

BOYS AND GIRLS CLUBS OF MIDDLE TENNESSEE

FINANCIAL STATEMENTS

DECEMBER 31, 2013

(With Independent Auditor's Report Thereon)

BOYS AND GIRLS CLUBS OF MIDDLE TENNESSEE
FINANCIAL STATEMENTS
DECEMBER 31, 2013

CONTENTS

| | <u>PAGE</u> |
|----------------------------------|--------------------|
| Independent Auditor's Report | 1 |
| Audited Financial Statements: | |
| Statement of Financial Position | 2 |
| Statement of Activities | 3 |
| Statement of Functional Expenses | 4 |
| Statement of Cash Flows | 5 |
| Notes to Financial Statements | 6 - 14 |



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Boys and Girls Clubs of Middle Tennessee (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Boys and Girls Clubs of Middle Tennessee as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Patterson Hardee & Ballentine

March 6, 2014

BOYS AND GIRLS CLUBS OF MIDDLE TENNESSEE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013

ASSETS

Current Assets:

| | |
|--------------------------------|----------------|
| Cash | \$ 391,138 |
| Grants and contract receivable | 126,838 |
| Contributions receivable | 5,908 |
| Prepaid expenses and deposits | 12,435 |
| Investments | <u>491,953</u> |

Total current assets \$ 1,028,272

Property and Equipment - net 1,298,427

Assets Whose Use is Limited:

| | |
|--|---------------|
| Cash | 571,811 |
| Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee | 23,438 |
| Investments | 476,266 |
| Membership rights - net of amortization | 97,500 |
| Capital campaign assets: | |
| Cash | 757,493 |
| Contributions receivable - net | <u>95,732</u> |

Total assets whose use is limited 2,022,240

\$ 4,348,939

LIABILITIES AND NET ASSETS

Current Liabilities:

| | |
|------------------|---------------|
| Accounts payable | \$ 27,049 |
| Accrued expense | <u>36,933</u> |

Total current liabilities \$ 63,982

Net Assets:

Unrestricted 2,262,717

Restricted Net Assets:

| | |
|------------------------|----------------|
| Temporarily restricted | 1,060,304 |
| Permanently restricted | <u>961,936</u> |

Total restricted net assets 2,022,240

Total Net Assets 4,284,957

\$ 4,348,939

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF MIDDLE TENNESSEE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Public Support and Revenue: | | | | |
| Individual gifts and contributions | \$ 657,307 | \$ 10,242 | \$ 450 | \$ 667,999 |
| Grants and contracts | 493,132 | 15,228 | - | 508,360 |
| United Way grants, allocations, and designations | 19,919 | 100,000 | - | 119,919 |
| Special events | 470,671 | - | - | 470,671 |
| Program service fees | 278,552 | - | - | 278,552 |
| Membership dues and other | 14,511 | - | - | 14,511 |
| Donated rent | 16,790 | - | - | 16,790 |
| Investment income - net | 78,949 | 18 | 2,954 | 81,921 |
| Other | 35,369 | - | - | 35,369 |
| Net assets released from restrictions | <u>148,028</u> | <u>(148,028)</u> | <u>-</u> | <u>-</u> |
| Total public support and revenue | <u>2,213,228</u> | <u>(22,540)</u> | <u>3,404</u> | <u>2,194,092</u> |
| Expenses: | | | | |
| Program services: | | | | |
| Comprehensive Youth Development | 1,673,552 | - | - | 1,673,552 |
| Supporting services: | | | | |
| Management and general | 189,389 | - | - | 189,389 |
| Fundraising | <u>277,592</u> | <u>-</u> | <u>-</u> | <u>277,592</u> |
| Total expenses | <u>2,140,533</u> | <u>-</u> | <u>-</u> | <u>2,140,533</u> |
| Increase (decrease) in net assets | 72,695 | (22,540) | 3,404 | 53,559 |
| Net assets - beginning of year | <u>2,190,022</u> | <u>1,082,844</u> | <u>958,532</u> | <u>4,231,398</u> |
| Net assets - end of year | <u>\$ 2,262,717</u> | <u>\$ 1,060,304</u> | <u>\$ 961,936</u> | <u>\$ 4,284,957</u> |

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF MIDDLE TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2013

| | <u>Program Services</u> | <u>Supporting Services</u> | | |
|------------------------------------|---------------------------------------|----------------------------|-------------------|---------------------|
| | Comprehensive Youth Development | Management and General | Fundraising | Total |
| Salaries | \$ 846,621 | \$ 115,410 | \$ 91,971 | \$ 1,054,002 |
| Employee taxes and fringe benefits | 132,033 | 20,510 | 16,510 | 169,053 |
| Total payroll and related expenses | 978,654 | 135,920 | 108,481 | 1,223,055 |
| Awards and grants | 2,593 | 180 | 0 | 2,773 |
| Communications | 7,753 | 1,394 | - | 9,147 |
| Depreciation and amortization | 73,855 | 1,507 | 30,000 | 105,362 |
| Equipment rental and maintenance | 34,838 | 7,592 | - | 42,430 |
| Field trips and other youth events | 112,014 | - | - | 112,014 |
| Insurance | 60,097 | 511 | - | 60,608 |
| In-kind expense | 16,790 | - | - | 16,790 |
| Interest expense | 41 | - | - | 41 |
| Marketing | 6,628 | - | 2,840 | 9,468 |
| Membership dues | 22,607 | 1,580 | - | 24,187 |
| Miscellaneous | 67,276 | - | - | 67,276 |
| Postage | 121 | 1,328 | 547 | 1,996 |
| Professional fees | 30,851 | 18,930 | - | 49,781 |
| Rent | 20,798 | 11,232 | - | 32,030 |
| Special events | 46,101 | - | 134,722 | 180,823 |
| Supplies | 66,072 | 5,444 | - | 71,516 |
| Training and conferences | 12,787 | 2,434 | - | 15,221 |
| Transportation | 40,490 | 1,337 | 1,002 | 42,829 |
| Utilities and occupancy costs | 73,186 | - | - | 73,186 |
| | <u>\$ 1,673,552</u> | <u>\$ 189,389</u> | <u>\$ 277,592</u> | <u>\$ 2,140,533</u> |

See accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF MIDDLE TENNESSEE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

| | | |
|--|-----------------|--------------------------|
| Cash Flows From Operating Activities: | | |
| Increase in net assets | | \$ 53,559 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | \$ 105,362 | |
| Realized gain on investments | (8,947) | |
| Dividends and interest reinvested | (6,019) | |
| Unrealized gains on investments | (66,955) | |
| Change in value of beneficial interest in agency endowment fund | (450) | |
| Changes in: | | |
| Contributions receivable | 128,658 | |
| Accounts receivable | (488) | |
| Prepaid insurance | 4,839 | |
| Assets whose use is limited | (4,694) | |
| Accounts payable | 2,685 | |
| Accrued expenses | 4,604 | |
| Total adjustments | | <u>158,595</u> |
| Net cash provided by operating activities | | <u>212,154</u> |
| Cash Flows From Investing Activities: | | |
| Purchase of property and equipment | <u>(17,991)</u> | |
| Net cash used in investing activities | | <u>(17,991)</u> |
| Cash Flows From Financing Activities: | | |
| Payments on long-term debt | <u>(2,438)</u> | |
| Net cash used in financing activities | | <u>(2,438)</u> |
| Net increase in cash | | 191,725 |
| Cash - beginning of year | | <u>199,413</u> |
| Cash - end of year | | <u><u>\$ 391,138</u></u> |

Supplemental Cash Flow Information

Interest paid during the year ended December 31, 2013, was \$41.

BOYS AND GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

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

Basis of Presentation

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

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

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

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

Cash Equivalents

For the purposes of the Statement of Cash Flows, we consider all unrestricted cash and investment instruments purchased with an original maturity date of ninety days or less from the date of issuance to be a cash equivalent. At December 31, 2013, we had no cash equivalents.

Property and Equipment

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

Functional Allocation of Expenses

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

Advertising

Advertising is expensed as incurred. Total advertising expense for the year ended December 31, 2013 was \$9,468.

BOYS AND GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - Summary of Significant Accounting Policies (continued)

Income Taxes

We are a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code and are classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements. We do not believe there are any uncertain tax positions. Further, we do not believe that we have any unrelated business income, which would be subject to federal taxes. We are not subject to examination by U.S. federal or state taxing authorities for years before 2010.

Use of Estimates

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

Fair Values of Financial Instruments

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

Contributions Receivable

Unconditional promises to give (pledges) are recognized as contribution revenue when the donor's commitment is received. Pledges with payments due to us in future periods are recorded as increases in temporarily restricted or permanently restricted net assets at the estimated present value of future cash flows, net of an allowance for estimated uncollectible promises. Allowance is made for uncollectible contributions receivable based upon our analysis of past collection experience and other judgmental factors. At December 31, 2013, an allowance of \$68,815 was considered necessary.

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

NOTE 2 - Contributions Receivable

Contributions receivable consisted of the following at December 31, 2013:

| | |
|---------------------------------------|-------------------|
| Due in less than one year | \$ 5,908 |
| Due in one to five years | <u>181,910</u> |
| | 187,818 |
| Less: discounts to net present value | (17,363) |
| Less: allowance for doubtful accounts | <u>(68,815)</u> |
| Net contributions receivable | <u>\$ 101,640</u> |

BOYS AND GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 2 - Contributions Receivable - (continued)

Contributions receivable at December 31, 2013, are shown in the financial statements as follows:

| | |
|--|-------------------|
| Contributions receivable | \$ 5,908 |
| Asset whose use is limited: Capital campaign assets - contributions receivable - net | <u>95,732</u> |
| Net contributions receivable | <u>\$ 101,640</u> |

One hundred percent (100%) of the capital campaign contributions receivable are from Board members. Capital campaign activities have been put on hold as management and the board of directors assess the capital needs of the Organization. The initial timing of the expected collection period has been extended due to this re-evaluation. As of March 6, 2014, no capital expenditure commitments have been made.

NOTE 3 - Investments

Investments consisted of the following at December 31, 2013:

| | <u>Market Value</u> | <u>Cost</u> |
|--|-------------------------|-------------------|
| Mutual Funds | \$ 243,079 | \$ 232,500 |
| Common Stock - Public | 333,664 | 228,844 |
| First LLC Ownership | 134,154 | 133,506 |
| Foreign Stock | <u>7,322</u> | <u>6,928</u> |
| | 718,219 | 601,778 |
| Second LLC Ownership (see description below) | <u>250,000</u> | <u>250,000</u> |
| | 968,219 | <u>\$ 851,778</u> |
| Less: restricted investments | <u>(476,266)</u> | |
| | <u>\$ 491,953</u> | |

Investment income (loss) consisted of the following for the year ended December 31, 2013:

| | |
|------------------------------|------------------|
| Interest and dividend income | 14,720 |
| Realized gain - net | 8,947 |
| Unrealized gain - net | 66,955 |
| Investment fees | <u>(8,701)</u> |
| Investment income - net | <u>\$ 81,921</u> |

At December 31, 2013, we owned units of ownership in two limited liability companies (LLCs). Our ownership is a result of contributions made in 2010 and 2012.

BOYS AND GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3 - Investments - (continued)

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

We have recognized the first LLC ownership interest at fair market value in accordance with generally accepted accounting principles under the fair value option. The fair value of the ownership interest is measured annually based on the values of the underlying investment held in the LLC. As of December 31, 2013, the fair value of this ownership interest was \$134,154.

The second ownership interest has a carrying value based on the fair value on the date of contribution, but is not remeasured at fair value annually in accordance with generally accepted accounting principles. The value of the second LLC was established by an independent third-party valuator when the ownership interest was received. As of December 31, 2013, the carrying value of the second LLC investment is \$250,000. As of December 31, 2013, we are not aware of any adverse effects on the value of the investment.

NOTE 4 - Fair Value Measurements

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

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

The following table summarizes our financial assets measured at fair value on a recurring basis segregated by level of valuation inputs within the fair value hierarchy utilized to measure fair value as of December 31, 2013:

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---|-------------------|-------------------|-------------------|------------------|
| Mutual Funds | \$ 243,079 | \$ 243,079 | \$ - | \$ - |
| Common Stocks-Public | 333,664 | 333,664 | - | - |
| First LLC Ownership | 134,154 | - | 134,154 | - |
| Foreign Stock | 7,322 | 7,322 | - | - |
| Beneficial interest in agency endowment fund | 23,438 | - | - | 23,438 |
| | <u>\$ 741,657</u> | <u>\$ 584,065</u> | <u>\$ 134,154</u> | <u>\$ 23,438</u> |

There were no transfers between Level 1, Level 2, and Level 3 investments during the year ended December 31, 2013.

A reconciliation of changes in the amounts reported for the asset valued using Level 3 inputs is included in Note 8.

BOYS AND GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5 - Property and Equipment

Property and equipment consisted of the following at December 31, 2013:

| | |
|-----------------------------------|---------------------|
| Land | \$ 26,530 |
| Buildings and improvements | 2,691,748 |
| Vehicles | 241,492 |
| Furniture, equipment and software | <u>496,754</u> |
| | 3,456,524 |
| Less accumulated depreciation | <u>(2,158,097)</u> |
| Net property and equipment | <u>\$ 1,298,427</u> |

Total depreciation expense for the year ended December 31, 2013, was \$75,362.

The Thompson Lane facility is not currently in use and has a net book value of approximately \$21,965 as of December 31, 2013.

NOTE 6 - Membership Rights

During 2007, we entered into a membership purchase agreement with the Golf Club of Tennessee (the "Club") and paid \$300,000 for membership rights. We received a restricted contribution to finance the membership, which allows for 10 years of annual fundraising golf tournaments at the Club and the right to unlimited use of the Club's facilities for the cultivation and solicitation of donors. We have no equity or ownership or any other property interest in the Club. We are amortizing the cost of the membership rights over the term of the agreement. For the year ended December 31, 2013, we reported amortization expense of \$30,000. Amortization expense will be \$30,000 each year for the years 2014 through 2016, respectively, and \$7,500 for the year 2017. See Note 7 for inclusion of membership rights, net of amortization.

NOTE 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at December 31, 2013:

| | |
|---|---------------------|
| Scholarship - Youth of the Year | \$ 31,635 |
| United Way of Williamson County | 50,000 |
| City of Franklin grant | 7,614 |
| Ray White Fund | 20,330 |
| Membership rights - net of amortization | 97,500 |
| Capital Campaign | <u>853,225</u> |
| | <u>\$ 1,060,304</u> |

BOYS AND GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 8 - Beneficial Interest

At December 31, 2013, the Community Foundation of Middle Tennessee, (the Foundation) a non-profit organization, is in control of an endowment fund for us. The endowment has been recorded as permanently restricted. The Foundation has ultimate authority and control over all property of the fund and the income derived therefrom. The endowment is considered a reciprocal transfer and is therefore recorded as an asset on our Statement of Financial Position.

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

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

| | |
|--|------------------|
| Balance - beginning of period | \$ 20,034 |
| Change in value of beneficial interest in agency endowment fund: | |
| Contributions | 450 |
| Investment income | 3,139 |
| Administrative expenses | <u>(185)</u> |
| | <u>3,404</u> |
| Balance - end of period | <u>\$ 23,438</u> |

NOTE 9 - Endowment Funds

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

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

Interpretation of applicable law - The Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, we classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA.

Spending policy - we have a policy of appropriating for distribution each year a payout equal to the total earnings from the funds. Funds released from restriction as of December 31, 2013, were \$79,002.

BOYS AND GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 9 - Endowment Funds - (continued)

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

A schedule of endowment net asset composition by type of fund as of December 31, 2013, follows:

| | <u>Unrestricted (Deficit)</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-----------------|-----------------------------------|-----------------------------------|-----------------------------------|--------------|
| Endowment funds | \$ 491,953 | \$ - | \$ 938,498 | \$ 1,430,451 |

NOTE 10 - Changes in Endowment Fund Net Assets

A schedule of changes in endowment net assets follows for the year ended December 31:

| | <u>Unrestricted (Deficit)</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|-----------------------------------|-----------------------------------|-----------------------------------|--------------|
| Endowment net assets, January 1, 2013 | \$ 415,572 | \$ - | \$ 938,498 | \$ 1,354,070 |
| Contributions | - | - | - | - |
| Investment income | 2,166 | 11,785 | - | 13,951 |
| Administrative expenses | - | (8,517) | - | (8,517) |
| Net appreciation (realized and unrealized) | (2,621) | 75,734 | - | 73,113 |
| Amounts released from restriction | 79,002 | (79,002) | - | - |
| Less: Investment earnings deposited to cash account | (2,166) | - | - | (2,166) |
| Endowment net assets, December 31, 2013 | \$ 491,953 | \$ - | \$ 938,498 | \$ 1,430,451 |

NOTE 11 - Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following at December 31, 2013:

| | |
|------------------|-------------------|
| Agency Endowment | \$ 23,438 |
| Endowment Fund | <u>938,498</u> |
| | <u>\$ 961,936</u> |

BOYS AND GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 12 - Leases

We have an agreement with another organization to lease administrative office space and reimburse certain operating costs through June 2014. The agreement calls for a reimbursement of actual costs to operate the facility including association fees, utilities, janitorial costs, insurance, maintenance and other items. Operating costs reimbursable under the agreement include a prorata share of an office services associate, telephone and internet service, consumable supplies and other items. An accounting of the actual costs is prepared on a semi-annual basis and any adjustment from the projected cost to the actual cost is reimbursed at that time. Expenses under this agreement totaled \$18,730 for the year ended December 31, 2013.

On December 1, 2007, we entered into a lease agreement for a club facility that has been extended and expires October 31, 2014. Expenses under this agreement totaled \$13,300 for the year ended December 31, 2013.

In July 2013, we entered into a lease for office equipment that expires October 2016. Equipment rental expense for the year ended December 31, 2013 was \$7,381, which is included in equipment rental and maintenance on the Statement of Functional Expenses.

Expenses incurred under operating leases for the year ended December 31, 2013 were \$39,411, not including donated rent of \$16,790.

A schedule of future minimum lease payments required under all noncancelable operating leases as of December 31, 2013, follows:

Year Ending December 31.

| | |
|------------|-----------|
| 2014 | \$ 26,312 |
| 2015 | 5,928 |
| 2016 | 4,940 |
| 2017 | - |
| 2018 | - |
| Thereafter | - |
| | <hr/> |
| | \$ 37,180 |

Future minimum lease payments of \$8,850 included in 2014 are estimated at the same monthly payment of \$1,475 and a time period of one year. This is due to a verbal commitment to renew the office lease agreement for one year, but a formal lease agreement has not been executed as of March 6, 2014.

NOTE 13 - Concentrations of Credit Risk

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

Three donors represent 88% of total grants and contract receivable at December 31, 2013.

We maintain cash accounts at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation up to statutory limits. As of December 31, 2013, the uninsured cash balance was \$946,108.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer that is the custodian of the Organization's securities is covered by the Securities Investor Protection Corporation ("SIPC"), which provides protection to investors in certain circumstances such as fraud or failure of the

BOYS AND GIRLS CLUBS OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 13 - Concentrations of Credit Risk - (continued)

institution. Coverage is limited to \$500,000, including up to \$250,000 in cash. The SIPC does not insure against market risk.

NOTE 14 - Employee Benefit Plan

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

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

For the year ended December 31, 2013, we contributed \$11,346 to the plan, which is included in employee taxes and fringe benefits on the Statement of Functional Expenses.

NOTE 15 - Related Parties

We are a locally governed affiliate that is required to pay membership dues to the national organization. In return, we receive support from the national organization which helps fund our programs. During the year ended December 31, 2013, we remitted a total of \$7,672 in membership dues and received \$192,859 in funding. As of December 31, 2013, we were due \$40,209 from our national affiliate, which is grouped with grants and contract receivable.

We are also part of the Tennessee Alliance which is a collective of all Boys and Girls Clubs of Tennessee which raises money to distribute to the Tennessee clubs. During the year ended December 31, 2013, we remitted \$12,591 in membership dues and received funding of \$100,324. As of December 31, 2013, we were due \$21,011 from Tennessee Alliance, which is grouped with grants and contract receivable.

NOTE 16 - Contingencies

We have been named as a defendant in one lawsuit filed by a participant in a joint program between us and another organization. As of December 31, 2013, and as of March 6, 2014, the date the financial statements were available to be issued, we plan to vigorously defend our position and believe the lawsuit should be dismissed.

NOTE 17 - Joint Costs

During the year ended December 31, 2013, we had certain joint costs pertaining to special events that have been allocated between fundraising and program expense as follows:

| | <u>Program</u> | <u>Fundraising</u> | <u>Total</u> |
|----------------|----------------|--------------------|--------------|
| Special events | \$ 46,101 | \$ 134,722 | \$ 180,823 |

All criteria required to allocate joint costs were met during the year ended December 31, 2013.

NOTE 18 - Subsequent Events

We have evaluated events subsequent to the year ending December 31, 2013. As of March 6, 2014, the date that the financial statements were available to be issued, no events subsequent to the balance sheet date are considered necessary to be included in the financial statements for the period ended December 31, 2013.