

**MIDDLE TENNESSEE COUNCIL, INC.,
BOY SCOUTS OF AMERICA**

Financial Statements and Schedules

**December 31, 2012
(With Comparative Totals for 2011)**

(With Independent Auditors' Report Thereon)



LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Middle Tennessee Council, Inc., Boy Scouts of America:

We have audited the accompanying financial statements of Middle Tennessee Council, Inc., Boy Scouts of America ("Council") (a not-for-profit organization) which comprise the statement of financial position as of December 31, 2012, 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.

Auditors' 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 of 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 auditors' 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 Middle Tennessee Council, Inc., Boy Scouts of America as of December 31, 2012, 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 Council's 2011 financial statements, and our report dated April 13, 2012 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information in the schedules on pages 24 and 25 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and, except for the information marked "unaudited" on which we express no opinion, was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Brentwood, Tennessee
April 22, 2013

Lattimore Black Morgan + Cain, PC

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statement of Financial Position

December 31, 2012
(With Comparative Amounts for 2011)

	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2012	2011	2012	2011	2012	2011	2012	2011
Assets								
Current assets:								
Cash	\$ 769,182	\$ 496,729	\$ 144,515	\$ 781,658	\$ 93,451	\$ 78,881	\$ 1,007,148	\$ 1,357,268
Accounts receivable	14,476	62,616	-	-	-	-	14,476	62,616
Pledge contributions receivable, net	212,173	333,638	830,874	407,390	-	-	1,043,047	741,028
Inventories	368,663	367,920	-	-	-	-	368,663	367,920
Interfund loans	(2,283)	11,688	(10,744)	(16,315)	13,027	4,627	-	-
Prepaid expenses	195,118	95,208	-	-	-	-	195,118	95,208
Total current assets	1,557,329	1,367,799	964,645	1,172,733	106,478	83,508	2,628,452	2,624,040
Land, buildings and equipment, net	-	-	13,918,289	13,483,078	-	-	13,918,289	13,483,078
Investments	1,777,136	1,732,117	724,736	527,604	11,258,131	10,541,395	13,760,003	12,801,116
Total noncurrent assets	1,777,136	1,732,117	14,643,025	14,010,682	11,258,131	10,541,395	27,678,292	26,284,194
Total assets	\$ 3,334,465	\$ 3,099,916	\$ 15,607,670	\$ 15,183,415	\$ 11,364,609	\$ 10,624,903	\$ 30,306,744	\$ 28,908,234
Liabilities and Net Assets								
Current liabilities:								
Accounts payable	\$ 229,661	\$ 144,842	\$ 17,448	\$ 45,707	\$ -	\$ -	\$ 247,109	\$ 190,549
Camping, activity and other fees designated for future periods	146,341	63,894	-	-	-	-	146,341	63,894
Registration fees payable to National Council	204,864	186,655	-	-	-	-	204,864	186,655
Funds held for others	136,903	189,556	15,987	13,672	-	-	152,890	203,228
Total current liabilities	717,769	584,947	33,435	59,379	-	-	751,204	644,326
Net assets:								
Unrestricted net assets	2,302,604	2,142,159	13,850,340	13,668,652	(550,176)	(1,033,874)	15,602,768	14,776,937
Temporarily restricted net assets	314,092	372,810	1,723,895	1,455,384	727,138	678,050	2,765,125	2,506,244
Permanently restricted net assets	-	-	-	-	11,187,647	10,980,727	11,187,647	10,980,727
Total net assets	2,616,696	2,514,969	15,574,235	15,124,036	11,364,609	10,624,903	29,555,540	28,263,908
Total liabilities and net assets	\$ 3,334,465	\$ 3,099,916	\$ 15,607,670	\$ 15,183,415	\$ 11,364,609	\$ 10,624,903	\$ 30,306,744	\$ 28,908,234

See accompanying notes to the financial statements.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statement of Changes in Net Assets

Year ended December 31, 2012
(With Comparative Totals for 2011)

	2012			Total All Funds	
	Operating Fund	Capital Fund	Endowment Fund	2012	2011
Changes in unrestricted net assets					
Public support and revenue:					
Direct public support:					
Friends of Scouting, including net assets released from expiration of time restriction of \$307,536 in 2012 and \$158,437 in 2011 and net of bad debts of \$154,770 in 2012 and \$162,800 in 2011	\$ 2,503,521	\$ -	\$ -	\$ 2,503,521	\$ 2,389,922
Memorial contributions	-	-	13,462	13,462	18,430
Special events, net of direct costs of \$59,815 in 2012 and \$61,803 in 2011	162,934	-	-	162,934	175,093
Other direct support	9,704	-	-	9,704	13,469
Total direct public support	2,676,159	-	13,462	2,689,621	2,596,914
Indirect public support - United Way, including net assets released from expiration of time restriction of \$65,274 in 2012 and \$63,001 in 2011	178,819	-	-	178,819	178,869
Total public support	2,854,978	-	13,462	2,868,440	2,775,783
Other revenue:					
Sales of supplies, net of cost of goods sold of \$840,705 in 2012 and \$849,230 in 2011	473,759	-	-	473,759	451,509
Camping and related fees	1,200,128	-	-	1,200,128	1,113,073
Activity revenue	332,788	-	-	332,788	291,871
Product sales, net of cost of products sold of \$431,941 in 2012 and \$467,557 in 2011, commissions paid of \$458,959 in 2012 and \$478,320 in 2011 and cost of camp cards of \$19,325 in 2012	558,560	-	-	558,560	530,900
Investment return designated for current operations	584,875	-	-	584,875	467,703
Investment income (loss) not designated	-	58,403	470,236	528,639	(233,381)
Miscellaneous revenue	40,317	-	-	40,317	46,347
Total other revenue	3,190,427	58,403	470,236	3,719,066	2,668,022
Net assets released from restrictions - restrictions satisfied by payments	-	629,926	-	629,926	1,617,776
Total public support and revenue	6,045,405	688,329	483,698	7,217,432	7,061,581

(Continued)

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statement of Changes in Net Assets, Continued

Year ended December 31, 2012

(With Comparative Totals for 2011)

	2012			Total All Funds	
	Operating Fund	Capital Fund	Endowment Fund	2012	2011
Changes in unrestricted net assets, continued					
Expenses:					
Program services	4,977,088	401,302	-	5,378,390	5,225,076
Management and general	241,450	23,517	-	264,967	253,717
Fundraising	597,492	81,821	-	679,313	667,401
Unallocated payments to National Council	68,930	-	-	68,930	68,930
Total operating expenses	5,884,960	506,640	-	6,391,600	6,215,124
Increase in unrestricted net assets	160,445	181,689	483,698	825,832	846,457
Changes in temporarily restricted net assets					
Public support and revenue:					
Direct public support:					
Friends of Scouting	251,583	-	-	251,583	307,536
Development campaign	-	898,436	-	898,436	592,714
Total direct public support	251,583	898,436	-	1,150,019	900,250
Indirect public support - United Way	62,509	-	-	62,509	65,274
Total public support	314,092	898,436	-	1,212,528	965,524
Investment income	-	-	49,088	49,088	19,085
Net assets released from restrictions:					
Expiration of time restriction	(372,810)	-	-	(372,810)	(221,438)
Restrictions satisfied by payments	-	(629,926)	-	(629,926)	(1,617,776)
Total net assets released from restrictions	(372,810)	(629,926)	-	(1,002,736)	(1,839,214)
Increase (decrease) in temporarily restricted net assets	(58,718)	268,510	49,088	258,880	(854,605)

(Continued)

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statement of Changes in Net Assets, Continued

Year ended December 31, 2012
(With Comparative Totals for 2011)

	2012			Total All Funds	
	Operating Fund	Capital Fund	Endowment Fund	2012	2011
Changes in permanently restricted net assets:					
Direct public support	-	-	8,700	8,700	212,973
Investment income (loss)	-	-	198,220	198,220	(150,509)
Increase in permanently restricted net assets	-	-	206,920	206,920	62,464
Increase in net assets	101,727	450,199	739,706	1,291,632	54,316
Net assets at beginning of year	2,514,969	15,124,036	10,624,903	28,263,908	28,209,592
Net assets at end of year	\$ 2,616,696	\$ 15,574,235	\$ 11,364,609	\$ 29,555,540	\$ 28,263,908

See accompanying notes to the financial statements.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statement of Functional Expenses

Year ended December 31, 2012
(With Comparative Totals for 2011)

	2012				Total All Funds	
	Program Services	Supporting Services		Total	2012	2011
		Management and General	General Fundraising			
Employee compensation:						
Salaries	\$ 2,264,258	\$ 104,800	\$ 364,616	\$ 469,416	\$ 2,733,674	\$ 2,738,434
Employment benefits	445,307	20,717	72,079	92,796	538,103	533,626
Payroll taxes	171,055	8,021	27,907	35,928	206,983	199,798
Total compensation expenses	2,880,620	133,538	464,602	598,140	3,478,760	3,471,858
Professional fees	34,278	71,804	7,292	79,096	113,374	110,764
Supplies and general expenses	876,676	3,452	12,008	15,460	892,136	840,803
Telephone	50,377	1,837	6,392	8,229	58,606	55,639
Postage and shipping	42,856	1,819	6,326	8,145	51,001	48,824
Occupancy expenses	395,336	6,858	23,860	30,718	426,054	422,620
Equipment rental and maintenance	115,810	3,604	12,539	16,143	131,953	108,136
Printing and publications	23,721	112	391	503	24,224	23,934
Travel and field operating expenses	234,012	11,209	39,001	50,210	284,222	263,560
Conference and meetings	36,603	2,082	7,241	9,323	45,926	36,738
Specific assistance	106,552	-	-	-	106,552	94,148
Recognition awards	43,956	1,723	5,995	7,718	51,674	56,392
Insurance	108,350	3,598	12,515	16,113	124,463	127,861
Miscellaneous expenses	66,263	1,136	3,931	5,067	71,330	72,480
Total expenses before depreciation	5,015,410	242,772	602,093	844,865	5,860,275	5,733,757
Depreciation and amortization of buildings and equipment	362,980	22,195	77,220	99,415	462,395	412,437
	\$ 5,378,390	\$ 264,967	\$ 679,313	\$ 944,280	\$ 6,322,670	\$ 6,146,194

See accompanying notes to the financial statements.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statement of Cash Flows

Year ended December 31, 2012
(With Comparative Totals for 2011)

	2012			Total All Funds	
	Operating Fund	Capital Fund	Endowment Fund	2012	2011
Cash flows from operating activities:					
Increase (decrease) in net assets	\$ 101,727	\$ 450,199	\$ 739,706	\$ 1,291,632	\$ 54,316
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:					
Depreciation	-	462,395	-	462,395	412,437
(Gain) loss on investments	(143,269)	(41,195)	(801,387)	(985,851)	275,714
Contributions restricted for endowment purposes	-	-	(8,700)	(8,700)	(212,973)
Contributions restricted for capital improvements	-	(898,436)	-	(898,436)	(592,714)
Changes in operating assets and liabilities:					
Pledges and accounts receivable	169,605	-	-	169,605	(202,577)
Inventories	(743)	-	-	(743)	36,880
Interfund loans	13,971	5,571	(8,400)	11,142	-
Prepaid expenses	(99,910)	-	-	(99,910)	(17,621)
Accounts payable	84,819	(28,259)	-	56,560	(67,012)
Camping, activity and other fees designated for future periods	82,447	-	-	82,447	34,806
Registration fees payable to National Council	18,209	-	-	18,209	(35,845)
Funds held for others	(52,653)	2,315	-	(50,338)	(15,032)
Net cash provided (used) by operating activities	174,203	(47,410)	(78,781)	48,012	(329,621)
Cash flows from investing activities:					
Proceeds from sales of investments	161,051	112,063	434,549	707,663	699,292
Purchases of investments	(62,801)	(279,142)	(349,898)	(691,841)	(770,559)
Additions to land, buildings and equipment	-	(897,606)	-	(897,606)	(1,574,515)
Net cash provided (used) by investing activities	98,250	(1,064,685)	84,651	(881,784)	(1,645,782)

(continued)

See accompanying notes to the financial statements.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statement of Cash Flows

Year ended December 31, 2012
(With Comparative Totals for 2010)

	2012			Total All Funds	
	Operating Fund	Capital Fund	Endowment Fund	2012	2011
Cash flows from financing activities:					
Collection of endowment fund support	-	-	8,700	8,700	212,973
Collection of development campaign support	-	474,952	-	474,952	719,464
Net cash provided by financing activities	-	474,952	8,700	483,652	932,437
Net increase (decrease) in cash	272,453	(637,143)	14,570	(350,120)	(1,042,966)
Cash at beginning of year	496,729	781,658	78,881	1,357,268	2,400,234
Cash at end of year	\$ 769,182	\$ 144,515	\$ 93,451	\$ 1,007,148	\$ 1,357,268

See accompanying notes to the financial statements.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2012 and 2011

(1) Nature of Organization

The Middle Tennessee Council, Inc., Boy Scouts of America (the "Council"), provides service to young men ages 7–21, and young women ages 14–21, operates in Nashville, Tennessee, including 37 counties of Middle Tennessee, and Fort Campbell, Kentucky. The Council has five camping facilities. The Council is a not-for-profit organization devoted to promoting, within the territory covered by the charter from time to time granted it by the Boy Scouts of America and in accordance with the congressional program, the ability of boys, young men, and women to do things for themselves and others, training them in Scoutcraft, and teaching them patriotism, courage, and self-reliance. The Council also prepares them to make ethical choices over their lifetimes and achieve their full potential using the methods which are now in common use by the Boy Scouts of America.

The Council's programs are classified as follows:

Tiger Cubs—One-year, family-oriented program for a group of teams, each consisting of a first-grade (or 7-year-old) boy and an adult partner (usually a parent). A tiger cub den is part of the Cub Scout pack.

Cub Scouts—Family and community-centered approach to learning citizenship, compassion, and courage through service projects, ceremonies, games, and other activities promoting character development and physical fitness.

Boy Scouting—With the Scout Oath and Scout Law as guides, and the support of parents and religious and neighborhood organizations, Scouts develop an awareness and appreciation of their role in their community and become well-rounded young men through the advancement of the program. Scouts progress in rank through achievements, gain additional knowledge and responsibilities, and earn merit badges that introduce a lifelong hobby or a rewarding career.

Varsity Scouting—Program for young men ages 14–17 that provides options for those who are looking for rugged high adventure or challenging sporting activities and still want to be a part of a Scouting program that offers the advancement opportunities and values of the Boy Scouts of America. There are five fields of emphasis, including advancement, high adventure/sports, personal development, service, and special programs and events.

Venturing—Provides experiences to help young men and women, ages 14–20, become mature, responsible, caring adults. Young teens learn leadership skills and participate in challenging outdoor activities, including having access to Boy Scout camping properties, a recognition program, and youth-protection training.

Learning for Life—Program to enable young people to become responsible individuals by teaching positive character traits, career development, leadership, and life skills so they can make ethical choices and achieve their full potential.

The Council's website address is www.mtcbsa.org.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2012 and 2011

(2) Summary of significant accounting policies

(a) Fund accounting

To ensure observance of limitations and restrictions placed on the use of available resources, the accounts of the Council are maintained in accordance with the principles of fund accounting. Under such principles, resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives.

The Council also prepares financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205 and subsections. Under ASC 958-205, the Council is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Council is required to present a statement of cash flows.

(b) Contributions

Pledges receivable for contributions are recognized upon notification of a donor's unconditional promise to give to the Council. Unconditional promises to give that are expected to be collected in less than one year are measured at net realizable value because that amount results in a reasonable estimate of fair value. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. 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 are reported in the statement of changes in net assets as assets released from restrictions.

(c) Donated materials and services

Donated land, buildings, equipment, investments and other noncash donations are recorded as contributions at their fair market value at their date of donation. The Council reports the donations as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets must be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Council reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Donated materials totaled \$52,900 in 2012 and \$48,177 in 2011.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2012 and 2011

Donated services that do not require specialized skills or enhance nonfinancial assets are not recorded in the accompanying financial statements because no objective basis is available to measure the value of such services. A substantial number of volunteers have donated significant amounts of their time to the Council's program services and its fundraising campaigns, the value of which is not recorded in the accompanying financial statements.

(d) Advertising

Advertising costs are charged to operations in the period in which the advertisement is placed. Advertising for 2012 and 2011 amounted to approximately \$44,000 and \$49,000, respectively.

(e) Investments

Investments consist primarily of assets invested in marketable equity and debt securities and money-market accounts. The Council accounts for investments in accordance with FASB ASC 958-320 and subsections. This standard requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the statement of financial position. Fair value of marketable equity and debt securities is based on quoted market prices. Investment income shown in the statement of changes in net assets includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment income that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions are met or expire in the year in which the income is recognized. All other donor-restricted investment income is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

(f) Investment policy

The Council's investment policy intends for the Council to invest in assets that would produce results exceeding the investment's purchase price and incur a significant yield of return, while assuming a moderate level of investment risk. The Council expects its Endowment Fund, over time, to provide a reasonable rate of return. To satisfy the long-term rate-of-return objective, the Council relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Council targets a diversified asset allocation that places a greater emphasis on marketable equity and debt securities and money-market accounts to achieve its long-term return objectives within prudent risk constraints.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2012 and 2011

(g) Spending policy

The Board of Directors (through the Executive Committee) has approved an endowment spending policy. The policy defines the total funds available from the Endowment Fund in a given year (the distributable income) as up to 4 percent of the Endowment Fund's average market value over the preceding three years. The Endowment Fund is to have returns greater than the proposed distribution plus management and trustee fees. If the market value of the Endowment Fund falls to or below the amount of the fund's donor restricted gifts, then the spending policy may be amended in accordance with the guidelines not to exceed the actual earnings of the fund. The Executive Committee (subject to the Board of Director's approval) may amend this spending policy.

(h) Accounts receivable

Accounts receivable are recorded primarily for product sales stated at estimated realizable value. An allowance for doubtful accounts is based on an analysis of expected collection rates determined from past history. No allowance for doubtful accounts was considered necessary as of December 31, 2012 and 2011.

(i) Inter-fund loans

The Inter-fund loans at December 31, 2012, result from the Endowment Fund and Operating Fund making advances of surplus cash funds to the Operating Fund and Capital Fund for operating purposes.

(j) Inventories

Inventories consist of Scouting and other items available for resale and is stated at the lower of cost or market. Cost is determined using the average cost method.

(k) Land, buildings, and equipment

Land, buildings, and equipment purchased by the Council are stated at cost. Donated land, buildings, and equipment are recorded at the approximate fair market value of the asset on the date of donation. Improvements or betterments of a permanent nature are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The costs of assets retired or otherwise disposed of, and the related accumulated depreciation and amortization, are eliminated from the accounts in the year of disposal. Gains or losses resulting from disposals of land, buildings, and equipment are credited or charged to operations currently.

Construction in progress represents costs incurred on the construction of assets that have not been completed or placed in service as of the end of the year.

The Council has adopted the practice of capitalizing only expenditures for land, buildings, and equipment in excess of \$10,000. Depreciation and amortization of physical properties is provided over the estimated useful lives of the respective assets on a straight-line basis. Annual depreciation and amortization is charged to the Capital Fund.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2012 and 2011

(l) Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

(m) Functional allocation of expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Costs that are not directly associated with providing specific services have been allocated based upon the relative time spent by employees of the Council providing those services. In accordance with the policy of the National Council of the Boy Scouts of America (the "National Council"), the payment of the charter fee to the National Council is not allocated as a functional expense.

(n) Revenue recognition

Revenue from product and supply sales is recognized when the transaction occurs. Camping and activity revenue is deferred and recognized when the activity takes place.

(o) Realization of long-lived assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(p) Income taxes

The Council is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law as a charitable organization whereby only unrelated business income, as defined by Section 509(a)(1) of the Code is subject to federal income tax. The Council currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Council had no material uncertain tax positions that qualify for either recognition or disclosure in the financial statements as of December 31, 2012 or 2011. It is the Council's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2012 and 2011

As of December 31, 2012 or 2011, the Council has accrued no interest and no penalties related to uncertain tax positions. It is the Council's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Council files U.S. Federal income tax returns. The Council is currently open to audit under the statute of limitations for the years ended after December 31, 2008.

(q) Memorandum totals

The financial statements include certain prior year summarized comparative information in total but not by fund or net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

(r) Events occurring after reporting date

The Council has evaluated events and transactions that occurred between December 31, 2012 and April 22, 2013 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Credit risk and other concentrations

The Council generally maintains cash at financial institutions in excess of the federally insured amount. The Council has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk related to its cash held at financial institutions.

The majority of the Council's public support and revenues are from donors and others in Middle Tennessee. Accordingly, substantially all pledges and accounts receivables are due from such individuals, companies, and organizations. The Council generally does not require collateral to secure receivables.

(4) Assets and liabilities measured at fair value

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). There have been no changes in the fair value methodology used by the Council at December 31, 2012 and 2011.

See Note 7 for presentation of the levels of investments.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2012 and 2011

(5) Pledges receivable

A summary of pledges receivable as of December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Friends of Scouting	\$ 140,664	\$ 257,716
United Way allocations	71,509	75,922
Development campaign	<u>895,334</u>	<u>471,850</u>
	1,107,507	805,488
Less allowance for unamortized discount and doubtful accounts	<u>64,460</u>	<u>64,460</u>
	<u>\$ 1,043,047</u>	<u>\$ 741,028</u>

Pledges receivable at December 31, 2012 are due within one year.

In addition to the development campaign pledges receivable shown above, the Council has been named as a beneficiary of certain estates and life insurance policies in the approximate amount of \$650,000 as of December 31, 2012. Because these are not unconditional promises to give they are not recorded as an asset of the Council.

(6) Investments

A summary of investments as of December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Short-term investments	\$ 273,603	\$ 252,462
Equities and equity funds	10,683,401	9,948,086
Bonds and bond funds	2,262,885	2,057,554
Certificate of deposit	213,745	204,343
Real estate and real estate investment funds	324,268	336,570
Notes receivable - Rock Island	<u>2,101</u>	<u>2,101</u>
	<u>\$ 13,760,003</u>	<u>\$ 12,801,116</u>

The following schedule summarizes the investment income included in the statements of activities for 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 462,603	\$ 458,437
Net gains (losses)	982,391	(275,714)
Investment expenses	<u>(84,172)</u>	<u>(79,825)</u>
	<u>\$ 1,360,822</u>	<u>\$ 102,898</u>

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2012 and 2011

The above investment income is classified in the statement of activities for 2012 and 2011 as follows:

	<u>2012</u>	<u>2011</u>
Unrestricted	\$ 1,113,514	\$ 234,322
Temporarily restricted	49,088	19,085
Permanently restricted	<u>198,220</u>	<u>(150,509)</u>
	<u>\$ 1,360,822</u>	<u>\$ 102,898</u>

(7) Fair value measurements

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011.

- (i) *Short-term investments, equities and equity funds, bonds and bond funds, real estate investment funds, and certificates of deposit:* Valued at the closing price reported on the active market on which the individual securities are traded.
- (ii) *Real estate:* Valued at the estimated fair market price determined by third party appraisal.
- (iii) *Note receivable:* Valued at the outstanding balance, which approximates fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Council's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Council's assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and 2011:

Fair Value Measurements as of December 31, 2012 using the following inputs

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Short-term investments	\$ 273,603	\$ 273,603	\$ -	\$ -
Equities and equity fund	10,683,401	10,683,401	-	-
Bonds and bond fund	2,262,885	2,262,885	-	-
Certificate of deposit	213,745	213,745	-	-
Real estate and real estate investment funds	324,268	12,488	-	311,780
Note receivable - Rock Island	<u>2,101</u>	<u>-</u>	<u>-</u>	<u>2,101</u>
Total financial assets	<u>\$ 13,760,003</u>	<u>\$ 13,446,122</u>	<u>\$ -</u>	<u>\$ 313,881</u>

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2012 and 2011

Fair Value Measurements as of December 31, 2011 using the following inputs

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Short-term investments	\$ 252,462	\$ 252,462	\$ -	\$ -
Equities and equity fund	9,948,086	9,948,086	-	-
Bonds and bond fund	2,057,554	2,057,554	-	-
Certificate of deposit	204,343	204,343	-	-
Real estate and real estate investment funds	336,570	24,790	-	311,780
Note receivable - Rock Island	<u>2,101</u>	<u>-</u>	<u>-</u>	<u>2,101</u>
Total financial assets	\$ <u>12,801,116</u>	\$ <u>12,487,235</u>	\$ <u>-</u>	\$ <u>313,881</u>

There was no change in the value of level 3 investments during 2012 or 2011.

(8) Land, buildings, and equipment

A summary of land, buildings and equipment as of December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Land	\$ 5,602,486	\$ 5,403,981
Council office building	2,989,238	2,989,238
Buildings - Boxwell Reservation, Canoe Base and High Adventure	8,465,645	8,137,434
Roads - Boxwell Reservation	929,760	929,760
Furniture, fixtures and equipment:		
Council office	398,227	350,109
Boxwell Reservation	945,188	934,735
Motor Vehicles	236,965	214,865
Construction in progress	<u>1,175,410</u>	<u>885,191</u>
	20,742,919	19,845,313
Accumulated depreciation and amortization	<u>(6,824,630)</u>	<u>(6,362,235)</u>
	\$ <u>13,918,289</u>	\$ <u>13,483,078</u>

(9) Employee benefit plans

Retirement Plan

The National Council has a qualified defined benefit multiemployer retirement plan that covers eligible employees of the National Council and this Council and is administered by the National Council. The plan name is Boy Scouts of America Master Pension Trust - Boy Scouts of America Retirement Plan for Employees (the "Plan"). Eligible employees contribute 2% of compensation and the council contributes an additional 6.25% to the Plan. Pension expenses for the years ending December 31, 2012 and 2011 totaled \$145,496 and \$131,250, respectively and covered current service costs. The actuarial information for the Plan as of February 1, 2012, indicated that it is in compliance with ERISA regulations requiring funding.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

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December 31, 2012 and 2011

Thrift Plan

The Council has established a Thrift Plan covering substantially all of the employees of the Council. Participants in the Thrift Plan may elect to make voluntary before-tax contributions based on a percentage of their pay, subject to certain limitations set forth in the Internal Revenue Code of 1986, as amended. The Council has elected to match employee contributions to the Thrift Plan up to 50% of contributions from each participant, limited to 3% of each employee's gross pay. The Council contributed \$41,460 and \$34,766 to the Thrift Plan in 2012 and 2011, respectively.

Healthcare Plan

The Council's employees participate in a healthcare plan provided by the Boy Scouts of America. The Council pays a portion of the cost for the employees, and the employees pay the remaining portion and the cost for any of their dependents participating in the plan. During the years ended December 31, 2012 and 2011, the Council remitted \$233,851 and \$228,655, respectively, on behalf of its employees to the National Council related to the healthcare plan.

(10) Net assets

Although restricted contributions typically are reported as support that increases restricted net assets, they may be reported as unrestricted support if the restrictions are met in the same reporting period, the policy is followed consistently, and it is disclosed. Temporarily restricted net assets are available for the following purposes at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Development campaign expenditures	\$ 1,781,006	\$ 1,512,495
Scouting activities:		
Camperships	96,436	95,392
Low income exploring	92,787	92,787
Property maintenance	44,611	44,611
Navigator scholarship	379,443	338,041
Laura Miller scholarship program	55,652	49,575
Connelly scholarship program	1,098	533
Friends of Scouting and other for future periods	251,583	307,536
United Way allocations for future periods	<u>62,509</u>	<u>65,274</u>
	<u>\$ 2,765,125</u>	<u>\$ 2,506,244</u>

Changes in Unrestricted Net Assets (Operating Fund Only) Compared to Budget

Year ended December 31, 2012

	Operating Fund	Budget (Unaudited)	Over (Under) Budget
Public support and revenue:			
Direct public support:			
Friends of Scouting	\$ 2,503,521	\$ 2,800,000	\$ (296,479)
Special events, net of direct costs	162,934	222,000	(59,066)
Other direct support	<u>9,704</u>	<u>-</u>	<u>9,704</u>
Total direct public support	2,676,159	3,022,000	(345,841)
Indirect public support - United Way	<u>178,819</u>	<u>185,000</u>	<u>(6,181)</u>
Total public support	<u>2,854,978</u>	<u>3,207,000</u>	<u>(352,022)</u>
Other revenue:			
Sales of supplies, net of cost of goods sold	473,759	457,300	16,459
Camping and related fees	1,200,128	1,159,675	40,453
Activity revenue	332,788	319,257	13,531
Product sales, net of cost of products sold	558,560	680,000	(121,440)
Investment income	584,875	425,000	159,875
Miscellaneous revenue	<u>40,317</u>	<u>65,000</u>	<u>(24,683)</u>
Total other revenue	<u>3,190,427</u>	<u>3,106,232</u>	<u>84,195</u>
Total public support and revenue	<u>6,045,405</u>	<u>6,313,232</u>	<u>(267,827)</u>
Expenses:			
Employee compensation:			
Salaries	2,733,674	3,061,300	(327,626)
Employment benefits	538,103	552,500	(14,397)
Payroll taxes	<u>206,983</u>	<u>241,147</u>	<u>(34,164)</u>
Total compensation expenses	3,478,760	3,854,947	(376,187)
Professional fees	113,374	118,750	(5,376)
Supplies and general expenses	875,728	892,143	(16,415)
Telephone	58,507	54,725	3,782
Postage and shipping	51,001	55,000	(3,999)
Occupancy expenses	398,504	393,950	4,554
Equipment rental and maintenance	131,953	108,200	23,753
Printing and publication	24,224	23,450	774
Travel and field operating expenses	284,222	298,450	(14,228)
Conference and meetings	45,926	51,000	(5,074)
Specific assistance	106,552	111,500	(4,948)
Recognition award	51,674	47,250	4,424
Insurance	124,463	126,757	(2,294)
Miscellaneous expenses	71,142	68,130	3,012
Unallocated payments to National Council	<u>68,930</u>	<u>72,500</u>	<u>(3,570)</u>
Total expenses	<u>5,884,960</u>	<u>6,276,752</u>	<u>(391,792)</u>
Increase in unrestricted net assets	<u>\$ 160,445</u>	<u>\$ 36,480</u>	<u>\$ 123,965</u>

See accompanying independent auditors' report.

Changes in Unrestricted Net Assets (Operating Fund Only)

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Public support and revenue:		
Direct public support:		
Friends of Scouting	\$ 2,503,521	\$ 2,389,922
Special events, net of direct costs	162,934	175,093
Other direct support	<u>9,704</u>	<u>13,469</u>
Total direct public support	2,676,159	2,578,484
Indirect public support - United Way	<u>178,819</u>	<u>178,869</u>
Total public support	<u>2,854,978</u>	<u>2,757,353</u>
Other revenue:		
Sales of supplies, net of cost of goods sold	473,759	451,509
Camping and related fees	1,200,128	1,113,073
Activity revenue	332,788	291,871
Product sales, net of cost of products sold	558,560	530,900
Investment income	584,875	467,703
Miscellaneous revenue	<u>40,317</u>	<u>46,347</u>
Total other revenue	<u>3,190,427</u>	<u>2,901,403</u>
Total public support and revenue	<u>6,045,405</u>	<u>5,658,756</u>
Expenses:		
Program services	4,977,088	4,738,561
Supporting services:		
Management and general	241,450	231,630
Fundraising	597,492	590,558
Unallocated payments to National Council	<u>68,930</u>	<u>68,930</u>
Total expenses	<u>5,884,960</u>	<u>5,629,679</u>
Increase in unrestricted net assets	<u>\$ 160,445</u>	<u>\$ 29,077</u>

See accompanying independent auditors' report.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2012 and 2011

The endowment pool market value to net asset analysis as of December 31, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment pool:				
Donor-restricted	\$ -	\$ 727,138	\$ 11,187,647	\$ 11,914,785
Board-designated	<u>(656,654)</u>	<u>-</u>	<u>-</u>	<u>(656,654)</u>
	(656,654)	727,138	11,187,647	11,258,131
Other net assets	<u>106,478</u>	<u>-</u>	<u>-</u>	<u>106,478</u>
Total	<u>\$ (550,176)</u>	<u>\$ 727,138</u>	<u>\$ 11,187,647</u>	<u>\$ 11,364,609</u>

The endowment pool market value to net asset analysis as of December 31, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment pool:				
Donor-restricted	\$ -	\$ 678,050	\$ 10,980,727	\$ 11,658,777
Board-designated	<u>(1,117,382)</u>	<u>-</u>	<u>-</u>	<u>(1,117,382)</u>
	(1,117,382)	678,050	10,980,727	10,541,395
Other net assets	<u>83,508</u>	<u>-</u>	<u>-</u>	<u>83,508</u>
Total	<u>\$ (1,033,874)</u>	<u>\$ 678,050</u>	<u>\$ 10,980,727</u>	<u>\$ 10,624,903</u>

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2012 and 2011

Permanently restricted net assets consist of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Investments in perpetuity, the income from which is expendable to support:		
Scouting activities	\$ 744,947	\$ 668,989
Property maintenance	315,963	287,679
Camp Craig property maintenance	34,437	32,584
Laura Miller scholarship program	385,261	353,529
Connelly scholarship program	27,430	25,080
Any activities of the Council	<u>9,679,609</u>	<u>9,612,866</u>
	<u>\$ 11,187,647</u>	<u>\$ 10,980,727</u>

(11) Endowment

The Council's Endowment Fund includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Unrestricted net assets, identified by the Council's Board of Directors to be used for future investment and growth, are included in unrestricted net assets—board designated.

The Council 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, the Council 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 Council in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Council 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 Council 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 Council
- (7) The investment policies of the Council

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2012 and 2011

Changes in endowment net assets as of December 31, 2012 and 2011 are as follows:

	<u>Total Net</u> <u>Unrestricted</u>	<u>Temporarily</u> <u>Restricted</u>	<u>Permanently</u> <u>Restricted</u>	<u>Endowment</u> <u>Assets</u>
Endowment net assets, December 31, 2010	\$ (663,236)	\$ 658,965	\$ 10,918,263	\$ 10,913,992
Contributions	18,430	-	212,973	231,403
Investment income (loss)	546,612	122,016	(150,509)	518,119
Net depreciation	(533,452)	(25,789)	-	(559,241)
Amounts appropriated for expenditures	-	(77,142)	-	(77,142)
Investment fees	(50,061)	-	-	(50,061)
Transfers	<u>(352,167)</u>	<u>-</u>	<u>-</u>	<u>(352,167)</u>
Endowment net assets, December 31, 2011	(1,033,874)	678,050	10,980,727	10,624,903
Contributions	13,462	-	8,700	22,162
Investment income	364,486	48,423	198,220	611,129
Net appreciation	596,668	25,142	-	621,810
Amounts appropriated for expenditures	-	(24,477)	-	(24,477)
Investment fees	(51,241)	-	-	(51,241)
Transfers	<u>(439,677)</u>	<u>-</u>	<u>-</u>	<u>(439,677)</u>
Endowment net assets, December 31, 2012	\$ <u>(550,176)</u>	\$ <u>727,138</u>	\$ <u>11,187,647</u>	\$ <u>11,364,609</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor or SPMIFA requires the Council to retain as permanently restricted. Deficiencies of this nature result from unfavorable market fluctuations and would be included in unrestricted net assets. As shown above, deficiencies of \$550,176 and \$1,033,874 existed at December 31, 2012 and 2011, respectively.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2012 and 2011

(12) Operating leases

The Council has entered into various operating leases for a fleet of automobiles and certain office equipment. The automobile leases are noncancelable, contain certain mileage restrictions and are for three year terms.

A summary of approximate future minimum payments under these equipment leases as of December 31, 2012 is as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 174,000
2014	119,000
2015	115,000
2016	1,500
2017	<u>500</u>
	<u>\$ 410,000</u>

Lease expense amounted to approximately \$144,000 in 2012 and \$138,000 in 2011.

(13) Related party transactions

Board members of the Council are employed at banks and investment firms where the Council maintains significant account balances. As of December 31, 2012 and 2011, deposits with the banks were \$936,779 and \$1,324,978, respectively. As of December 31, 2012 and 2011, investments were \$13,760,003 and \$12,801,116, respectively.

The Council receives commissions on internet sales at a rate of 6% from the National Council. During 2012 and 2011, the Council received commissions amounting to \$2,622 and \$2,917, respectively.

(14) Potential impact of policy change in membership standards

Subsequent to December 31, 2012, Boy Scouts of America asked local councils to evaluate the potential impact of a policy change in membership standards. The Council evaluated the potential impact of the policy change through inquiries with local volunteers, chartered partner organizations and donors. The results of the evaluation indicated a potential adverse effect upon the Council's membership, financial results, volunteer participation and chartered partner relationships if the policy were to change. The Council's evaluation noted minimal impact to the organization if the current membership policy is retained.