



To the Audit Committee of the Board of Directors,
Middle Tennessee Council, Inc., Boy Scouts of America

We have audited the financial statements of Middle Tennessee Council, Inc., Boy Scouts of America (the "Council") for the year ended December 31, 2011, and have issued our report thereon dated April 13, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated November 17, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Council are described in Note 2 to the financial statements. During 2011, the Council adopted new accounting pronouncements as described in Note 2 to the financial statements. We noted no transactions entered into by the Council during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to:

- The assessment of the fair value of investments
- The anticipated collection of pledges and other receivables
- The functional allocation of expenses
- The reasonableness of depreciable lives for buildings and equipment

We have reviewed and evaluated all areas where management's estimates significantly impact the financial statements and have concluded that they are reasonable in the context of the financial statements taken as a whole.

Furthermore, we have reviewed the financial statement disclosures noting that they appear to be neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has recorded all entries noted during the audit process. Additionally, none of the misstatements detected as a result of audit procedure and recorded by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 13, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Council's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Council's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplemental information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audits of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Independence

We are not aware of any relationships between our firm and the Council that, in our professional judgment, may reasonably be thought to bear on our independence which have occurred during the period from January 1, 2011 through the date of this letter.

Internal Control and Operating Efficiency

In planning and performing our audit of the financial statements of the Council as of and for the year ended December 31, 2011, in accordance with the auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control. We identified the following items during our audit that are opportunities for improving internal control and operating efficiency.

Uninsured Cash Balances

The Council maintains significant amounts of cash on deposit at various financial institutions. These cash balances are in excess of the Federal Deposit Insurance Corporation insured limits. We recommend that the Council consider alternative means of investment of these funds in order to obtain full insurance coverage or request other collateral from the financial institution and thus reduce the Council's risk of loss.

Management Response To Recommendation

The Council Finance Committee and Trustees review our cash balances on an ongoing basis. Many of our board members are in banking related fields and also monitor our holdings. While we need to continue our vigilance, we are comfortable having cash balances in excess of the Federal Deposit Insurance.

Release of Restrictions

During our testing of temporarily restricted net assets, we noted that for one temporarily restricted item, funds were transferred out of the investment account, but there was no corresponding release of restriction for this item. We recommend that management review all restricted funds to ensure that all satisfaction of releases have been properly recorded and that permanently and temporarily restricted net asset balances are correct.

Management Response To Recommendation

Through an oversight, we failed to reclassify assets used in the Scholarship program to unrestricted when the funds were expended. We now have a standard entry which should take care of this in the future.

Segregation of Duties

A strong system of internal control provides for a proper segregation of the accounting duties. Due to the Council's limited number of staff, proper segregation is not always possible. However, limited segregation to the extent possible can and should be implemented to reduce the risk of material errors or fraud. We recommend that management and the Board continue to periodically review the financial statements as a mitigating control and that the Scout Executive continue to receive and review unopened bank statements. We also recommend that management review the current assignment of accounting duties and where possible, separate duties to reduce the risk of errors or fraud.

Management Response To Recommendation

With the changing of the council organization, we have more segregation of duties among staff than before. Our Board Members sign checks over \$5,000 and the finance committee and management meet to discuss our monthly finance statement. The Scout Executive always receives unopened bank statements and our accounting assistant does the bank reconciliation which is reviewed by the Comptroller and approved by the Scout Executive.

Review of Existing Policies and Procedures

The Council has adopted a policy of capitalizing only expenditures for land, buildings, and equipment in excess of \$10,000. During our testing of additions during 2011, we noted one item that was capitalized with a value of less than \$10,000. We recommend that management review existing policies with staff to ensure that they are aware of existing policies and that these policies are followed.

Management Response To Recommendation

Our current policy does state that assets over \$10,000 are capitalized. At the discretion of management, we also make a call to capitalize single assets of \$5,000 - \$10,000 when it is more appropriate to do so.

This communication is intended solely for the information and use of management, and the Audit Committee, and others within the Council, and is not intended to be and should not be used by anyone other than these specified parties.

Leti BL My - E, PC

Brentwood, Tennessee
April 13, 2012

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

Financial Statements and Schedules

**December 31, 2011
(With Comparative Totals for 2010)**

(With Independent Auditors' Report Thereon)



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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Middle Tennessee Council, Inc., Boy Scouts of America ("Council") as of December 31, 2011, and the related statements of changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Council's 2010 financial statements and in our report dated April 28, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Middle Tennessee Council, Inc., Boy Scouts of America as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information on Schedules 1 and 2 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information, except for that portion marked "unaudited", on which we express no opinion, 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.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
April 13, 2012

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statement of Financial Position

December 31, 2011
(With Comparative Amounts for 2010)

	<u>Assets</u>							
	Operating Fund		Capital Fund		Endowment Fund		Total All Funds	
	2011	2010	2011	2010	2011	2010	2011	2010
Current assets:								
Cash	\$ 496,729	\$ 781,449	\$ 781,658	\$ 1,562,348	\$ 78,881	\$ 56,437	\$ 1,357,268	\$ 2,400,234
Accounts receivable	62,616	11,157	-	-	-	-	62,616	11,157
Pledge contributions receivable, net	333,638	182,520	407,390	534,140	-	-	741,028	716,660
Inventories	367,920	404,800	-	-	-	-	367,920	404,800
Interfund loans	11,688	(11,796)	(16,315)	10,166	4,627	1,630	-	-
Prepaid expenses	95,208	77,587	-	-	-	-	95,208	77,587
Total current assets	1,367,799	1,445,717	1,172,733	2,106,654	83,508	58,067	2,624,040	3,610,438
Land, buildings and equipment, net	-	-	13,483,078	12,321,000	-	-	13,483,078	12,321,000
Investments	1,732,117	1,513,205	527,604	636,433	10,541,395	10,855,925	12,801,116	13,005,563
Total noncurrent assets	1,732,117	1,513,205	14,010,682	12,957,433	10,541,395	10,855,925	26,284,194	25,326,563
Total assets	\$ 3,099,916	\$ 2,958,922	\$ 15,183,415	\$ 15,064,087	\$ 10,624,903	\$ 10,913,992	\$ 28,908,234	\$ 28,937,001
<u>Liabilities and Net Assets</u>								
Current liabilities:								
Accounts payable	\$ 144,842	\$ 176,171	\$ 45,707	\$ 81,390	\$ -	\$ -	\$ 190,549	\$ 257,561
Camping, activity and other fees designated for future periods	63,894	29,088	-	-	-	-	63,894	29,088
Registration fees payable to National Council	186,655	222,500	-	-	-	-	186,655	222,500
Funds held for others	189,556	196,643	13,672	21,617	-	-	203,228	218,260
Total current liabilities	584,947	624,402	59,379	103,007	-	-	644,326	727,409
Net assets:								
Unrestricted net assets	2,142,159	2,113,082	13,668,652	12,480,634	(1,033,874)	(663,236)	14,776,937	13,930,480
Temporarily restricted net assets	372,810	221,438	1,455,384	2,480,446	678,050	658,965	2,506,244	3,360,849
Permanently restricted net assets	-	-	-	-	10,980,727	10,918,263	10,980,727	10,918,263
Total net assets	2,514,969	2,334,520	15,124,036	14,961,080	10,624,903	10,913,992	28,263,908	28,209,592
Total liabilities and net assets	\$ 3,099,916	\$ 2,958,922	\$ 15,183,415	\$ 15,064,087	\$ 10,624,903	\$ 10,913,992	\$ 28,908,234	\$ 28,937,001

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, 2011
(With Comparative Totals for 2010)

	2011			Total All Funds	
	Operating Fund	Capital Fund	Endowment Fund	2011	2010
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 \$158,437 in 2011 and \$329,711 in 2010 and net of bad debts of \$162,800 in 2011 and \$227,569 in 2010	\$ 2,389,922	\$ -	\$ -	\$ 2,389,922	\$ 2,321,548
Memorial contributions	-	-	18,430	18,430	10,685
Special events, net of direct costs of \$61,803 in 2011 and \$59,897 in 2010	175,093	-	-	175,093	162,704
Other direct support	<u>13,469</u>	<u>-</u>	<u>-</u>	<u>13,469</u>	<u>11,132</u>
Total direct public support	2,578,484	-	18,430	2,596,914	2,506,069
Indirect public support - United Way, including net assets released from expiration of time restriction of \$63,001 in 2011 and \$70,671 in 2010	<u>178,869</u>	<u>-</u>	<u>-</u>	<u>178,869</u>	<u>193,828</u>
Total public support	<u>2,757,353</u>	<u>-</u>	<u>18,430</u>	<u>2,775,783</u>	<u>2,699,897</u>
Other revenue:					
Sales of supplies, net of cost of goods sold of \$849,230 in 2011 and \$959,064 in 2010	451,509	-	-	451,509	488,592
Camping and related fees	1,113,073	-	-	1,113,073	1,012,110
Activity revenue	291,871	-	-	291,871	717,920
Product sales, net of cost of products sold of \$467,557 in 2011 and \$432,971 in 2010 and commissions paid of \$478,320 in 2011 and \$441,180 in 2010	530,900	-	-	530,900	529,931
Investment return designated for current operations	467,703	-	-	467,703	470,416
Investment income (loss) not designated	-	155,687	(389,068)	(233,381)	447,325
Miscellaneous revenue	<u>46,347</u>	<u>-</u>	<u>-</u>	<u>46,347</u>	<u>68,941</u>
Total other revenue	<u>2,901,403</u>	<u>155,687</u>	<u>(389,068)</u>	<u>2,668,022</u>	<u>3,735,235</u>
Net assets released from restrictions - restrictions satisfied by payments	<u>-</u>	<u>1,617,776</u>	<u>-</u>	<u>1,617,776</u>	<u>2,117,615</u>
Total public support and revenue	<u>5,658,756</u>	<u>1,773,463</u>	<u>(370,638)</u>	<u>7,061,581</u>	<u>8,552,747</u>

(Continued)

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statement of Changes in Net Assets, Continued

**Year ended December 31, 2011
(With Comparative Totals for 2010)**

	<u>2011</u>			<u>Total All Funds</u>	
	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Endowment Fund</u>	<u>2011</u>	<u>2010</u>
Changes in unrestricted net assets, continued					
Expenses:					
Program services	4,738,561	486,515	-	5,225,076	5,492,718
Management and general	231,630	22,087	-	253,717	243,036
Fundraising	590,558	76,843	-	667,401	644,906
Unallocated payments to National Council	<u>68,930</u>	<u>-</u>	<u>-</u>	<u>68,930</u>	<u>65,734</u>
Total operating expenses	<u>5,629,679</u>	<u>585,445</u>	<u>-</u>	<u>6,215,124</u>	<u>6,446,394</u>
Increase (decrease) in unrestricted net assets	<u>29,077</u>	<u>1,188,018</u>	<u>(370,638)</u>	<u>846,457</u>	<u>2,106,353</u>
Changes in temporarily restricted net assets					
Public support and revenue:					
Direct public support:					
Friends of Scouting	307,536	-	-	307,536	158,437
Development campaign	<u>-</u>	<u>592,714</u>	<u>-</u>	<u>592,714</u>	<u>1,659,116</u>
Total direct public support	307,536	592,714	-	900,250	1,817,553
Indirect public support - United Way	<u>65,274</u>	<u>-</u>	<u>-</u>	<u>65,274</u>	<u>63,001</u>
Total public support	<u>372,810</u>	<u>592,714</u>	<u>-</u>	<u>965,524</u>	<u>1,880,554</u>
Investment income	<u>-</u>	<u>-</u>	<u>19,085</u>	<u>19,085</u>	<u>37,314</u>
Net assets released from restrictions:					
Expiration of time restriction	(221,438)	-	-	(221,438)	(400,382)
Restrictions satisfied by payments	<u>-</u>	<u>(1,617,776)</u>	<u>-</u>	<u>(1,617,776)</u>	<u>(2,117,615)</u>
Total net assets released from restrictions	<u>(221,438)</u>	<u>(1,617,776)</u>	<u>-</u>	<u>(1,839,214)</u>	<u>(2,517,997)</u>
Increase (decrease) in temporarily restricted net assets	<u>151,372</u>	<u>(1,025,062)</u>	<u>19,085</u>	<u>(854,605)</u>	<u>(600,129)</u>

(Continued)

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statement of Changes in Net Assets, Continued

**Year ended December 31, 2011
(With Comparative Totals for 2010)**

	2011			Total All Funds	
	Operating Fund	Capital Fund	Endowment Fund	2011	2010
Changes in permanently restricted net assets:					
Direct public support	-	-	212,973	212,973	5,000
Investment income	<u>-</u>	<u>-</u>	<u>(150,509)</u>	<u>(150,509)</u>	<u>171,240</u>
Increase in permanently restricted net assets	<u>-</u>	<u>-</u>	<u>62,464</u>	<u>62,464</u>	<u>176,240</u>
Increase (decrease) in net assets	180,449	162,956	(289,089)	54,316	1,682,464
Net assets at beginning of year	<u>2,334,520</u>	<u>14,961,080</u>	<u>10,913,992</u>	<u>28,209,592</u>	<u>26,527,128</u>
Net assets at end of year	<u>\$ 2,514,969</u>	<u>\$ 15,124,036</u>	<u>\$ 10,624,903</u>	<u>\$ 28,263,908</u>	<u>\$ 28,209,592</u>

See accompanying notes to the financial statements.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statement of Functional Expenses

**Year ended December 31, 2011
(With Comparative Totals for 2010)**

	2011				Total All Funds	
	Program Services	Supporting Services		Total	2011	2010
		Management and General	General Fundraising			
Employee compensation:						
Salaries	\$ 2,268,969	\$ 104,811	\$ 364,654	\$ 469,465	\$ 2,738,434	\$ 2,677,113
Employment benefits	440,817	20,720	72,089	92,809	533,626	500,041
Payroll taxes	<u>165,564</u>	<u>7,643</u>	<u>26,591</u>	<u>34,234</u>	<u>199,798</u>	<u>214,065</u>
Total compensation expenses	2,875,350	133,174	463,334	596,508	3,471,858	3,391,219
Professional fees	38,370	64,231	8,163	72,394	110,764	101,794
Supplies and general expenses	825,207	3,482	12,114	15,596	840,803	1,187,660
Telephone	47,708	1,771	6,160	7,931	55,639	56,232
Postage and shipping	40,593	1,838	6,393	8,231	48,824	46,210
Occupancy expenses	389,738	7,341	25,541	32,882	422,620	438,989
Equipment rental and maintenance	92,013	3,600	12,523	16,123	108,136	99,017
Printing and publications	23,193	165	576	741	23,934	23,431
Travel and field operating expenses	217,778	10,221	35,561	45,782	263,560	248,774
Conference and meetings	29,261	1,669	5,808	7,477	36,738	33,169
Specific assistance	94,148	-	-	-	94,148	85,080
Recognition awards	48,146	1,841	6,405	8,246	56,392	39,977
Insurance	111,216	3,716	12,929	16,645	127,861	125,688
Miscellaneous expenses	<u>68,592</u>	<u>871</u>	<u>3,017</u>	<u>3,888</u>	<u>72,480</u>	<u>138,262</u>
Total expenses before depreciation	4,901,313	233,920	598,524	832,444	5,733,757	6,015,502
Depreciation of buildings and equipment	<u>323,763</u>	<u>19,797</u>	<u>68,877</u>	<u>88,674</u>	<u>412,437</u>	<u>365,158</u>
	<u>\$ 5,225,076</u>	<u>\$ 253,717</u>	<u>\$ 667,401</u>	<u>\$ 921,118</u>	<u>\$ 6,146,194</u>	<u>\$ 6,380,660</u>

See accompanying notes to the financial statements.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statements of Cash Flows

Year ended December 31, 2011
(With Comparative Totals for 2010)

	<u>2011</u>			<u>Total All Funds</u>	
	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Endowment Fund</u>	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:					
Increase (decrease) in net assets	\$ <u>180,449</u>	\$ <u>162,956</u>	\$ <u>(289,089)</u>	\$ <u>54,316</u>	\$ <u>1,682,464</u>
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:					
Depreciation	-	412,437	-	412,437	365,158
(Gain) loss on investments	(16,221)	(2,241)	294,176	275,714	(787,332)
Contributions restricted for endowment purposes	-	-	(212,973)	(212,973)	(5,000)
Contributions restricted for capital improvements	-	(592,714)	-	(592,714)	(1,659,116)
Changes in operating assets and liabilities:					
Pledges and accounts receivable	(202,577)	-	-	(202,577)	195,568
Inventories	36,880	-	-	36,880	(16,629)
Interfund loans	(23,484)	26,481	(2,997)	-	-
Prepaid expenses	(17,621)	-	-	(17,621)	132,966
Accounts payable	(31,329)	(35,683)	-	(67,012)	136,353
Camping, activity and other fees designated for future periods	34,806	-	-	34,806	(159,787)
Registration fees payable to National Council	(35,845)	-	-	(35,845)	6,755
Funds held for others	<u>(7,087)</u>	<u>(7,945)</u>	<u>-</u>	<u>(15,032)</u>	<u>45,347</u>
Net cash provided (used) by operating activities	<u>(82,029)</u>	<u>(36,709)</u>	<u>(210,883)</u>	<u>(329,621)</u>	<u>(63,253)</u>
Cash flows from investing activities:					
Proceeds from sales of investments	63,510	268,615	367,167	699,292	1,472,726
Purchases of investments	(266,201)	(157,545)	(346,813)	(770,559)	(1,125,684)
Additions to land, buildings and equipment	<u>-</u>	<u>(1,574,515)</u>	<u>-</u>	<u>(1,574,515)</u>	<u>(2,087,411)</u>
Net cash provided (used) by investing activities	<u>(202,691)</u>	<u>(1,463,445)</u>	<u>20,354</u>	<u>(1,645,782)</u>	<u>(1,740,369)</u>

(continued)

See accompanying notes to the financial statements.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statements of Cash Flows

**Year ended December 31, 2011
(With Comparative Totals for 2010)**

	<u>2011</u>			<u>Total All Funds</u>	
	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Endowment Fund</u>	<u>2011</u>	<u>2010</u>
Cash flows from financing activities:					
Collection of endowment fund support	-	-	212,973	212,973	5,000
Collection of development campaign support	<u>-</u>	<u>719,464</u>	<u>-</u>	<u>719,464</u>	<u>1,761,298</u>
Net cash provided by financing activities	<u>-</u>	<u>719,464</u>	<u>212,973</u>	<u>932,437</u>	<u>1,766,298</u>
Net increase (decrease) in cash	(284,720)	(780,690)	22,444	(1,042,966)	(37,324)
Cash at beginning of year	<u>781,449</u>	<u>1,562,348</u>	<u>56,437</u>	<u>2,400,234</u>	<u>2,437,558</u>
Cash at end of year	<u>\$ 496,729</u>	<u>\$ 781,658</u>	<u>\$ 78,881</u>	<u>\$ 1,357,268</u>	<u>\$ 2,400,234</u>

See accompanying notes to the financial statements.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2011 and 2010

(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, 2011 and 2010

(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. An allowance for uncollectible promises to give is recorded based on an analysis of collection histories and on reviews of the credit worthiness of major donors. 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 amounted to \$48,177 in 2011 and \$45,471 in 2010.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2011 and 2010

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 2011 and 2010 amounted to approximately \$49,000 and \$44,000, 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, 2011 and 2010

(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, 2011 and 2010.

(i) Inter-fund loans

The Inter-fund loans at December 31, 2011, result from the Endowment Fund and Operating Fund making advances of surplus cash funds to the 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, are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals 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 of physical properties is provided over the estimated useful lives of the respective assets on a straight-line basis. Annual depreciation is charged to the Capital Fund.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2011 and 2010

(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, 2011 or 2010. 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, 2011 and 2010

As of December 31, 2011 or 2010, 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, 2010, from which the summarized information was derived.

(r) Recent accounting pronouncements

New accounting standards are now issued by the Financial Accounting Standards Board (FASB) through Accounting Standards Updates (ASUs) to the FASB Accounting Standards Codification (ASC). The FASB does not consider the updates authoritative on a standalone basis; they become authoritative when incorporated into the ASC. The ASUs will be in a six-digit, two-segment format (20YY-XX) where YY is the year issued and XX is the sequential number of each update. So, ASU 2011-01 would be the first update issued in 2011, and so forth.

Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715—80), Disclosures about an Employer's Participation in a Multiemployer Plan ("ASU 2011-09") was issued in September 2011. This ASU requires expanded disclosures for certain defined benefit pension and other postretirement plans. ASU 2011-09 is effective for local councils in 2012 with early adoption permitted. The Council adopted the provisions of this ASU on October 1, 2011, which did not materially affect the Council's financial statements (see Note 9).

Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04") was issued in May 2011 and amends ASC 820, Fair Value Measurement, to change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The adoption of ASU 2011-04 becomes effective for local councils starting in 2012 and is not expected to significantly affect the Council's financial statements (see Note 7).

(s) Events occurring after reporting date

The Council has evaluated events and transactions that occurred between December 31, 2011 and April 13, 2012 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2011 and 2010

(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

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. These standards apply to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements or reported balances.

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, 2011 and 2010.

See also note 7 for presentation of the levels of investments.

(5) Pledges receivable

A summary of pledges receivable as of December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Friends of Scouting	\$ 257,716	\$ 127,700
United Way allocations	75,922	54,820
Development campaign	<u>471,850</u>	<u>597,475</u>
	805,488	779,995
Less allowance for unamortized discount and doubtful accounts	<u>64,460</u>	<u>63,335</u>
	<u>\$ 741,028</u>	<u>\$ 716,660</u>

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2011 and 2010

Pledges receivable at December 31, 2011 are due within one year. The development campaign pledges receivable are due as follows:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year	\$ 471,850	\$ 353,975
Receivable in one to five years	<u>-</u>	<u>243,500</u>
	<u>\$ 471,850</u>	<u>\$ 597,475</u>

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, 2011. Because these are not unconditional promises to give they are not recorded on the books of the Council.

(6) Investments

A summary of investments as of December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Short-term investments	\$ 252,462	\$ 161,406
Equities and equity funds	9,948,086	10,127,234
Bonds and bond funds	2,057,554	2,203,042
Certificate of deposit	204,343	200,000
Real estate and real estate investment funds	336,570	311,780
Notes receivable - Rock Island	<u>2,101</u>	<u>2,101</u>
	<u>\$ 12,801,116</u>	<u>\$ 13,005,563</u>

The following schedule summarizes the investment income included in the statements of activities for 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 458,437	\$ 380,188
Net gains (losses)	(275,714)	812,017
Investment expenses	<u>(79,825)</u>	<u>(65,910)</u>
	<u>\$ 102,898</u>	<u>\$ 1,126,295</u>

The above investment income is classified in the statement of activities for 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Unrestricted	\$ 234,322	\$ 917,741
Temporarily restricted	19,085	37,314
Permanently restricted	<u>(150,509)</u>	<u>171,240</u>
	<u>\$ 102,898</u>	<u>\$ 1,126,295</u>

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2011 and 2010

(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, 2011 and 2010.

- (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, 2011 and 2010:

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>

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2011 and 2010

**Fair Value Measurements as of
December 31, 2010 using the following inputs**

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Short-term investments	\$ 161,406	\$ 161,406	\$ -	\$ -
Equities and equity fund	10,127,234	10,127,234	-	-
Bonds and bond fund	2,203,042	2,203,042	-	-
Certificate of deposit	200,000	200,000	-	-
Real estate	311,780	-	-	311,780
Note receivable - Rock Island	<u>2,101</u>	<u>-</u>	<u>-</u>	<u>2,101</u>
Total financial assets	\$ <u>13,005,563</u>	\$ <u>12,691,682</u>	\$ <u>-</u>	\$ <u>313,881</u>

There was no change in the value of level 3 investments during 2011 or 2010.

(8) Land, buildings, and equipment

A summary of land, buildings and equipment as of December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Land	\$ 5,403,981	\$ 4,436,754
Council office building	2,989,238	2,989,238
Buildings - Boxwell Reservation, Canoe Base and High Adventure	8,137,434	6,891,894
Roads - Boxwell Reservation	929,760	929,760
Furniture, fixtures and equipment:		
Council office	350,109	384,749
Boxwell Reservation	934,735	883,886
Motor Vehicles	214,865	214,865
Construction in progress	<u>885,191</u>	<u>1,619,314</u>
	19,845,313	18,350,460
Accumulated depreciation	<u>(6,362,235)</u>	<u>(6,029,460)</u>
	\$ <u>13,483,078</u>	\$ <u>12,321,000</u>

(9) Employee benefit plans

Retirement Plan

The Boy Scouts of America has a defined benefit multiemployer retirement plan that covers eligible employees of the National Council and this Council and is administered by the National Council. 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, 2011 and 2010 were approximately \$131,000 and \$126,000, respectively.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2011 and 2010

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 approximately \$35,000 and \$38,000 to the Thrift Plan in 2011 and 2010, 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, 2011 and 2010, the Council remitted approximately \$229,000 and \$215,000, 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Development campaign expenditures	\$ 1,512,495	\$ 2,522,557
Scouting activities:		
Camperships	95,392	92,714
Low income exploring	92,787	92,787
Property maintenance	44,611	44,611
Navigator scholarship	338,041	353,660
Laura Miller scholarship program	49,575	33,956
Connelly scholarship program	533	(874)
Friends of Scouting and other for future periods	307,536	158,437
United Way allocations for future periods	<u>65,274</u>	<u>63,001</u>
	<u>\$ 2,506,244</u>	<u>\$ 3,360,849</u>

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2011 and 2010

Permanently restricted net assets consist of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Investments in perpetuity, the income from which is expendable to support:		
Scouting activities	\$ 668,989	\$ 713,390
Property maintenance	287,679	320,650
Camp Craig property maintenance	32,584	31,553
Laura Miller scholarship program	353,529	372,944
Connelly scholarship program	25,080	23,180
Any activities of the Council	<u>9,612,866</u>	<u>9,456,546</u>
	<u>\$ 10,980,727</u>	<u>\$ 10,918,263</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, 2011 and 2010

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>

The endowment pool market value to net asset analysis as of December 31, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment pool:				
Donor-restricted	\$ -	\$ 658,965	\$ 10,918,263	\$ 11,577,228
Board-designated	<u>(721,303)</u>	<u>-</u>	<u>-</u>	<u>(721,303)</u>
	(721,303)	658,965	10,918,263	10,855,925
Other net assets	<u>58,067</u>	<u>-</u>	<u>-</u>	<u>58,067</u>
Total	<u>\$ (663,236)</u>	<u>\$ 658,965</u>	<u>\$ 10,918,263</u>	<u>\$ 10,913,992</u>

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

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Changes in endowment net assets as of December 31, 2011 and 2010 are as follows:

	<u>Total Net Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Endowment Assets</u>
Endowment net assets, December 31, 2009	\$ (1,060,946)	\$ 621,651	\$ 10,742,023	\$ 10,302,728
Contributions	10,685	-	5,000	15,685
Investment income	266,045	73,893	171,240	511,178
Net appreciation	529,420	22,209	-	551,629
Amounts appropriated for expenditures	-	(58,788)	-	(58,788)
Investment fees	(34,750)	-	-	(34,750)
Transfers	<u>(373,690)</u>	<u>-</u>	<u>-</u>	<u>(373,690)</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	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	\$ <u>(1,033,874)</u>	\$ <u>678,050</u>	\$ <u>10,980,727</u>	\$ <u>10,624,903</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 \$1,033,874 and \$663,236 existed at December 31, 2011 and 2010, respectively.

(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, 2011 is as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 215,000
2013	125,000
2014	15,000
2015	<u>15,000</u>
	\$ <u>370,000</u>

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2011 and 2010

Lease expense amounted to approximately \$138,000 in 2011 and \$141,000 in 2010.

(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, 2011 and 2010, deposits with the banks were \$1,324,978 and \$2,319,945, respectively. As of December 31, 2011 and 2010, investments were \$12,801,116 and \$13,005,563, respectively.

The Council receives commissions on internet sales at a rate of 6% from the National Council. During 2011 and 2010, the Council received commissions amounting to \$2,917 and \$2,822, respectively.

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

Year ended December 31, 2011

	Operating <u>Fund</u>	Budget <u>(Unaudited)</u>	Over (Under) <u>Budget</u>
Public support and revenue:			
Direct public support:			
Friends of Scouting	\$ 2,389,922	\$ 2,800,000	\$ (410,078)
Special events, net of direct costs	175,093	215,000	(39,907)
Other direct support	<u>13,469</u>	<u>20,000</u>	<u>(6,531)</u>
Total direct public support	2,578,484	3,035,000	(456,516)
Indirect public support - United Way	<u>178,869</u>	<u>195,000</u>	<u>(16,131)</u>
Total public support	<u>2,757,353</u>	<u>3,230,000</u>	<u>(472,647)</u>
Other revenue:			
Sales of supplies, net of cost of goods sold	451,509	450,400	1,109
Camping and related fees	1,113,073	1,045,420	67,653
Activity revenue	291,871	284,419	7,452
Product sales, net of cost of products sold	530,900	650,000	(119,100)
Investment income	467,703	395,000	72,703
Miscellaneous revenue	<u>46,347</u>	<u>65,000</u>	<u>(18,653)</u>
Total other revenue	<u>2,901,403</u>	<u>2,890,239</u>	<u>11,164</u>
Total public support and revenue	<u>5,658,756</u>	<u>6,120,239</u>	<u>(461,483)</u>
Expenses:			
Employee compensation:			
Salaries	2,665,378	3,041,700	(376,322)
Employment benefits	517,749	526,400	(8,651)
Payroll taxes	<u>194,209</u>	<u>245,500</u>	<u>(51,291)</u>
Total compensation expenses	3,377,336	3,813,600	(436,264)
Professional fees	110,764	130,050	(19,286)
Supplies and general expenses	831,709	841,856	(10,147)
Telephone	54,456	54,300	156
Postage and shipping	48,824	60,800	(11,976)
Occupancy expenses	374,919	347,700	27,219
Equipment rental and maintenance	102,486	102,400	86
Printing and publication	23,934	21,200	2,734
Travel and field operating expenses	263,560	285,600	(22,040)
Conference and meetings	36,738	50,200	(13,462)
Specific assistance	94,148	90,250	3,898
Recognition award	56,392	49,150	7,242
Insurance	127,861	123,130	4,731
Miscellaneous expenses	57,622	61,730	(4,108)
Unallocated payments to National Council	<u>68,930</u>	<u>72,500</u>	<u>(3,570)</u>
Total expenses	<u>5,629,679</u>	<u>6,104,466</u>	<u>(474,787)</u>
Increase in unrestricted net assets	\$ <u>29,077</u>	\$ <u>15,773</u>	\$ <u>13,304</u>

See accompanying independent auditors' report.

Changes in Unrestricted Net Assets (Operating Fund Only)

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Public support and revenue:		
Direct public support:		
Friends of Scouting	\$ 2,389,922	\$ 2,321,548
Special events, net of direct costs	175,093	162,704
Other direct support	<u>13,469</u>	<u>11,132</u>
Total direct public support	2,578,484	2,495,384
Indirect public support - United Way	<u>178,869</u>	<u>193,828</u>
Total public support	<u>2,757,353</u>	<u>2,689,212</u>
Other revenue:		
Sales of supplies, net of cost of goods sold	451,509	488,592
Camping and related fees	1,113,073	1,012,110
Activity revenue	291,871	717,920
Product sales, net of cost of products sold	530,900	529,931
Investment income	467,703	470,416
Miscellaneous revenue	<u>46,347</u>	<u>68,941</u>
Total other revenue	<u>2,901,403</u>	<u>3,287,910</u>
Total public support and revenue	<u>5,658,756</u>	<u>5,977,122</u>
Expenses:		
Program services	4,738,561	5,090,244
Supporting services:		
Management and general	231,630	223,845
Fundraising	590,558	578,139
Unallocated payments to National Council	<u>68,930</u>	<u>65,734</u>
Total expenses	<u>5,629,679</u>	<u>5,957,962</u>
Increase in unrestricted net assets	\$ <u>29,077</u>	\$ <u>19,160</u>

See accompanying independent auditors' report.