

TENNESSEE LIONS CHARITIES, INC.

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2005 AND 2004

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**TENNESSEE LIONS CHARITIES, INC.**

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August 19, 2005

**Independent Auditors' Report**

To the Board of Directors  
Tennessee Lions Charities, Inc.  
Nashville, Tennessee

We have audited the accompanying statements of financial position of Tennessee Lions Charities, Inc. (the Organization), a nonprofit organization, as of June 30, 2005 and 2004, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Organization'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, and evaluating the overall financial statement presentation. We believe that our audits provide 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 Tennessee Lions Charities, Inc. as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Puryear, Hamilton, Hausman & Wood, P.C.*

**TENNESSEE LIONS CHARITIES, INC.**

**Statements of Financial Position**

**June 30, 2005**

	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Total</u></b>
<b><u>Assets</u></b>			
Current assets:			
Cash	\$ 157,495	\$ 53,110	\$ 210,605
Accounts receivable	5,177	-	5,177
Prepaid expenses	<u>1,557</u>	<u>-</u>	<u>1,557</u>
Total current assets	164,229	53,110	217,339
 Property held for sale	 5,500	 -	 5,500
 Property, building, and equipment, net of accumulated depreciation of \$201,509	 901,390	 -	 901,390
 Deposits	 <u>100</u>	 <u>-</u>	 <u>100</u>
 Total assets	 <u>\$1,071,219</u>	 <u>\$ 53,110</u>	 <u>\$1,124,329</u>

**Liabilities and Net Assets**

Current liabilities:			
Accounts payable	\$ 1,376	\$ -	\$ 1,376
Current portion of note payable	14,491	-	14,491
Accrued property taxes	4,642	-	4,642
Grants payable	<u>-</u>	<u>49,310</u>	<u>49,310</u>
Total current liabilities	20,509	49,310	69,819
 Note payable, less current portion	 <u>31,600</u>	 <u>-</u>	 <u>31,600</u>
Total liabilities	<u>52,109</u>	<u>49,310</u>	<u>101,419</u>
 Net assets:			
Unrestricted	1,019,110	-	1,019,110
Temporarily restricted	<u>-</u>	<u>3,800</u>	<u>3,800</u>
Total net assets	<u>1,019,110</u>	<u>3,800</u>	<u>1,022,910</u>
 Total liabilities and net assets	 <u>\$1,071,219</u>	 <u>\$ 53,110</u>	 <u>\$1,124,329</u>

See independent auditors' report and accompanying notes to financial statements.

**TENNESSEE LIONS CHARITIES, INC.**

**Statements of Financial Position (Continued)**

**June 30, 2004**

	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Total</u></b>
<b><u>Assets</u></b>			
Current assets:			
Cash	\$ 101,546	\$ 48,750	\$ 150,296
Accounts receivable	3,317	-	3,317
Prepaid expenses	<u>2,404</u>	<u>-</u>	<u>2,404</u>
Total current assets	107,267	48,750	156,017
Property, building, and equipment, net of accumulated depreciation of \$160,921	941,027	-	941,027
Deposits	<u>100</u>	<u>-</u>	<u>100</u>
Total assets	<b><u>\$1,048,394</u></b>	<b><u>\$ 48,750</u></b>	<b><u>\$1,097,144</u></b>
<b><u>Liabilities and Net Assets</u></b>			
Current liabilities:			
Accounts payable	\$ 35	\$ -	\$ 35
Current portion of note payable	13,649	-	13,649
Accrued property taxes	4,099	-	4,099
Grants payable	<u>-</u>	<u>48,750</u>	<u>48,750</u>
Total current liabilities	17,783	48,750	66,533
Note payable, less current portion	<u>46,055</u>	<u>-</u>	<u>46,055</u>
Total liabilities	<u>63,838</u>	<u>48,750</u>	<u>112,588</u>
Net assets:			
Unrestricted	984,556	-	984,556
Temporarily restricted	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets	<u>984,556</u>	<u>-</u>	<u>984,556</u>
Total liabilities and net assets	<b><u>\$1,048,394</u></b>	<b><u>\$ 48,750</u></b>	<b><u>\$1,097,144</u></b>

See independent auditors' report and accompanying notes to financial statements.

**TENNESSEE LIONS CHARITIES, INC.**

**Statements of Activities and Changes in Net Assets**

**For the Year Ended June 30, 2005**

	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Total</u></b>
Revenues, gains, and other support:			
Donations	\$ 32,346	\$ 212,212	\$ 244,558
Grant income	-	107,460	107,460
Rental income	78,771	-	78,771
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>315,872</u>	<u>(315,872)</u>	<u>-</u>
Total revenues, gains, and other support	<u>426,989</u>	<u>3,800</u>	<u>430,789</u>
Expenses:			
Program expenses	261,368	-	261,368
Management and general	100,318	-	100,318
Fund raising expenses	<u>30,749</u>	<u>-</u>	<u>30,749</u>
Total expenses	<u>392,435</u>	<u>-</u>	<u>392,435</u>
Increase in net assets	34,554	3,800	38,354
Net assets at beginning of year	<u>984,556</u>	<u>-</u>	<u>984,556</u>
Net assets at end of year	<u>\$1,019,110</u>	<u>\$ 3,800</u>	<u>\$1,022,910</u>

See independent auditors' report and accompanying notes to financial statements.

**TENNESSEE LIONS CHARITIES, INC.**

**Statements of Activities and Changes in Net Assets (Continued)**

**For the Year Ended June 30, 2004**

	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Total</u></b>
Revenues, gains, and other support:			
Donations	\$ -	\$ 156,990	\$ 156,990
Grant income	-	135,000	135,000
Rental income	76,900	-	76,900
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>291,990</u>	<u>(291,990)</u>	<u>-</u>
Total revenues, gains, and other support	<u>368,890</u>	<u>-</u>	<u>368,890</u>
Expenses:			
Program expenses	253,750	-	253,750
Management and general	88,664	-	88,664
Fund raising expenses	<u>43,615</u>	<u>-</u>	<u>43,615</u>
Total expenses	<u>386,029</u>	<u>-</u>	<u>386,029</u>
Decrease in net assets	(17,139)	-	(17,139)
Net assets at beginning of year	<u>1,001,695</u>	<u>-</u>	<u>1,001,695</u>
Net assets at end of year	<u>\$ 984,556</u>	<u>\$ -</u>	<u>\$ 984,556</u>

See independent auditors' report and accompanying notes to financial statements.

**TENNESSEE LIONS CHARITIES, INC.**

**Statements of Cash Flows**

**For the Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Operating activities:		
Increase (decrease) in net assets	\$ 38,354	\$ (17,139)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:		
Depreciation	40,588	42,207
Contribution of property held for sale	(5,400)	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1,860)	915
(Increase) decrease in prepaid expenses	847	(1,935)
Increase (decrease) in accounts payable and accrued expenses	1,884	(3,127)
Increase (decrease) in grants payable	<u>560</u>	<u>28,653</u>
Net cash provided by (used for) operating activities	<u>74,973</u>	<u>49,574</u>
Investing activities:		
Purchase of property held for sale	(100)	-
Purchase of furniture, fixtures, and equipment	<u>(951)</u>	<u>(3,438)</u>
Net cash provided by (used for) investing activities	<u>(1,051)</u>	<u>(3,438)</u>
Financing activities:		
Repayment of note payable	<u>(13,613)</u>	<u>(11,796)</u>
Net cash provided by (used for) financing activities	<u>(13,613)</u>	<u>(11,796)</u>
Increase (decrease) in cash	60,309	34,340
Cash at beginning of year	<u>150,296</u>	<u>115,956</u>
Cash at end of year	<u>\$ 210,605</u>	<u>\$ 150,296</u>
Supplemental information:		
Cash paid during the year for:		
Interest	<u>\$ 3,243</u>	<u>\$ 4,061</u>

Noncash transaction:

During the year ended June 30, 2005, the Organization received property with a fair market value of \$5,500 in exchange for \$100.

See independent auditors' report and accompanying notes to financial statements.



**TENNESSEE LIONS CHARITIES, INC.**

**Statements of Functional Expenses**

**For the Year Ended June 30, 2005**

	<b><u>Program Services</u></b>	<b><u>Fund Raising</u></b>	<b><u>Management and General</u></b>	<b><u>Total</u></b>
Grants	\$ 260,185	\$ -	\$ -	\$ 260,185
Salaries	-	19,125	10,298	29,423
Building utilities and expenses	-	-	23,809	23,809
Accounting	-	-	8,955	8,955
Property taxes	-	-	8,740	8,740
Promotional expenses	-	4,320	-	4,320
Telephone	-	3,568	-	3,568
Interest	-	-	3,243	3,243
Meetings	-	325	2,252	2,577
Payroll taxes	-	1,463	788	2,251
Supplies	-	-	709	709
Taxes and licenses	-	-	270	270
Freight and postage	-	-	211	211
Travel and meals	-	97	-	97
Printing	-	-	30	30
Miscellaneous	<u>1,183</u>	<u>1,851</u>	<u>425</u>	<u>3,459</u>
Total expenses before depreciation	261,368	30,749	59,730	351,847
Depreciation	<u>-</u>	<u>-</u>	<u>40,588</u>	<u>40,588</u>
	<u>\$ 261,368</u>	<u>\$ 30,749</u>	<u>\$ 100,318</u>	<u>\$ 392,435</u>
	<u>67%</u>	<u>8%</u>	<u>25%</u>	<u>100%</u>

See independent auditors' report and accompanying notes to financial statements.

**TENNESSEE LIONS CHARITIES, INC.**

**Statements of Functional Expenses (Continued)**

**For the Year Ended June 30, 2004**

	<u>Program Services</u>	<u>Fund Raising</u>	<u>Management and General</u>	<u>Total</u>
Grants	\$ 253,750	\$ -	\$ -	\$ 253,750
Salaries	-	31,154	-	31,154
Building utilities and expenses	-	-	22,951	22,951
Accounting	-	-	8,400	8,400
Property taxes	-	-	8,197	8,197
Promotional expenses	-	4,873	-	4,873
Interest	-	-	4,061	4,061
Telephone	-	4,027	-	4,027
Payroll taxes	-	2,384	-	2,384
Travel and meals	-	1,112	-	1,112
Meetings	-	-	1,060	1,060
Supplies	-	-	459	459
Training	-	-	385	385
Freight and postage	-	-	307	307
Taxes and licenses	-	-	270	270
Miscellaneous	-	65	367	432
Total expenses before depreciation	253,750	43,615	46,457	343,822
Depreciation	-	-	42,207	42,207
	<u>\$ 253,750</u>	<u>\$ 43,615</u>	<u>\$ 88,664</u>	<u>\$ 386,029</u>
	<u>66%</u>	<u>11%</u>	<u>23%</u>	<u>100%</u>

See independent auditors' report and accompanying notes to financial statements.

# **TENNESSEE LIONS CHARITIES, INC.**

## **Notes to Financial Statements**

**June 30, 2005 and 2004**

### **(1) Summary of Significant Accounting Policies**

#### **(a) Organization**

Tennessee Lions Charities, Inc. (the Organization) was formed on October 1, 1995 to provide financial support and volunteer involvement in health care programs; primarily preventable and curable eyesight difficulties with a special emphasis on pediatric vision problems in very young children. The Organization is affiliated with Lions Clubs Volunteer Services, Inc., Lions Clubs International, Lions Clubs International Foundation, as well as other Lions Clubs organizations and chapters throughout Tennessee. The Organization was involved in one program of service, the Operation KidSight Campaign, which was a project to raise money to fund the Tennessee Lions Eye Center (Eye Center) at Vanderbilt Children's Hospital in Nashville, Tennessee. During the year ended June 30, 2004, the Organization met its \$4,000,000 goal that established the Eye Center and therefore ended the Operation KidSight Campaign. Currently, the Organization is involved in one program of service, KidSight Outreach, which is a project to raise money to fund the outreach activities of the Eye Center. As of June 30, 2005, the Eye Center's Outreach Program has screened over 150,000 children with the help of numerous volunteers who took photographs of the children's eyes. The Organization plans to continue to fulfill its mission by continuing to raise support for the Eye Center and creating new programs in the future.

#### **(b) Accrual Basis**

The financial statements of the Organization are prepared using the accrual basis of accounting, under which income is recognized when earned rather than when collected and expenses are recognized when incurred rather than when disbursed.

Certain amounts in the 2004 financial statements have been reclassified to conform with the 2005 presentation.

#### **(c) Basis of Presentation**

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS No. 117). Under SFAS No. 117, the Organization is

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required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. A description of the three net asset categories follows:

**Unrestricted** - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

**Temporarily Restricted** - Net assets whose use by the Organization is subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

**Permanently Restricted** - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. At June 30, 2005 and 2004, there are no permanently restricted net assets.

**(d) Use of Estimates**

Management of the Organization has made a number of estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates. At June 30, 2005 and 2004, there were no cash equivalents.

**(e) Cash Equivalents**

For purposes of the Statements of Cash Flows, cash equivalents include any liquid investments with an original maturity of three months or less.

**(f) Accounts Receivable**

An allowance for doubtful accounts is established through a provision for receivable losses charged to expense. Receivables are charged against the allowance when management believes the collectibility of the receivable is unlikely. Management's estimate of doubtful accounts is based on historical collection experience and a review of the current status of accounts receivable. It is reasonably possible that management's estimate of the allowance for doubtful accounts could change. In management's judgment, no allowance was required at June 30, 2005 and 2004 on existing

(Continued)

receivables. There was no bad debt expense recognized in 2005 and 2004 related to accounts receivable.

Accounts receivable are considered delinquent after sixty days. Late fees and interest are not assessed on delinquent accounts. It is not the policy of the Organization to place a club or vendor on non-accrual status. At June 30, 2005 and 2004, accounts receivable greater than ninety days old totaled \$1,417 and \$0.

**(g) Promises to Give**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional.

The Organization uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. It is reasonably possible that management's estimate of the allowance for doubtful promises to give could change.

Promises to give are not considered delinquent until the program is completed. It is not the Organization's policy to place a club on non-accrual status. There was no bad debt expense for the years ended June 30, 2005 and 2004.

**(h) Property, Building, and Equipment**

Fixed assets are stated at cost or, if donated, at fair market value at the date of gift. Upon retirement or disposition, costs and accumulated depreciation are removed from the accounts, and the resulting profit or loss is reflected in income. Maintenance and repairs and items under \$600 are charged to expense as incurred. The fixed assets are depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to thirty years.

**(i) Contributions**

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

**(j) Income Taxes**

The Internal Revenue Service granted the Organization exempt status under Code Section 501(c)(3) as a charitable organization, and has classified it as other than a private foundation as defined in Code Section 590(a).

(Continued)

**(k) Contributed Services**

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Organization's programs, particularly in the areas of program service and fund raising. No amounts have been recognized in the accompanying financial statements because the criteria for recognition of such volunteer effort under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, have not been satisfied.

**(2) Related Party Transactions**

The Organization received donated services and use of office equipment from Lions Clubs Volunteer Services, Inc. (LCVS), an affiliated organization. No expense or revenue has been recorded on the books for the years ended June 30, 2005 and 2004 due to the immateriality of the amount involved. The Organization received rental income from LCVS in the amount of \$17,250 and \$18,000 for the years ended June 30, 2005 and 2004, respectively, of which \$1,500 is included in accounts receivable at June 30, 2004.

During the year ended June 30, 2005, the Organization received a grant of \$39,750 from the Lions Clubs International Foundation, an affiliated organization, via one Tennessee Lions Club district for digital imaging equipment (Ret Cam II) for the Eye Center.

**(3) Property, Building, and Equipment**

Property, building, and equipment consist of the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Land	\$ 240,000	\$ 240,000
Building and improvements	811,474	811,474
Furniture and fixtures	28,053	27,102
Equipment	<u>23,372</u>	<u>23,372</u>
	1,102,899	1,101,948
Less - Accumulated depreciation	<u>(201,509)</u>	<u>(160,921)</u>
	<u>\$ 901,390</u>	<u>\$ 941,027</u>

Depreciation expense amounted to \$40,588 and \$42,207 for the years ended June 30, 2005 and 2004, respectively.

(Continued)

**(4) Long-Term Debt**

Long-term debt consists of the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Note payable to a bank in monthly installments of \$1,405 at an interest rate of 6%, maturing June 2, 2008; unsecured	\$ 46,091	\$ 59,704
Less - Current portion	<u>(14,491)</u>	<u>(13,649)</u>
	<u>\$ 31,600</u>	<u>\$ 46,055</u>

Principal payments required to be made for each of the next five years are summarized as follows:

2006	\$ 14,491
2007	15,385
2008	<u>16,215</u>
	<u>\$ 46,091</u>

**(5) Leasing Arrangements**

The Organization leases office space and land under operating leases expiring November 1, 2008 and November 30, 2018, respectively. Minimum future rentals to be received for the years ending June 30 under the leases are as follows:

2006	\$ 45,000
2007	45,000
2008	45,000
2009	17,000
2010	3,000
Thereafter	<u>25,250</u>
	<u>\$ 180,250</u>

**(6) Temporarily Restricted Net Assets**

Temporary restricted net assets are available for the following purpose:

	<u>2005</u>	<u>2004</u>
Screening camera	<u>\$ 3,800</u>	<u>\$ -</u>

(Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors as follows:

	<u>2005</u>	<u>2004</u>
Operation KidSight Campaign	\$ -	\$ 146,466
KidSight Outreach	256,247	145,524
Ret Cam II	<u>59,625</u>	<u>-</u>
	<u>\$ 315,872</u>	<u>\$ 291,990</u>

**(7) Concentration of Credit Risk**

The majority of the Organization's revenue is derived from individuals, corporations, and Lions Clubs organizations located in Tennessee. The following sources contributed more than 10% of total revenues, gains, and other support:

	<u>2005</u>	<u>2004</u>
Grant A	19%	22%
Foundation B	0%	14%

**(8) Risk on Uninsured Cash**

At times, the Organization maintains cash balances in excess of the Federal Deposit Insurance Corporation's insured maximum amount of \$100,000. There is a risk of loss in the event of bank failure.