SCARRITT-BENNETT CENTER

FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

SCARRITT-BENNETT CENTER

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CROSSLIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors
Scarritt-Bennett Center
Nashville, Tennessee

We have audited the accompanying financial statements of Scarritt-Bennett Center (the "Center"), a nonprofit organization, which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits 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 Scarritt-Bennett Center as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crosslin & Associates, P.C.

Nashville, Tennessee
July 25, 2014

SCARRITT-BENNETT CENTER
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

	2013			2012
	Current Operations	Endowment	Total	Total
ASSETS				
Cash	$ 61,763	$ -	$ 61,763	$ 260,379
Receivables	33,753	26,907	60,660	42,384
Inventory	8,895	-	8,895	36,140
Property and equipment, net	574,181	-	574,181	225,044
Leasehold rights - facilities usage	1,800,000	-	1,800,000	1,800,000
Investment in joint venture	1,399,306	-	1,399,306	1,568,806
Investments	-	6,538,562	6,538,562	6,193,930
Perpetual trusts held by third parties	-	388,015	388,015	371,213
Total assets	$ 3,877,898	$ 6,953,484	$ 10,831,382	$ 10,497,896
LIABILITIES				
Accounts payable and accrued expenses	$ 247,597	$ -	$ 247,597	$ 133,443
Deposits	303,664	-	303,664	347,690
Capital lease obligation	121,726	-	121,726	-
Note payable - line of credit	161,143	-	161,143	364,935
Due to (from) other funds	518,582	(518,582)	-	-
Total liabilities	1,352,712	(518,582)	834,130	846,068
NET ASSETS				
Donor restricted:				
Permanently	-	4,437,135	4,437,135	4,419,833
Temporarily	1,800,000	1,081,861	2,881,861	2,600,697
Unrestricted:				
Board designated for long-term investment	-	1,953,070	1,953,070	1,901,072
Undesignated	725,186	-	725,186	730,226
Total net assets	2,525,186	7,472,066	9,997,252	9,651,828
Total liabilities and net assets	$ 3,877,898	$ 6,953,484	$ 10,831,382	$ 10,497,896

See accompanying notes to the financial statements.

SCARRITT-BENNETT CENTER
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	$ 431,393	$ -	$ -	$ 431,393
Fees	1,475,803	-	-	1,475,803
Rent income and use of facilities	637,400	-	-	637,400
Other income	86,101	-	-	86,101
Contribution - facilities usage	-	1,800,000	-	1,800,000
Investment return designated for current operations	272,825	96,921	-	369,746
Net assets released from restrictions:				
Expiration of time restriction	1,800,000	(1,800,000)	-	-
Satisfaction of program restrictions	107,891	(107,891)	-	-
Total revenues, gains and other support	4,811,413	(10,970)	-	4,800,443
EXPENSES				
Program expenses:				
Food services	442,161	-	-	442,161
Gift shop	14,322	-	-	14,322
Library	9,230	-	-	9,230
Rooms and guest services	447,476	-	-	447,476
Facilities and maintenance	614,988	-	-	614,988
Technology	182,723	-	-	182,723
Marketing	131,386	-	-	131,386
Programming	236,492	-	-	236,492
Soul Work	30,866	-	-	30,866
Wisdom House	-	-	-	-
Women's Table	20,348	-	-	20,348
Rent expense	1,800,000	-	-	1,800,000
Supporting services:				
Management and general	648,983	-	-	648,983
Fundraising	90,264	-	-	90,264
Sales	147,214	-	-	147,214
Total expenses	4,816,453	-	-	4,816,453
Changes in net assets from operations	(5,040)	(10,970)	-	(16,010)
OTHER CHANGES				
Investment return over amount designated for current operations	51,998	292,134	17,302	361,434
Total other changes	51,998	292,134	17,302	361,434
Change in net assets	46,958	281,164	17,302	345,424
NET ASSETS AT BEGINNING OF YEAR	2,631,298	2,600,697	4,419,833	9,651,828
NET ASSETS AT END OF YEAR	$ 2,678,256	$ 2,881,861	$ 4,437,135	$ 9,997,252

See accompanying notes to the financial statements.

SCARRITT-BENNETT CENTER
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	$ 340,805	$ -	$ -	$ 340,805
Fees	1,523,447	-	-	1,523,447
Rent income and use of facilities	686,051	-	-	686,051
Other income	31,747	-	-	31,747
Contribution - facilities usage	-	1,800,000	-	1,800,000
Investment return designated for current operations	275,367	96,938	-	372,305
Net assets released from restrictions:				
Expiration of time restriction	1,800,000	(1,800,000)	-	-
Satisfaction of program restrictions	116,938	(116,938)	-	-
Total revenues, gains and other support	4,774,355	(20,000)	-	4,754,355
EXPENSES				
Program expenses:				
Food services	338,016	-	-	338,016
Gift shop	20,750	-	-	20,750
Library	20,533	-	-	20,533
Rooms and guest services	455,223	-	-	455,223
Facilities and maintenance	667,252	-	-	667,252
Technology	138,638	-	-	138,638
Marketing	119,444	-	-	119,444
Programming	220,891	-	-	220,891
Soul Work	32,830	-	-	32,830
Wisdom House	15,040	-	-	15,040
Women's Table	8,353	-	-	8,353
Rent expense	1,800,000	-	-	1,800,000
Supporting services:				
Management and general	714,902	-	-	714,902
Fundraising	88,463	-	-	88,463
Sales	157,834	-	-	157,834
Total expenses	4,798,169	-	-	4,798,169
Changes in net assets from operations	(23,814)	(20,000)	-	(43,814)
OTHER CHANGES				
Investment return over amount designated for current operations	19,418	85,878	8,034	113,330
Total other changes	19,418	85,878	8,034	113,330
Change in net assets	(4,396)	65,878	8,034	69,516
NET ASSETS AT BEGINNING OF YEAR	2,635,694	2,534,819	4,411,799	9,582,312
NET ASSETS AT END OF YEAR	$ 2,631,298	$ 2,600,697	$ 4,419,833	$ 9,651,828

See accompanying notes to the financial statements.

SCARRITT-BENNETT CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013			2012
	Current Operations	Endowment	Total	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	$ (16,010)	$ 361,434	$ 345,424	$ 69,516
Adjustments to reconcile change in net assets to net cash used in operating activities:				
Depreciation expense	55,945	-	55,945	38,365
Realized and unrealized gain on investments	-	(628,543)	(628,543)	(374,804)
(Gain) loss from joint venture	(61,500)	-	(61,500)	12,000
(Increase) decrease in:				
Receivables	(18,276)	-	(18,276)	41,669
Inventory	27,245	-	27,245	(4,717)
Perpetual trusts held by third parties	-	(16,802)	(16,802)	(7,639)
Increase (decrease) in:				
Accounts payable and accrued expenses	114,154	-	114,154	(135,947)
Deposits	(44,026)	-	(44,026)	(80,010)
Net cash used in operating activities	57,532	(283,911)	(226,379)	(441,567)
CASH FLOWS FROM INVESTING ACTIVITIES				
Distributions received from joint venture	231,000	-	231,000	231,000
Purchases of investments	-	(1,464,024)	(1,464,024)	(831,457)
Proceeds from sale of investments	-	1,747,935	1,747,935	1,352,243
Purchases of property and equipment	(270,068)	-	(270,068)	(83,117)
Net cash provided by investing activities	(39,068)	283,911	244,843	668,669
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments on capital lease obligation	(13,288)	-	(13,288)	-
Net repayments under line of credit	(203,792)	-	(203,792)	(30,124)
Net cash used in financing activities	(217,080)	-	(217,080)	(30,124)
NET (DECREASE) INCREASE IN CASH	(198,616)	-	(198,616)	196,978
CASH AT BEGINNING OF YEAR	260,379	-	260,379	63,401
CASH AT END OF YEAR	$ 61,763	$ -	$ 61,763	$ 260,379
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	$ 8,339	$ -	$ 8,339	$ 21,949

NON-CASH INVESTING AND FINANCING ACTIVITIES:

During 2013, the Center financed the purchase of certain equipment through a capital lease obligation totaling $135,014.

See accompanying notes to the financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Scarritt-Bennett Center (the "Center") is a conference, retreat, and education center the mission of which is to create space where individuals and groups can engage each other to achieve a more just world. The Center is related to the United Methodist Church. The property from which the Center operates is located in Nashville, Tennessee, and is owned by United Methodist Women. The Center provides conference and meeting space to groups for day and multi-day meetings. The Center also offers its own program of education for ministry. The mission of the Center's programs include multi-cultural, ecumenical, and inter-faith activities.

The Center is the sole member of SBC Educational Holdings, LLC, a Tennessee nonprofit limited liability company. SBC Educational Holdings, LLC was organized in August 2012 to hold the interest in the joint venture as described in Note F.

All significant inter-company activity has been eliminated in the accompanying financial statements.

Financial Statement Presentation

The Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

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 either by action of the Center or the passage of time.

Permanently restricted net assets - Net assets consisting of endowment investments subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and the income only be utilized.

The Center's governing board has designated a portion of its unrestricted net assets as board-designated endowment. These net assets have not been donor-restricted and are classified as unrestricted net assets. The purpose of this board-designated endowment is to provide income from long-term investments in order to support the Center's activities.

Use of Estimates

The preparation of 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 disclosures 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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions with donor stipulations that limit their use are considered to be temporarily restricted until the donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled. Upon the expiration of donor stipulations, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions received and expended in the same accounting period are classified as unrestricted support.

Unconditional promises to give are recognized as revenues or gains in the period received as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributed services are recognized as revenue at their fair value if the services create or enhance nonfinancial assets or require specialized skills and are provided by individuals possessing those skills and typically would have been purchased if not provided by contribution. Contributed services and promises to contribute that do not meet these criteria are not recognized as revenue and are not reported in the accompanying financial statements.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Center considers all highly-liquid instruments purchased with a maturity date of three months or less to be cash equivalents. Cash and cash equivalents that are designated for long-term investment are included in Investments in the accompanying statements of financial position.

Property and Equipment

The Center’s property and equipment is depreciated using the straight-line method over the estimated useful lives of the respective assets, which range from 3 to 27.5 years. Amortization of leasehold improvements is provided over the lives of the respective leases, including renewals, or the estimated useful lives of the improvements, whichever is shorter. The Center’s policy is to capitalize property and equipment purchases in excess of $1,000. Property and equipment is valued at cost, if purchased, or fair value, if contributed.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts Receivable

Accounts receivable are stated at the amount the Center expects to collect from outstanding balances at year-end. The Center provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written-off through a charge to the valuation allowance and a credit to accounts receivable. At December 31, 2013 and 2012, management concluded that losses, if any, on balances outstanding would not be material based on management's assessment of credit history and current relationships. Therefore, no valuation allowance was established at December 31, 2013 or 2012.

Inventory

Inventory consists primarily of food products on hand at the statement of financial position date and is stated at the lower of cost or market on a first-in first-out basis. At December 31, 2013, management recorded a reserve to reduce the carrying value of inventory by $3,950 relating to certain gift shop inventory.

Investments

Investments in equity and debt securities with readily determinable fair values are carried at fair value based on quoted prices, where available, and on Level 2 inputs (See Note P).

Investment income, including realized and unrealized gains and losses, is recorded in the appropriate net asset classification based on restrictions or absence thereof.

Beneficial Interests in Trusts

Beneficial interests in perpetual trusts represent resources neither in possession nor under the control of the Center, but held and administered by outside parties for the benefit of the Center and its mission. These funds are recorded at their fair value based on the underlying investments.

Deposits

Deposits represent amounts collected by the Center for event services that have not yet been performed.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Tax Status

The Center qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, the Center qualifies for the charitable contribution deduction under Section 170(b)(l)(A). The Center's federal information and income tax returns for tax years 2010 and later are subject to examination by the Internal Revenue Service.

The Center accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of these positions, the unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Center include, but are not limited to, the tax-exempt status and determination of whether certain income is subject to unrelated business income tax; however, the Center has determined that such tax positions do not result in an uncertainty requiring recognition.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities.

Advertising

The Center expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2013 and 2012, was $15,175 and $21,095, respectively.

Fair Value Measurements

Assets recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by Financial Accounting Standards Board Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Center's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Reclassifications

Certain 2012 amounts in the financial statements have been reclassified to conform to the presentation adopted for 2013.

B. INVESTMENTS

Investments are presented in the financial statements at fair value. At December 31, 2013 and 2012, the fair value and cost of investments are as follows:

	2013		2012	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	$ 590,736	$ 590,736	$ 693,044	$ 693,044
Equities	3,788,286	2,529,662	3,511,970	2,811,418
Fixed income	2,159,540	2,040,054	1,988,916	1,766,758
	$6,538,562	$5,160,452	$6,193,930	$5,271,220

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2013 and 2012:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income, net of fees	$ 19,748	$ 65,587	$ 500	$ 85,835
Net realized and unrealized gains and losses on long-term investments	120,946	507,597	16,802	645,345
Spending rule appropriation	184,129	(184,129)	-	-
	$324,823	$ 389,055	$17,302	$731,180
Investment return designated for current operations	$272,825	$ 96,921	$ -	$369,746
Investment return over amount designated for current operations	51,998	292,134	17,302	361,434
	$324,823	$389,055	$17,302	$731,180

B. INVESTMENTS - Continued

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income, net of fees	$ 24,011	$ 78,786	$ 395	$103,192
Net realized and unrealized gains and losses on long-term investments	84,100	290,704	7,639	382,443
Spending rule appropriation	186,674	(186,674)	-	-
	$294,785	$ 182,816	$8,034	$485,635
Investment return designated for current operations	$275,367	$ 96,938	$ -	$372,305
Investment return under amount designated for current operations	19,418	85,878	8,034	113,330
	$294,785	$182,816	$8,034	$485,635

Investment expenses of approximately $80,600 and $80,300 in 2013 and 2012, respectively, have reduced investment income.

C. PERPETUAL TRUSTS HELD BY THIRD PARTIES

Two donors have established perpetual trusts, which are administered by third parties. Under the terms of the first trust, the Center has the irrevocable right to receive the income earned on the trust assets in perpetuity. Income is unrestricted. At December 31, 2013 and 2012, the fair value of the assets held under the agreement was $192,515 and $174,145, respectively, and is included in permanently restricted net assets.

Under the terms of the second trust, the Center has an irrevocable right to receive the income earned on the trust in perpetuity. Income is restricted for scholarships. At December 31, 2013 and 2012, the fair value of the assets held under the second agreement was $195,500 and $197,068, respectively.

D. ENDOWMENT

The Center's endowment consists of approximately 80 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. Generally Accepted Accounting Principles ("GAAP"), net assets associated with endowment funds, including the funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

- the duration and preservation of the fund
- the purposes of the Center and the donor-restricted endowment fund
- general economic conditions
- the possible effect of inflation and deflation
- the expected total return from income and the appreciation of investments
- other resources of the Center
- the investment policies of the Center

D. ENDOWMENT - Continued

Endowment net assets are composed of the following at December 31, 2013:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$1,081,861	$4,437,135	$5,518,996
Board-designated endowment funds	1,953,070	-	-	1,953,070
	$1,953,070	$1,081,861	$4,437,135	$7,472,066

Changes in endowment net assets are as follows for the year ended December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,901,072	$ 789,727	$4,419,833	$ 7,110,632
Investment return:				
Investment income	19,748	65,587	500	85,835
Net realized and unrealized gains	120,946	507,597	16,802	645,345
Total investment return	140,694	573,184	17,302	731,180
Contributions	-	-	-	-
Appropriation of endowment gains for expenditure	(88,696)	(281,050)	-	(369,746)
Endowment net assets, end of year	$ 1,953,070	$ 1,081,861	$4,437,135	$ 7,472,066

The Center's Board of Directors has approved certain loans made from the unrestricted board-designated endowment fund for the current operations of the Center. Such loans totaled $518,582 at both December 31, 2013 and 2012, respectively. These loans between funds are included as due to/from in the accompanying statements of financial position. During 2012, the Board of Directors approved a $250,000 loan which is expected to be repaid in 2014.

D. ENDOWMENT - Continued

Endowment net assets are composed of the following at December 31, 2012:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$789,727	$4,419,833	$5,209,560
Board-designated endowment funds	1,901,072	-	-	1,901,072
	$1,901,072	$789,727	$4,419,833	$7,110,632

Changes in endowment net assets are as follows for the year ended December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,881,654	$ 703,849	$4,411,799	$ 6,997,302
Investment return:				
Investment income	24,011	78,786	395	103,192
Net realized and unrealized gains	84,100	290,704	7,639	382,443
Total investment return	108,111	369,490	8,034	485,635
Contributions	-	-	-	-
Appropriation of endowment gains for expenditure	(88,693)	(283,612)	-	(372,305)
Endowment net assets, end of year	$ 1,901,072	$ 789,727	$4,419,833	$ 7,110,632

Funds With Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TPMIFA requires the Center to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. Deficiencies generally result from unfavorable market fluctuations that occur along with continued appropriation for certain programs that are deemed prudent by the Board of Directors. There were no such funds with material deficiencies at December 31, 2013 or 2012.

D. ENDOWMENT - Continued

Return Objectives and Risk Parameters

The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that, over time, provide a return of approximately eight percent annually while assuming a moderate level of investment risk. Actual returns in any given year will vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Center 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 Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Center has a policy of appropriating for distribution each year six percent of its endowment fund's average fair value over the prior three years. The calculation is based on the three fiscal years ending on September 30, proceeding the calendar year in which the distribution is planned. In establishing this policy, the Center considered the long-term expected return on its endowment. Accordingly, over the long term, the Center expects the current spending policy to allow its endowment to grow at an average of two percent annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

D. ENDOWMENT - Continued

	2013	2012
Permanently Restricted Net Assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by TPMIFA	$4,437,135	$4,419,833

	2013	2012
Temporarily Restricted Net Assets:		
The portion of perpetual endowment funds subject to time or other restrictions under TPMIFA:		
Without purpose restrictions	$ 532,327	$361,785
With purpose restrictions	549,534	427,942
	$1,081,861	$789,727

E. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2013 and 2012, is as follows:

	2013	2012
Improvements	$ 722,537	$ 487,680
Furniture	92,805	87,308
Equipment	600,934	436,206
	1,416,276	1,011,194
Less accumulated depreciation	(842,095)	(786,150)
	$ 574,181	$ 225,044

Included in equipment at December 31, 2013 is certain equipment under a capital lease obligation (See Note N).

F. INVESTMENT IN JOINT VENTURE - MIDTOWN PLACE, LLC

During November 2010, the Center entered into a development agreement with a real estate developer. Under the agreement, the Center contributed, during 2011, certain land and buildings in exchange for a 50% equity interest in a newly formed entity, Midtown Place, LLC. The net book value of the assets at the time of transfer totaled $1,811,806. This amount was recorded as the Center's investment in the joint venture. The real estate developer owns the other 50% interest in Midtown Place, LLC. During 2011, Midtown Place, LLC demolished the existing structures on the land and in their place constructed a new 55-unit apartment complex, Midtown Place Apartments. Construction of the new apartments was completed in July 2012. The developer manages the apartment complex for a management fee of four percent of gross rents less collectible deposits.

During August 2012, the Center formed a Tennessee nonprofit limited liability company, SBC Educational Holdings, LLC, ("Educational Holdings"). The Center is the sole member of Educational Holdings. In connection with the formation, the Center transferred its interest in Midtown Place, LLC to Educational Holdings.

In conjunction with the construction of the new apartment complex, Midtown Place entered into a construction promissory note, the balance of which was $5,650,000 at both December 31, 2013 and 2012, respectively. The loan is collateralized by Midtown Place Apartments and is guaranteed by the developer. The Center does not guarantee the loan.

A summary of the assets and liabilities of Midtown Place, LLC as of December 31, 2013 and 2012, is as follows:

	2013	2012
Total assets	$7,313,279	$7,569,723
Total liabilities	5,829,776	5,805,824
Equity	$1,483,503	$1,763,899

Revenue of Midtown Place totaled $922,113 for 2013 and $366,800 for 2012. The Center's share of Midtown Place's net income (loss) for 2013 and 2012 was $62,052 and ($12,000), respectively. The Center received distributions from Midtown Place totaling $231,000 in both 2013 and 2012.

The Center's carrying value of the investment Midtown Place, LLC exceeds its share of the underlying net assets, which is considered to be equity method goodwill. The Center evaluates the carrying value of its investment in Midtown Place, LLC on at least an annual basis and more frequently if events occur or circumstances change that would likely reduce the fair value below its carrying amount. No impairment allowance was considered necessary at December 31, 2013 or 2012.

G. PENSION PLAN

All full-time staff and regular part-time staff who work twenty or more hours a week are eligible to participate in a defined contribution pension program of the General Board of Pensions Health Benefits of the United Methodist Church. Staff members may participate by contributing, through payroll deduction, not more than 10 percent to a personal accumulations account. The Center contributes nine percent on behalf of the employees. The total pension expense for the years ended December 31, 2013 and 2012, was $79,921 and $84,250, respectively.

H. HEALTH CARE AND LIFE INSURANCE BENEFITS

The Center provides health, life, and other employee benefits for its active employees and health, dental, and life benefits to retirees through a group plan which qualifies for treatment as a multi-employer plan under ASC 715, *Compensation - Retirement Benefits*. Substantially all retired employees are eligible to participate in the plan if they have attained normal retirement age while in the employ of the Center.

The General Agencies of The United Methodist Church Benefit Plan (the "Plan") provides medical, dental, life, and long and short-term disability defined benefits to participants of general agencies and employees of other certain United Methodist related organizations, including the Center.

The Plan's unfunded accumulated postretirement benefit obligation ("APBO") was approximately $59,000,000 and $148,000,000 and the Plan's unfunded expected postretirement benefit obligation ("EPBO") was approximately $77,000,000 and $195,000,000 as of December 31, 2013 and 2012, respectively.

All of the Center's active employees are covered by the Plan. The cost of the benefits is recognized as expense as premiums are paid. The total cost of benefits for active employees was $207,758 and $177,832 in 2013 and 2012, respectively.

Beginning in 2006, the Center received a distribution of funds from the Agency Group Plan (AGI) to offset a portion of the costs of its employee health insurance plan. This distribution was $51,000 during 2012, which was the final year of this distribution. The amount of each participating organization's distribution is based upon the organization's proportionate share of the base year health insurance premium cost of AGI.

I. RELATED PARTY TRANSACTIONS

The United Methodist Women ("UMW") appoints 8 of the 24 voting directors of Scarritt-Bennett Center. In 2013 and 2012, the UMW provided the Center with financial support in the amount of $136,626 and $158,637, respectively, in addition to the rent-free use of the facilities, as described in Note J. UMW also holds meetings and conferences at the Center, for which the Center receives fees and income from use of facilities.

J. CONTRIBUTION - RENT-FREE USE OF FACILITIES

UMW has contributed a rent-free lease agreement to the Center. The Center renewed the lease agreement with the UMW, effective January 1, 2011. The renewed lease agreement provides generally for a lease term through December 2020 with certain renewal options as well as termination provisions. The estimated fair value of the contributed facilities is recorded as a gift in the period the lease is executed and, for any terms in excess of one year, the value is discounted to its present value at that time. Based on the provisions of the lease agreement, the Center generally records the contributions in annual installments when it is known that the lease will remain in effect for the upcoming year. The contribution receivable relating to the rent-free use of facilities is included as leasehold rights - facilities usage in the accompanying statements of financial position. The leasehold rights - facilities usage was $1,800,000 at both December 31, 2013 and 2012, which represents the right to use the facilities for 2014 and 2013, respectively. The related rent expense was $1,800,000 for 2013 and 2012. The leasehold rights - facilities usage as of December 31, 2013 and 2012, is a temporarily restricted net asset.

K. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2013 and 2012:

	2013	2012
Time restrictions:		
Facilities usage	$1,800,000	$1,800,000
General endowment - net accumulated gains	532,327	361,785
Amounts designated for specific programs:		
Miller lectureship	76,555	67,624
Centennial Global Scholars Fund	52,845	46,689
General unrestricted scholarships	419,050	312,650
Library	1,084	979
Facilities	-	10,970
	$2,881,861	$2,600,697

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2013	2012
Time restrictions:		
Passage of specified time - rent-free use facilities	$1,800,000	$1,800,000
Program requirements met:		
Satisfaction of program restrictions	107,891	116,938
	$1,907,891	$1,916,938

Permanently restricted net assets consist of the following:

	2013	2012
General endowment	$3,066,788	$3,048,418
Scholarships	1,320,347	1,321,415
Other	50,000	50,000
	$4,437,135	$4,419,833

Income from permanently restricted assets and Board-designated unrestricted assets is available for general operations and scholarships.

L. CONCENTRATIONS

The Center maintains cash and investments in accounts which, at times, may exceed federally insured limits. Credit risk is managed by maintaining all deposits in financial institutions which management believes are high quality financial institutions and by maintaining diversification of investments, including those held in various securities. Such funds are subject to inherent market fluctuations, which at times, may be significant. The Center also generally has a concentration of fee and rental income from certain United Methodist Groups.

M. LINE-OF-CREDIT

The Center has a $430,000 line-of-credit with a financial institution, the balance of which was $161,143 and $364,935 at December 31, 2013 and 2012, respectively. Interest on the line-of-credit is due monthly at the financial institution's prime rate, with a minimum rate of 4.50%. Interest expense for the years ended December 31, 2013 and 2012, was $8,339 and $21,949, respectively. The line-of-credit is secured by certain unrestricted investments. The line-of-credit expires in August 2014.

N. LEASES

Capital Lease

During 2013, the Center entered into a capital lease agreement for certain computer equipment. The lease expires in June 2018 and has an implicit interest rate equal to the Center's incremental borrowing rate of 4.50%. Equipment under the lease totaled $121,513, net of accumulated depreciation of $13,501 at December 31, 2013.

Minimum future lease payments under the capital lease as of December 31, 2013 are as follows:

Year Ending December 31,	Amount
2014	$ 25,099
2015	26,252
2016	27,458
2017	28,719
2018	14,198
	$121,726

N. LEASES - Continued

Operating Lease

The Center leases certain copier equipment under a non-cancelable operating lease. Rental expense for the years ended December 31, 2013 and 2012 amounted to approximately $26,000 and $17,000, respectively. Expected future minimum leases payments required under the non-cancelable lease are as follows:

Year Ending December 31,	Amount
2014	$ 29,019
2015	29,019
2016	29,019
2017	29,019
2018	12,090
	$128,166

O. COLLECTIONS

The Centers maintains certain collections of artifacts, art, traditional pieces and other items. These items are held and displayed in the Center's various facilities for educational and exhibition purposes. Items are preserved, and cared for, and their condition maintained. Collection items are not included in the statements of financial position and the value of collection items given to the Center is not reflected as revenue. When applicable, the cost of objects purchased is reported in program expenses.

P. FAIR VALUE OF FINANCIAL INSTRUMENTS

Disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the Center's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at December 31, 2013 and 2012, for assets measured at fair value on a recurring basis under ASC 820, *Fair Value Measurements and Disclosures*:

		Fair Value Measurements at Reporting Date Using		
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013:				
Investments:				
Short-term investments	$ 590,736	$ 590,736	$ -	$ -
Equities	3,788,286	3,788,286	-	-
Fixed income	2,159,540	-	2,159,540	-
Total investments	$6,538,562	$4,379,022	$2,159,540	$ -
Perpetual trusts held by third parties	$ 388,015	$ 388,015	$ -	$ -
December 31, 2012:				
Investments:				
Short-term investments	$ 693,044	$ 693,044	$ -	$ -
Equities	3,511,970	3,511,970	-	-
Fixed income	1,988,916	-	1,988,916	-
Total investments	$6,193,930	$4,205,014	$1,988,916	$ -
Perpetual trusts held by third parties	$ 371,213	$ 371,213	$ -	$ -

P. FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Investments

The fair value of short-term investments and equities are determined using primarily Level 1 inputs in accordance with ASC 820. The fair values of fixed income instruments are determined using primarily Level 2 inputs.

Perpetual Trusts Held by Third Parties

Fair value is based on Level 1 inputs, quoted market prices, where available.

Other

The Center's other financial instruments include accounts receivable, accounts payable and other liabilities, and the line-of-credit. The recorded values of accounts receivable and accounts payable and other liabilities approximate their fair values based on their short-term nature. The recorded value of the line-of-credit approximates fair value due to the instrument's variable rate nature.

Q. CONTINGENCIES

The Center is subject to potential claims and other legal proceedings arising in the ordinary course of its operations. Management consults with the Center's legal counsel in addressing such items. Certain allowances may be provided as information is available. During 2013, the Center became subject to a potential claim for which the outcome is not presently determinable but an unfavorable outcome could be significant. It is the opinion of management that the outcome is not presently determinable; therefore, no amount has been accrued in the financial statements.

R. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 25, 2014, the date the financial statements were available for issuance, and has determined that there are no subsequent events requiring disclosure.