

As shown on the financial statements as follows at December 31:

	<u>2016</u>	<u>2015</u>
Unrestricted investments	\$ 328,018	\$ 132,206
Restricted investments	<u>938,498</u>	<u>927,298</u>
	1,266,516	1,059,504
Beneficial interest in agency endowment fund	<u>28,981</u>	<u>26,608</u>
	<u>\$ 1,295,479</u>	<u>\$ 1,086,112</u>

The following table summarizes our financial assets measured at fair value on a recurring basis segregated by level of valuation inputs within the fair value hierarchy utilized to measure fair value as of December 31, 2015:

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common Stocks-Public	\$ 656,930	\$ 656,930	\$ 656,930	\$ -	\$ -
LLC Ownership	132,206	132,206	-	132,206	-
Fixed Income Taxable	192,252	192,252	192,252	-	-
Real Estate	52,874	52,874	52,874	-	-
Commodities	25,242	25,242	25,242	-	-
Beneficial interest in agency endowment fund	<u>26,608</u>	<u>26,608</u>	<u>-</u>	<u>-</u>	<u>26,608</u>
	<u>\$ 1,086,112</u>	<u>\$ 1,086,112</u>	<u>\$ 927,298</u>	<u>\$ 132,206</u>	<u>\$ 26,608</u>

There were no transfers between Level 1, Level 2, and Level 3 investments during the years ended December 31, 2016 and 2015.

A reconciliation of changes in the amounts reported for the asset valued using Level 3 inputs is included in Note 9.

NOTE 5 – Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 26,530	\$ 26,530
Buildings and improvements	1,962,982	1,962,982
Vehicles	652,495	316,565
Furniture, equipment and software	<u>504,890</u>	<u>504,890</u>
	3,146,897	2,810,967
Less accumulated depreciation	<u>(1,697,156)</u>	<u>(1,592,825)</u>
Net property and equipment	<u>\$ 1,449,741</u>	<u>\$ 1,218,142</u>

BOYS & GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
WITH SUMMARIZED COMPARATIVE TOTALS AS OF DECEMBER 31, 2015

NOTE 5 – Property and Equipment (continued)

Total depreciation expense for the years ended December 31, 2016 and 2015, was \$104,331 and \$73,684, respectively.

The Thompson Lane facility is not currently in use and has a net book value of \$29,965 as of December 31, 2016. This fixed asset is segregated on the face of the financials. See NOTE 18.

NOTE 6 – Membership Rights

During 2007, we entered into a membership purchase agreement with the Golf Club of Tennessee (the "Club") and paid \$300,000 for membership rights. We received a restricted contribution to finance the membership, which allows for 10 years of annual fundraising golf tournaments at the Club and the right to unlimited use of the Club's facilities for the cultivation and solicitation of donors. We have no equity or ownership or any other property interest in the Club. We are amortizing the cost of the membership rights over the term of the agreement. For the years ended December 31, 2016 and 2015, we reported amortization expense of \$30,000.

Amortization expense will be \$30,000 each year for the years 2015 and 2016, respectively, and \$7,500 for the year 2017. See Note 7 for inclusion of membership rights, net of amortization. See Note 20 for subsequent events.

NOTE 7 – Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Scholarship - Youth of the Year	\$ 30,156	\$ 30,147
United Way of Williamson County	51,250	50,000
City of Franklin grant	3,808	7,615
Ray White Fund	20,360	20,350
Golf Membership Renewal	178,547	-
Membership rights - net of amortization	7,500	37,500
Scholarships	1,008	1,008
Capital Campaign	<u>758,737</u>	<u>758,322</u>
	<u>\$ 1,051,366</u>	<u>\$ 904,942</u>

NOTE 8 – Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Beneficial interest in agency endowment fund	\$ 28,981	\$ 26,608
Endowment fund	<u>938,498</u>	<u>938,498</u>
	<u>\$ 967,479</u>	<u>\$ 965,106</u>

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NOTE 9 – Beneficial Interest in Agency Endowment Fund

In the years ended December 31, 2016 and 2015, the Community Foundation of Middle Tennessee, (the Foundation) a non-profit organization, is in control of an endowment fund for us. The endowment has been recorded as permanently restricted. The Foundation has ultimate authority and control over all property of the fund and the income derived therefrom. The endowment is considered a reciprocal transfer and is therefore recorded as an asset on our Statement of Financial Position.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

Since the Foundation has control over the fund and the earnings, we have not established an investment policy for the fund nor have we established policies for expenditures from the fund. We are not aware of any deficiencies in the fair value of assets in the fund as compared to the required amounts by the donors. We recognize contribution income when the Foundation makes a distribution to us. We recognize investment earnings and fees in the Statement of Activities, as they are reported to us by the Foundation.

The following is the balance and activity reported in our financial statements for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Balance - beginning of period	\$ 26,608	\$ 27,149
Change in value of beneficial interest in agency endowment fund:		
Contributions	1,000	275
Investment income	1,621	(552)
Administrative expenses	<u>(248)</u>	<u>(264)</u>
Total change in value of beneficial interest in agency endowment fund	<u>2,373</u>	<u>(541)</u>
Balance - end of period	<u>\$ 28,981</u>	<u>\$ 26,608</u>

NOTE 10 – Endowment Funds

Our endowment consists of funds established by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. Our permanently restricted endowment funds are based on the spending policies described below which follow the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and the State of Tennessee's State Uniform Prudent Management of Institutional Funds Act (SUPMIFA).

Financial accounting standards provide guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. Financial accounting standards also require additional disclosures about our endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not we are subject to UPMIFA.

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NOTE 10 – Endowment Funds (continued)

Interpretation of applicable law - The Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, we classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) 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 us in a manner consistent with the standard of prudence prescribed by UPMIFA.

Spending policy - we have a policy of appropriating for distribution each year a payout equal to the total earnings from the funds. Funds released from restriction as of December 31, 2016, were \$(89,283). Funds released from restriction as of December 31, 2015, were \$(16,692).

Investment return objective, risk parameters and strategies - The objective of our endowment portfolio is a balanced approach between equities and fixed income securities. The investment horizon is long-term and balances the need for income and growth. The portfolio allows for a 30% to 70% investment in equities and a 30% to 70% investment in fixed income.

At December 31, 2016, our investments were held in a trust, we are the sole beneficiary of this trust.

A schedule of endowment net asset composition by type of fund as of December 31, 2016, is as follows:

	<u>Unrestricted (Deficit)</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds	\$ 235,725	\$ -	\$ 938,498	\$ 1,174,223

A schedule of endowment net asset composition by type of fund as of December 31, 2015, is as follows:

	<u>Unrestricted (Deficit)</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds	\$ 146,442	\$ -	\$ 938,498	\$ 1,084,940

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NOTE 11 – Changes in Endowment Fund Net Assets

The following is a schedule of changes in endowment net assets for the years ended December 31:

	Unrestricted (Deficit)	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2015	\$ 533,432	\$ -	\$ 938,498	\$ 1,471,930
Investment income	-	14,983	-	14,983
Administrative expenses	-	(8,979)	-	(8,979)
Net appreciation (realized and unrealized)	(4,669)	(22,696)	-	(27,365)
Amounts sold	(250,000)	-	-	(250,000)
Amounts released from restriction	(16,692)	16,692	-	-
Less: Investment earnings deposited to cash account	16,577	-	-	16,577
Less: Investments not included in endowment	(132,206)	-	-	(132,206)
Endowment net assets, December 31, 2015	\$ 146,442	\$ -	\$ 938,498	\$ 1,084,940
Investment income	-	36,149	-	36,149
Administrative expenses	-	(11,886)	-	(11,886)
Net appreciation (realized and unrealized)	-	65,020	-	65,020
Amounts released from restriction	89,283	(89,283)	-	-
Endowment net assets, December 31, 2016	\$ 235,725	\$ -	\$ 938,498	\$ 1,174,223

NOTE 12 – Joint Costs

During the year ended December 31, 2016, we had certain joint costs pertaining to special events that have been allocated between fundraising and program expense as follows:

	Program	Fundraising	Total
Special events	\$ 90,965	\$ 155,463	\$ 246,428

During the year ended December 31, 2015, we had certain joint costs pertaining to special events that have been allocated between fundraising and program expense as follows:

	Program	Fundraising	Total
Special events	\$ 84,779	\$ 144,925	\$ 229,704

All criteria required to allocate joint costs were met during the years ended December 31, 2016 and 2015.

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NOTE 13 – Leases

We have an agreement with another organization to lease administrative office space and reimburse certain operating costs through June 2016. The agreement calls for a reimbursement of actual costs to operate the facility including association fees, utilities, janitorial costs, insurance, maintenance and other items. Operating costs reimbursable under the agreement include a prorata share of an office services associate, telephone and internet service, consumable supplies and other items. An accounting of the actual costs is prepared on a semi-annual basis and any adjustment from the projected cost to the actual cost is reimbursed at that time. For the years ended December 31, 2016 and 2015, expenses under this agreement totaled \$18,306 and \$21,804, respectively.

On December 1, 2007, we entered into a lease agreement for a club facility that has been extended and expires October 31, 2017. Expenses under this agreement totaled \$13,200 for the year ended December 31, 2016, and \$13,200 for the year ended December 31, 2015.

We also lease various office equipment under operating lease agreements. Equipment rental expense for the years ended December 31, 2016 and 2015, was \$7,779 and \$9,936, respectively, which is included in equipment rental and maintenance on the Statement of Functional Expenses.

Expenses incurred under operating leases for the year ended December 31, 2016, were \$46,920, not including donated rent of \$107,267 from five club locations that we do not have a lease agreement with and one with whom we do. Expenses incurred under operating leases for the year ended December 31, 2015, were \$44,950, not including donated rent of \$48,790. As of the date of this report, the lease for one of the office spaces has not been renewed but has been properly accrued for since it is expected to be renewed.

The following is a schedule of future minimum lease payments:

Year Ending December 31,

2017	\$ 17,684
2018	6,684
2019	6,239
2020	468
Thereafter	<u>-</u>
	<u>\$ 31,075</u>

NOTE 14 – Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents, and various grant, contract and contributions receivables. Grant, contract and contributions receivable represent concentrations of credit risk to the extent they are receivable from concentrated sources.

Four donors represent 73% of total receivables at December 31, 2016. Four donors represent 85% of total receivables at December 31, 2015. Two vendors represent 30% of total accounts payable at December 31, 2016. One vendor represents 39% of total accounts payable at December 31, 2015.

We maintain our cash in bank accounts which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts and do not believe this exposes us to any significant credit risk on our cash.

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NOTE 14 – Concentrations of Credit Risk (continued)

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer that is the custodian of the Organization's securities is covered by the Securities Investor Protection Corporation ("SIPC"), which provides protection to investors in certain circumstances such as fraud or failure of the institution. Coverage is limited to \$500,000, including up to \$250,000 in cash. The SIPC does not insure against market risk.

NOTE 15 – Employee Benefit Plan

Substantially all of our employees are covered by a defined contribution money purchase plan known as the Boys & Girls Clubs of America Master Pension Plan and Trust (the "Plan"). We fund our share of pension expense for the year in quarterly contributions to the Plan.

The plan provides for elective employer contributions. We contribute five percent of eligible employees' annual compensation to the Plan. Employees become eligible to participate on the plan anniversary date if they are at least 21 years of age and have worked at least 1,000 hours in the immediately preceding twelve months. Employee benefits are fully vested after six years of service as a plan participant.

For the year ended December 31, 2016, we contributed \$32,910 to the plan, which is included in employee taxes and fringe benefits on the Statement of Functional Expenses. For the year ended December 31, 2015, we contributed \$27,336 to the plan, which is included in employee taxes and fringe benefits on the Statement of Functional Expenses.

NOTE 16 – Related Parties

We are a locally governed affiliate that is required to pay membership dues to the national organization. In return, we receive support from the national organization which helps fund our programs. During the year ended December 31, 2016, we remitted a total of \$9,155 respectively, in membership dues and received \$366,015 in funding. As of December 31, 2016, we were due \$33,042 from our national affiliate, which is grouped with grants and contract receivable. During the year ended December 31, 2015, we remitted a total of \$8,150 respectively, in membership dues and received \$252,019 in funding. As of December 31, 2015, we were due \$6,072 from our national affiliate, which is grouped with grants and contract receivable.

We are also part of the Tennessee Alliance which is a collective of all Boys & Girls Clubs of Tennessee which raises money to distribute to the Tennessee clubs. During the year ended December 31, 2016, we remitted \$17,796 in membership dues and received funding of \$203,047. As of December 31, 2016, we were due \$50,842 from Tennessee Alliance, which is grouped with grants and contract receivable. During the year ended December 31, 2015, we remitted \$28,689 in membership dues and received funding of \$223,775. As of December 31, 2015, we were due \$19,956 from Tennessee Alliance, which is grouped with grants and contract receivable.

NOTE 17 – Contingencies

From time to time, we may be and have been named as a defendant in lawsuit. At December 31, 2016, we do not believe that any claims have merit and intend to vigorously defend our position. At December 31, 2016, we have not accrued any legal fees.

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NOTE 18 – Held for Sale Assets

At December 31, 2015, we included assets in property, plant, and equipment on the statement of financial position that are held for sale. As of December 31, 2016 the assets were not sold. Accounting principles generally accepted in the United States of America require that assets that are held for sale be recorded as a separate line item on the statement of financial position. The net book value of these assets at December 31, 2016, and 2015, was \$29,965.

NOTE 19 – Long Term Debt

In April 2016, we entered into an agreement to purchase four vehicles for \$335,930. The vehicles are secured by a loan which bears interest annually at 4.650% annually. Until maturity, the loan requires a minimum monthly payment of \$4,693, which will be applied to the monthly interest calculation with any excess applied to principal. The note matures in April 2023, with any unpaid principal due at that time.

<u>Year ending December 31,</u>	
2017	\$ 39,229
2018	44,917
2019	47,050
2020	49,285
2021	51,627
Thereafter	76,321
Total	<u>\$ 308,429</u>

NOTE 20 – Subsequent Events

We have evaluated events subsequent to the year ending December 31, 2016. As of March 28, 2017, the date that the financial statements were available to be issued, we are not aware of any material subsequent events which would require recognition or disclosure in the accompanying financial statements, except as indicated below.

In March 2017, the membership rights at Golf Club of Tennessee will expire. We plan on renewing in the fall of 2017. The renewal price for 10 years will be \$260,000. We have two donors that have pledged to contribute \$100,000 each. As of December 31, 2016, we received \$100,000 from one of the donors. The second donor will contribute the \$100,000 over the life of the membership. See Note 2.