



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

**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, 2010, and have issued our report thereon dated April 28, 2011. 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 letter to you dated October 9, 2010. 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. No new accounting policies were adopted and the application of existing policies was not changed during 2010. 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 fair value of investments, anticipated collection of pledges and other receivables, the functional allocation of expenses, and 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.

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 corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected 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 auditor's 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 28, 2011.

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.

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, 2010 through April 28, 2011.

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, 2010, 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 item during our audit that is an opportunity for improving internal controls and operating efficiency.

Release of Restriction on Temporarily Restricted Net Assets

We identified that not all temporarily restricted net asset accounts are being reviewed periodically (at least annually) to determine if the purpose of the restriction is being met. We recommend that management review temporarily restricted net asset balances during the year to determine if there are expenses being incurred that would meet any of these restrictions. This will allow additional funds to be shown as unrestricted, while also complying with the donors' restrictions.

Also, once a purpose restriction is met the investment account established for the restricted purpose is not being relieved of the cash or investment asset. We recommend that the investment account be relieved of the cash once the purpose restriction is met so that the investment account is equal to the permanently restricted net assets.

* * * * *

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

Jathene Black Morgan & Cain, PC

Brentwood, Tennessee
April 28, 2011

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

Financial Statements and Schedules

**December 31, 2010
(With Comparative Totals for 2009)**

(With Independent Auditors' Report Thereon)



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

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

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

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, 2010, 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 2009 financial statements and in our report dated April 27, 2010, 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, 2010, 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 made for the purpose of forming an opinion on the basic financial statements taken 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 basic 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 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
April 28, 2011

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statement of Financial Position

December 31, 2010
(With Comparative Amounts for 2009)

Assets

| | <u>Operating Fund</u> | | <u>Capital Fund</u> | | <u>Endowment Fund</u> | | <u>Total All Funds</u> | |
|--------------------------------------|-----------------------|---------------------|----------------------|----------------------|-----------------------|----------------------|------------------------|----------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Current assets: | | | | | | | | |
| Cash | \$ 781,449 | \$ 508,343 | \$ 1,562,348 | \$ 1,885,041 | \$ 56,437 | \$ 44,174 | \$ 2,400,234 | \$ 2,437,558 |
| Accounts receivable | 11,157 | 54,334 | - | - | - | - | 11,157 | 54,334 |
| Pledge contributions receivable, net | 182,520 | 334,911 | 534,140 | 636,322 | - | - | 716,660 | 971,233 |
| Inventories | 404,800 | 388,171 | - | - | - | - | 404,800 | 388,171 |
| Interfund loans | (11,796) | (40,752) | 10,166 | 40,122 | 1,630 | 630 | - | - |
| Prepaid expenses | 77,587 | 210,553 | - | - | - | - | 77,587 | 210,553 |
| Total current assets | 1,445,717 | 1,455,560 | 2,106,654 | 2,561,485 | 58,067 | 44,804 | 3,610,438 | 4,061,849 |
| Land, buildings and equipment, net | - | - | 12,321,000 | 10,598,747 | - | - | 12,321,000 | 10,598,747 |
| Investments | 1,513,205 | 1,705,512 | 636,433 | 601,837 | 10,855,925 | 10,257,924 | 13,005,563 | 12,565,273 |
| Total noncurrent assets | 1,513,205 | 1,705,512 | 12,957,433 | 11,200,584 | 10,855,925 | 10,257,924 | 25,326,563 | 23,164,020 |
| Total assets | \$ 2,958,922 | \$ 3,161,072 | \$ 15,064,087 | \$ 13,762,069 | \$ 10,913,992 | \$ 10,302,728 | \$ 28,937,001 | \$ 27,225,869 |

Liabilities and Net Assets

| | | | | | | | | |
|--|---------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Current liabilities: | | | | | | | | |
| Accounts payable | \$ 176,171 | \$ 110,852 | \$ 81,390 | \$ 10,356 | \$ - | \$ - | \$ 257,561 | \$ 121,208 |
| Camping, activity and other fees designated for future periods | 29,088 | 188,875 | - | - | - | - | 29,088 | 188,875 |
| Registration fees payable to National Council | 222,500 | 215,745 | - | - | - | - | 222,500 | 215,745 |
| Funds held for others | 196,643 | 151,296 | 21,617 | 21,617 | - | - | 218,260 | 172,913 |
| Total current liabilities | 624,402 | 666,768 | 103,007 | 31,973 | - | - | 727,409 | 698,741 |
| Net assets: | | | | | | | | |
| Unrestricted net assets | 2,113,082 | 2,093,922 | 12,480,634 | 10,791,151 | (663,236) | (1,060,946) | 13,930,480 | 11,824,127 |
| Temporarily restricted net assets | 221,438 | 400,382 | 2,480,446 | 2,938,945 | 658,965 | 621,651 | 3,360,849 | 3,960,978 |
| Permanently restricted net assets | - | - | - | - | 10,918,263 | 10,742,023 | 10,918,263 | 10,742,023 |
| Total net assets | 2,334,520 | 2,494,304 | 14,961,080 | 13,730,096 | 10,913,992 | 10,302,728 | 28,209,592 | 26,527,128 |
| Total liabilities and net assets | \$ 2,958,922 | \$ 3,161,072 | \$ 15,064,087 | \$ 13,762,069 | \$ 10,913,992 | \$ 10,302,728 | \$ 28,937,001 | \$ 27,225,869 |

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, 2010
(With Comparative Totals for 2009)**

| | 2010 | | | Total All Funds | |
|--|------------------|------------------|----------------|------------------|------------------|
| | Operating Fund | Capital Fund | Endowment Fund | 2010 | 2009 |
| 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 \$329,711 in 2010 and \$243,703 in 2009 | \$ 2,321,548 | \$ - | \$ - | \$ 2,321,548 | \$ 2,271,441 |
| Memorial contributions | - | - | 10,685 | 10,685 | 24,502 |
| Special events, net of direct costs of \$59,897 in 2010 and \$86,418 in 2009 | 162,704 | - | - | 162,704 | 155,292 |
| Other direct support | <u>11,132</u> | <u>-</u> | <u>-</u> | <u>11,132</u> | <u>14,088</u> |
| Total direct public support | 2,495,384 | - | 10,685 | 2,506,069 | 2,465,323 |
| Indirect public support - United Way, including net assets released from expiration of time restriction of \$70,671 in 2010 and \$98,332 in 2009 | <u>193,828</u> | <u>-</u> | <u>-</u> | <u>193,828</u> | <u>220,605</u> |
| Total public support | <u>2,689,212</u> | <u>-</u> | <u>10,685</u> | <u>2,699,897</u> | <u>2,685,928</u> |
| Other revenue: | | | | | |
| Sales of supplies, net of cost of goods sold of \$959,064 in 2010 and \$857,768 in 2009 | 488,592 | - | - | 488,592 | 437,658 |
| Camping and related fees | 1,012,110 | - | - | 1,012,110 | 912,172 |
| Activity revenue | 717,920 | - | - | 717,920 | 286,080 |
| Product sales, net of cost of products sold of \$432,971 in 2010 and \$484,598 in 2009 and commissions paid of \$441,180 in 2010 and \$493,255 in 2009 | 529,931 | - | - | 529,931 | 550,060 |
| Investment return designated for current operations | 470,416 | - | - | 470,416 | 555,222 |
| Investment income not designated | - | 60,300 | 387,025 | 447,325 | 879,243 |
| Miscellaneous revenue | <u>68,941</u> | <u>-</u> | <u>-</u> | <u>68,941</u> | <u>51,169</u> |
| Total other revenue | <u>3,287,910</u> | <u>60,300</u> | <u>387,025</u> | <u>3,735,235</u> | <u>3,671,604</u> |
| Net assets released from restrictions - restrictions satisfied by payments | <u>-</u> | <u>2,117,615</u> | <u>-</u> | <u>2,117,615</u> | <u>571,037</u> |
| Total public support and revenue | <u>5,977,122</u> | <u>2,177,915</u> | <u>397,710</u> | <u>8,552,747</u> | <u>6,928,569</u> |

(Continued)

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statement of Changes in Net Assets, Continued

**Year ended December 31, 2010
(With Comparative Totals for 2009)**

| | 2010 | | | Total All Funds | |
|--|----------------|--------------|----------------|-----------------|-----------|
| | Operating Fund | Capital Fund | Endowment Fund | 2010 | 2009 |
| Changes in unrestricted net assets, continued | | | | | |
| Expenses: | | | | | |
| Program services | 5,090,244 | 402,474 | - | 5,492,718 | 4,967,095 |
| Management and general | 223,845 | 19,191 | - | 243,036 | 241,865 |
| Fundraising | 578,139 | 66,767 | - | 644,906 | 642,863 |
| Unallocated payments to National Council | 65,734 | - | - | 65,734 | 63,876 |
| Total operating expenses | 5,957,962 | 488,432 | - | 6,446,394 | 5,915,699 |
| Increase in unrestricted net assets | 19,160 | 1,689,483 | 397,710 | 2,106,353 | 1,012,870 |
| Changes in temporarily restricted net assets | | | | | |
| Public support and revenue: | | | | | |
| Direct public support: | | | | | |
| Friends of Scouting | 158,437 | - | - | 158,437 | 359,711 |
| Provision for uncollectible Friends of Scouting | - | - | - | - | (30,000) |
| Development campaign | - | 1,659,116 | - | 1,659,116 | 675,848 |
| Total direct public support | 158,437 | 1,659,116 | - | 1,817,553 | 1,005,559 |
| Indirect public support - United Way | 63,001 | - | - | 63,001 | 70,671 |
| Total public support | 221,438 | 1,659,116 | - | 1,880,554 | 1,076,230 |
| Investment income | - | - | 37,314 | 37,314 | 65,410 |
| Net assets released from restrictions: | | | | | |
| Expiration of time restriction | (400,382) | - | - | (400,382) | (342,035) |
| Restrictions satisfied by payments | - | (2,117,615) | - | (2,117,615) | (571,037) |
| Total net assets released from restrictions | (400,382) | (2,117,615) | - | (2,517,997) | (913,072) |
| Increase (decrease) in temporarily restricted net assets | (178,944) | (458,499) | 37,314 | (600,129) | 228,568 |

(Continued)

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statement of Changes in Net Assets, Continued

Year ended December 31, 2010
(With Comparative Totals for 2009)

| | 2010 | | | Total All Funds | |
|---|----------------|---------------|----------------|-----------------|---------------|
| | Operating Fund | Capital Fund | Endowment Fund | 2010 | 2009 |
| Changes in permanently restricted net assets: | | | | | |
| Direct public support | - | - | 5,000 | 5,000 | 322,408 |
| Investment income | - | - | 171,240 | 171,240 | 497,714 |
| Increase in permanently restricted net assets | - | - | 176,240 | 176,240 | 820,122 |
| Increase (decrease) in net assets | (159,784) | 1,230,984 | 611,264 | 1,682,464 | 2,061,560 |
| Net assets at beginning of year | 2,494,304 | 13,730,096 | 10,302,728 | 26,527,128 | 24,465,568 |
| Net assets at end of year | \$ 2,334,520 | \$ 14,961,080 | \$ 10,913,992 | \$ 28,209,592 | \$ 26,527,128 |

See accompanying notes to the financial statements.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statement of Functional Expenses

Year ended December 31, 2010
(With Comparative Totals for 2009)

| | 2010 | | | | Total All Funds | |
|---|---------------------|---------------------------|------------------------|-------------------|---------------------|---------------------|
| | Program Services | Supporting Services | | Total | 2010 | 2009 |
| | | Management and General | General Fundraising | | | |
| Employee compensation: | | | | | | |
| Salaries | \$ 2,213,010 | \$ 103,614 | \$ 360,489 | \$ 464,103 | \$ 2,677,113 | \$ 2,713,113 |
| Employment benefits | 415,317 | 18,915 | 65,809 | 84,724 | 500,041 | 458,842 |
| Payroll taxes | <u>175,983</u> | <u>8,502</u> | <u>29,580</u> | <u>38,082</u> | <u>214,065</u> | <u>224,841</u> |
| Total compensation expenses | 2,804,310 | 131,031 | 455,878 | 586,909 | 3,391,219 | 3,396,796 |
| Professional fees | 34,635 | 59,791 | 7,368 | 67,159 | 101,794 | 105,338 |
| Supplies and general expenses | 1,173,922 | 3,067 | 10,671 | 13,738 | 1,187,660 | 807,434 |
| Telephone | 48,122 | 1,811 | 6,299 | 8,110 | 56,232 | 55,882 |
| Postage and shipping | 38,855 | 1,642 | 5,713 | 7,355 | 46,210 | 51,331 |
| Occupancy expenses | 407,408 | 7,051 | 24,530 | 31,581 | 438,989 | 405,917 |
| Equipment rental and maintenance | 84,285 | 3,289 | 11,443 | 14,732 | 99,017 | 109,020 |
| Printing and publications | 22,733 | 156 | 542 | 698 | 23,431 | 27,058 |
| Travel and field operating expenses | 204,134 | 9,966 | 34,674 | 44,640 | 248,774 | 227,293 |
| Conference and meetings | 27,086 | 1,358 | 4,725 | 6,083 | 33,169 | 34,215 |
| Specific assistance | 85,080 | - | - | - | 85,080 | 69,952 |
| Recognition awards | 34,508 | 1,221 | 4,248 | 5,469 | 39,977 | 24,318 |
| Insurance | 110,395 | 3,414 | 11,879 | 15,293 | 125,688 | 131,503 |
| Miscellaneous expenses | <u>130,597</u> | <u>1,711</u> | <u>5,954</u> | <u>7,665</u> | <u>138,262</u> | <u>39,916</u> |
| Total expenses before depreciation | 5,206,070 | 225,508 | 583,924 | 809,432 | 6,015,502 | 5,485,973 |
| Depreciation of buildings and equipment | <u>286,648</u> | <u>17,528</u> | <u>60,982</u> | <u>78,510</u> | <u>365,158</u> | <u>365,850</u> |
| | <u>\$ 5,492,718</u> | <u>\$ 243,036</u> | <u>\$ 644,906</u> | <u>\$ 887,942</u> | <u>\$ 6,380,660</u> | <u>\$ 5,851,823</u> |

See accompanying notes to the financial statements.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statements of Cash Flows

Year ended December 31, 2010
(With Comparative Totals for 2009)

| | 2010 | | | Total All Funds | |
|---|----------------|--------------|----------------|-----------------|--------------|
| | Operating Fund | Capital Fund | Endowment Fund | 2010 | 2009 |
| Cash flows from operating activities: | | | | | |
| Increase (decrease) in net assets | \$ (159,784) | \$ 1,230,984 | \$ 611,264 | \$ 1,682,464 | \$ 2,061,560 |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: | | | | | |
| Depreciation | - | 365,158 | - | 365,158 | 365,850 |
| Provision for uncollectible pledges | - | - | - | - | 30,000 |
| Unrealized gains on investments | (94,624) | (30,397) | (662,311) | (787,332) | (1,925,220) |
| Contributions restricted for endowment purposes | - | - | (5,000) | (5,000) | (322,408) |
| Contributions restricted for capital improvements | - | (1,659,116) | - | (1,659,116) | (675,848) |
| Changes in operating assets and liabilities: | | | | | |
| Pledges and accounts receivable | 195,568 | - | - | 195,568 | (74,994) |
| Inventories | (16,629) | - | - | (16,629) | (36,072) |
| Interfund loans | (28,956) | 29,956 | (1,000) | - | - |
| Prepaid expenses | 132,966 | - | - | 132,966 | (112,082) |
| Accounts payable | 65,319 | 71,034 | - | 136,353 | (7,549) |
| Camping, activity and other fees designated for future periods | (159,787) | - | - | (159,787) | 156,003 |
| Registration fees payable to National Council | 6,755 | - | - | 6,755 | 40,730 |
| Funds held for others | 45,347 | - | - | 45,347 | 34,210 |
| Net cash provided (used) by operating activities | (13,825) | 7,619 | (57,047) | (63,253) | (465,820) |
| Cash flows from investing activities: | | | | | |
| Proceeds from sales of investments | 953,824 | - | 518,902 | 1,472,726 | 1,857,955 |
| Purchases of investments | (666,893) | (4,199) | (454,592) | (1,125,684) | (968,360) |
| Additions to land, buildings and equipment | - | (2,087,411) | - | (2,087,411) | (526,426) |
| Net cash provided (used) by investing activities | 286,931 | (2,091,610) | 64,310 | (1,740,369) | 363,169 |

(continued)

See accompanying notes to the financial statements.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Statements of Cash Flows

**Year ended December 31, 2010
(With Comparative Totals for 2009)**

| | <u>2010</u> | | | <u>Total All Funds</u> | |
|--|---------------------------|-------------------------|---------------------------|------------------------|---------------------|
| | <u>Operating Fund</u> | <u>Capital Fund</u> | <u>Endowment Fund</u> | <u>2010</u> | <u>2009</u> |
| Cash flows from financing activities: | | | | | |
| Collection of endowment fund support | - | - | 5,000 | 5,000 | 322,408 |
| Collection of development campaign support | <u>-</u> | <u>1,761,298</u> | <u>-</u> | <u>1,761,298</u> | <u>919,325</u> |
| Net cash provided by financing activities | <u>-</u> | <u>1,761,298</u> | <u>5,000</u> | <u>1,766,298</u> | <u>1,241,733</u> |
| Net increase (decrease) in cash | 273,106 | (322,693) | 12,263 | (37,324) | 1,139,082 |
| Cash at beginning of year | <u>508,343</u> | <u>1,885,041</u> | <u>44,174</u> | <u>2,437,558</u> | <u>1,298,476</u> |
| Cash at end 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> |

See accompanying notes to the financial statements.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2010 and 2009

(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

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(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 \$45,471 in 2010 and \$61,207 in 2009.

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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 2010 and 2009 amounted to approximately \$44,000 and \$48,000, 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.

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(g) Spending policy

On October 18, 2008, the Board of Directors (through the Executive Committee) 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, 2010 and 2009.

(i) Inter-fund loans

The Inter-fund loans at December 31, 2010 and 2009, result from the Endowment Fund and Capital Fund making advances of surplus cash funds to the Operating 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.

Beginning in 2008, the Council 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.

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(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.

The Council accounts for all governmental taxes associated with revenue transactions on a net basis.

(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.

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Notes to the Financial Statements

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(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, 2009, from which the summarized information was derived.

(r) Recent accounting pronouncements

New accounting standards are now issued by FASB through Accounting Standards Updates (ASU's) to the FASB ASC. The FASB does not consider the updates authoritative on a standalone basis; they become authoritative when incorporated into the ASC. The ASU's 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.

FASB Statement No. 165, Subsequent Events (ASC 855)—This standard was issued in May 2009 and is effective for fiscal years ending after June 15, 2009. The objective of ASC 855 is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued. Previously, this subject has been auditing guidance; however, since questions of when, what, and how to make certain accounting entries are more an accounting issue than an auditing issue, the FASB has decided to issue an accounting standard. There are no significant changes to current practice, except a footnote is now required whether or not there are subsequent events. Additionally, the standard adds a procedure to show that management has evaluated subsequent events. ASC 855 also adds the concept of "available to be issued." This is when the auditor has completed the audit report and it is ready to be issued, but not necessarily the date it is actually issued.

In June 2009, FASB issued Statement of Financial Accounting Standards No. 168, *FASB Accounting Standards Codification (ASC) and the Hierarchy of Generally Accepted Accounting Principles: A Replacement of FASB Statement No. 162*. On July 1, 2009, The Hierarchy of Generally Accepted Accounting Principles was rendered irrelevant, and the FASB ASC became the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. On the effective date of this statement, the ASC will supersede all then-existing non-SEC accounting and reporting standards, effective for financial statements issued for interim and annual periods ending after September 15, 2009.

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The Council adopted the provisions of FASB ASC 740-10-25 (formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ["FIN 48"]) on January 1, 2009. Under FIN 48, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The implementation of FIN 48 had no impact on the Council's financial statements. The Council does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. No interest or penalties were accrued as of January 1, 2009, as a result of the adoption of FIN 48. For the year ended December 31, 2010, there were no interest or penalties recorded or included in the Council's financial statements.

In accordance with FASB ASC 958-205 and subsections (formerly FASB Staff Position No. 117-1 ["FAS 117-1"], *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*), the Council has determined it is subject to the Uniform Prudent Management of Institutional Funds Act of 2006, which requires the Council to classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets, unless stated otherwise in the gift instrument by the donor. These gift instruments are donor-restricted assets until appropriated for expenditure by the Council. ASC 958-205 is retroactively applied to all years presented in the accompanying consolidated financial statements.

(s) Events occurring after reporting date

The Council has evaluated events and transactions that occurred between December 31, 2010 and April 28, 2011 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Credit risk and other concentrations

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

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

(4) Assets and liabilities measured at fair value

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.

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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, 2010 and 2009.

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

(5) Pledges receivable

A summary of pledges receivable as of December 31, 2010 and 2009 is as follows:

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|
| Friends of Scouting | \$ 127,700 | \$ 294,240 |
| United Way allocations | 54,820 | 70,671 |
| Development campaign | <u>597,475</u> | <u>823,755</u> |
| | 779,995 | 1,188,666 |
| Less allowance for unamortized discount and doubtful accounts | <u>63,335</u> | <u>217,433</u> |
| | <u>\$ 716,660</u> | <u>\$ 971,233</u> |

A discount rate of 5.00% is used to reflect the present value of expected future collections due after one year. Pledges receivable are due within one year except for the development campaign pledges receivable. The development campaign pledges receivable are due as follows:

| | <u>2010</u> | <u>2009</u> |
|----------------------------------|-------------------|-------------------|
| Receivable in less than one year | \$ 353,975 | \$ 321,005 |
| Receivable in one to five years | <u>243,500</u> | <u>502,750</u> |
| | <u>\$ 597,475</u> | <u>\$ 823,755</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, 2010. Because these are not unconditional promises to give they are not recorded on the books of the Council.

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Notes to the Financial Statements

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(6) Investments

A summary of investments as of December 31, 2010 and 2009 is as follows:

| | <u>2010</u> | <u>2009</u> |
|--------------------------------|----------------------|----------------------|
| Short-term investments | \$ 161,406 | \$ 881,832 |
| Equities and equity funds | 10,127,234 | 9,489,237 |
| Bonds and bond funds | 2,203,042 | 1,680,323 |
| Certificate of deposit | 200,000 | 200,000 |
| Real estate | 311,780 | 311,780 |
| Notes receivable - Rock Island | <u>2,101</u> | <u>2,101</u> |
| | <u>\$ 13,005,563</u> | <u>\$ 12,565,273</u> |

The following schedule summarizes the investment income included in the statements of activities for 2010 and 2009:

| | <u>2010</u> | <u>2009</u> |
|------------------------------|---------------------|---------------------|
| Interest and dividend income | \$ 380,188 | \$ 343,824 |
| Net gains | 812,017 | 1,710,802 |
| Investment expenses | <u>(65,910)</u> | <u>(57,037)</u> |
| | <u>\$ 1,126,295</u> | <u>\$ 1,997,589</u> |

The above investment income is classified in the statement of activities for 2010 and 2009 as follows:

| | <u>2010</u> | <u>2009</u> |
|------------------------|---------------------|---------------------|
| Unrestricted | \$ 917,741 | \$ 1,434,465 |
| Temporarily restricted | 37,314 | 65,410 |
| Permanently restricted | <u>171,240</u> | <u>497,714</u> |
| | <u>\$ 1,126,295</u> | <u>\$ 1,997,589</u> |

(7) Fair value measurements

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2010 and 2009.

- (i) *Short-term investments, equities and equity funds, bonds and bond 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.

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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, 2010 and 2009:

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> |

Fair Value Measurements as of December 31, 2009 using the following inputs

| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|-------------------------------|-----------------------------|-----------------------------|--------------------|--------------------------|
| Investments: | | | | |
| Short-term investments | \$ 881,832 | \$ 881,832 | \$ - | \$ - |
| Equities and equity fund | 9,489,237 | 9,489,237 | - | - |
| Bonds and bond fund | 1,680,323 | 1,680,323 | - | - |
| 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>12,565,273</u> | \$ <u>12,251,392</u> | \$ <u>-</u> | \$ <u>313,881</u> |

The following table provides a summary of changes in fair value of the Council's Level 3 assets for the year ended December 31, 2009:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

| | |
|-----------------------------------|--------------------------|
| Balance at December 31, 2008 | \$ 206,101 |
| Unrealized gain at reporting date | <u>107,780</u> |
| Balance at December 31, 2009 | \$ <u>313,881</u> |

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There was no change in the fair value of Level 3 measurements during 2010.

(8) Land, buildings, and equipment

A summary of land, buildings and equipment as of December 31, 2010 and 2009 is as follows:

| | <u>2010</u> | <u>2009</u> |
|---|----------------------|----------------------|
| Land | \$ 4,436,754 | \$ 4,436,754 |
| Council office building | 2,989,238 | 2,989,238 |
| Buildings - Boxwell Reservation, Canoe Base and High Adventure | 6,891,894 | 5,939,454 |
| Roads - Boxwell Reservation | 929,760 | 929,760 |
| Furniture, fixtures and equipment: | | |
| Council office | 384,749 | 442,831 |
| Boxwell Reservation | 883,886 | 819,629 |
| Motor Vehicles | 214,865 | 203,653 |
| Construction in progress | <u>1,619,314</u> | <u>566,273</u> |
| | 18,350,460 | 16,327,592 |
| Accumulated depreciation | <u>(6,029,460)</u> | <u>(5,728,845)</u> |
| | <u>\$ 12,321,000</u> | <u>\$ 10,598,747</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, 2010 and 2009 were approximately \$126,000 and \$115,000, respectively.

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 \$38,000 and \$35,000 to the Thrift Plan in 2010 and 2009, respectively.

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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, 2010 and 2009, the Council remitted approximately \$215,000 and \$216,000, 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, 2010 and 2009:

| | <u>2010</u> | <u>2009</u> |
|--|---------------------|---------------------|
| Development campaign expenditures | \$ 2,480,446 | \$ 2,938,945 |
| Scouting activities: | | |
| Camperships | 92,714 | 91,361 |
| Low income exploring | 92,787 | 92,787 |
| Property maintenance | 44,611 | 44,611 |
| Navigator scholarship | 353,660 | 358,934 |
| Laura Miller scholarship program | 76,067 | 34,785 |
| Connelly scholarship program | (874) | (827) |
| Friends of Scouting and other for future periods | 158,437 | 329,711 |
| United Way allocations for future periods | <u>63,001</u> | <u>70,671</u> |
| | <u>\$ 3,360,849</u> | <u>\$ 3,960,978</u> |

Permanently restricted net assets consist of the following at December 31, 2010 and 2009:

| | <u>2010</u> | <u>2009</u> |
|--|----------------------|----------------------|
| Investments in perpetuity, the income from which is expendable to support: | | |
| Scouting activities | \$ 713,390 | \$ 642,615 |
| Property maintenance | 320,650 | 297,853 |
| Camp Craig property maintenance | 31,553 | 27,730 |
| Laura Miller scholarship program | 372,944 | 355,376 |
| Connelly scholarship program | 23,180 | 23,180 |
| Any activities of the Council | <u>9,456,546</u> | <u>9,395,269</u> |
| | <u>\$ 10,918,263</u> | <u>\$ 10,742,023</u> |

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(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

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> |

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The endowment pool market value to net asset analysis as of December 31, 2009 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|------------------|-----------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment pool: | | | | |
| Donor-restricted | \$ - | \$ 621,651 | \$ 10,742,023 | \$ 11,363,674 |
| Board-designated | <u>(1,105,750)</u> | <u>-</u> | <u>-</u> | <u>(1,105,750)</u> |
| | (1,105,750) | 621,651 | 10,742,023 | 10,257,924 |
| Other net assets | <u>44,804</u> | <u>-</u> | <u>-</u> | <u>44,804</u> |
| Total | \$ <u>(1,060,946)</u> | \$ <u>621,651</u> | \$ <u>10,742,023</u> | \$ <u>10,302,728</u> |

Changes in endowment net assets as of December 31, 2010 and 2009 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, 2008 | \$ (1,903,281) | \$ 556,241 | \$ 9,921,901 | \$ 8,574,861 |
| Contributions | 24,502 | - | 322,408 | 346,910 |
| Investment income | 191,816 | (104,817) | 497,714 | 584,713 |
| Net appreciation | 1,044,441 | 185,133 | - | 1,229,574 |
| Amounts appropriated for expenditures | - | (14,906) | - | (14,906) |
| Investment fees | (36,780) | - | - | (36,780) |
| Transfers | <u>(381,644)</u> | <u>-</u> | <u>-</u> | <u>(381,644)</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 | \$ <u>(663,236)</u> | \$ <u>658,965</u> | \$ <u>10,918,263</u> | \$ <u>10,913,992</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 \$663,236 and \$1,060,946 existed at December 31, 2010 and 2009, respectively.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA

Notes to the Financial Statements

December 31, 2010 and 2009

(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, 2010 is as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2011 | \$ 135,000 |
| 2012 | 128,000 |
| 2013 | 71,000 |
| 2014 | 15,000 |
| 2015 | <u>14,000</u> |
| | <u>\$ 363,000</u> |

Lease expense amounted to approximately \$141,000 in 2010 and \$139,000 in 2009. It is expected that in the normal course of business, leases that expire will be renewed or replaced by other leases; thus, it is anticipated that future lease payments will not be less than the commitments for 2011.

(13) Commitments

The Council entered into a commitment for land improvements to the Latimer High Adventure Camp in the amount of \$543,192. As of December 31, 2010, \$246,682 of the commitment has been expended for the construction in progress of these improvements.

(14) 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, 2010 and 2009, deposits with the banks were \$2,319,945 and \$2,426,572, respectively. As of December 31, 2010 and 2009, investments were \$13,005,563 and \$12,565,273, respectively.

The Council receives commissions on internet sales at a rate of 6% from the National Council. During 2010 and 2009, the Council received commissions amounting to \$2,822 and \$1,906, respectively.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA Schedule 1

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

Year ended December 31, 2010

| | <u>Operating Fund</u> | <u>Budget (Unaudited)</u> | <u>Over (Under) Budget</u> |
|--|----------------------------------|--------------------------------------|---|
| Public support and revenue: | | | |
| Direct public support: | | | |
| Friends of Scouting | \$ 2,321,548 | \$ 2,600,000 | \$ (278,452) |
| Special events, net of direct costs | 162,704 | 180,000 | (17,296) |
| Other direct support | <u>11,132</u> | <u>40,000</u> | <u>(28,868)</u> |
| Total direct public support | 2,495,384 | 2,820,000 | (324,616) |
| Indirect public support - United Way | <u>193,828</u> | <u>210,000</u> | <u>(16,172)</u> |
| Total public support | <u>2,689,212</u> | <u>3,030,000</u> | <u>(340,788)</u> |
| Other revenue: | | | |
| Sales of supplies, net of cost of goods sold | 488,592 | 420,000 | 68,592 |
| Camping and related fees | 1,012,110 | 961,000 | 51,110 |
| Activity revenue | 717,920 | 838,000 | (120,080) |
| Product sales, net of cost of products sold | 529,931 | 600,000 | (70,069) |
| Investment income | 470,416 | 345,000 | 125,416 |
| Miscellaneous revenue | <u>68,941</u> | <u>65,000</u> | <u>3,941</u> |
| Total other revenue | <u>3,287,910</u> | <u>3,229,000</u> | <u>58,910</u> |
| Total public support and revenue | <u>5,977,122</u> | <u>6,259,000</u> | <u>(281,878)</u> |
| Expenses: | | | |
| Employee compensation: | | | |
| Salaries | 2,658,739 | 2,758,000 | (99,261) |
| Employment benefits | 497,368 | 494,000 | 3,368 |
| Payroll taxes | <u>212,659</u> | <u>218,000</u> | <u>(5,341)</u> |
| Total compensation expenses | 3,368,766 | 3,470,000 | (101,234) |
| Professional fees | 101,794 | 101,000 | 794 |
| Supplies and general expenses | 1,181,623 | 1,340,000 | (158,377) |
| Telephone | 55,780 | 58,000 | (2,220) |
| Postage and shipping | 46,210 | 54,000 | (7,790) |
| Occupancy expenses | 404,345 | 373,000 | 31,345 |
| Equipment rental and maintenance | 96,856 | 95,000 | 1,856 |
| Printing and publication | 23,431 | 29,000 | (5,569) |
| Travel and field operating expenses | 248,774 | 252,000 | (3,226) |
| Conference and meetings | 33,169 | 40,000 | (6,831) |
| Specific assistance | 85,080 | 73,000 | 12,080 |
| Recognition award | 39,977 | 21,000 | 18,977 |
| Insurance | 125,688 | 140,000 | (14,312) |
| Miscellaneous expenses | 80,735 | 57,000 | 23,735 |
| Unallocated payments to National Council | <u>65,734</u> | <u>69,000</u> | <u>(3,266)</u> |
| Total expenses | <u>5,957,962</u> | <u>6,172,000</u> | <u>(214,038)</u> |
| Increase in unrestricted net assets | \$ <u>19,160</u> | \$ <u>87,000</u> | \$ <u>(67,840)</u> |

See accompanying independent auditors' report.

MIDDLE TENNESSEE COUNCIL, INC., BOY SCOUTS OF AMERICA Schedule 2

Changes in Unrestricted Net Assets (Operating Fund Only)

Years ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|--|-------------------------|-------------------------|
| Public support and revenue: | | |
| Direct public support: | | |
| Friends of Scouting | \$ 2,321,548 | \$ 2,271,441 |
| Special events, net of direct costs | 162,704 | 155,292 |
| Other direct support | <u>11,132</u> | <u>14,088</u> |
| Total direct public support | 2,495,384 | 2,440,821 |
| Indirect public support - United Way | <u>193,828</u> | <u>220,605</u> |
| Total public support | <u>2,689,212</u> | <u>2,661,426</u> |
| Other revenue: | | |
| Sales of supplies, net of cost of goods sold | 488,592 | 437,658 |
| Camping and related fees | 1,012,110 | 912,172 |
| Activity revenue | 717,920 | 286,080 |
| Product sales, net of cost of products sold | 529,931 | 550,060 |
| Investment income | 470,416 | 555,222 |
| Miscellaneous revenue | <u>68,941</u> | <u>51,169</u> |
| Total other revenue | 3,287,910 | 2,792,361 |
| Total public support and revenue | <u>5,977,122</u> | <u>5,453,787</u> |
| Expenses: | | |
| Program services | 5,090,244 | 4,556,350 |
| Supporting services: | | |
| Management and general | 223,845 | 221,867 |
| Fundraising | 578,139 | 573,288 |
| Unallocated payments to National Council | <u>65,734</u> | <u>63,876</u> |
| Total expenses | <u>5,957,962</u> | <u>5,415,381</u> |
| Increase in unrestricted net assets | \$ <u>19,160</u> | \$ <u>38,406</u> |

See accompanying independent auditors' report.