SCARRITT-BENNETT CENTER

FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

SCARRITT-BENNETT CENTER

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CROSSLIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Scarritt-Bennett Center (the "Center"), a non-profit organization, as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on the financial statements based on our audit. The financial statements of Scarritt-Bennett Center as of December 31, 2010 were audited by other auditors whose report dated November 30, 2011, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 2011 financial statements referred to above present fairly, in all material respects, the financial position of Scarritt-Bennett Center as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Crosslin & Associates, P.C.

Nashville, Tennessee
July 25, 2012

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SCARRITT-BENNETT CENTER
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	2011			2010
	Current Operations	Long-term Investments	Total	Total
ASSETS				
Cash	$ 63,401	$ -	$ 63,401	$ 65,550
Accrued interest and dividends	-	25,234	25,234	82,320
Accounts receivable	58,819	-	58,819	115,523
Inventory	31,423	-	31,423	3,683
Property and equipment	180,292	-	180,292	2,076,424
Leasehold rights - facilities usage	1,800,000	-	1,800,000	1,800,000
Investment in joint venture	1,811,806	-	1,811,806	-
Long-term investments	-	6,339,912	6,339,912	6,832,013
Perpetual trusts held by third parties	-	363,574	363,574	379,883
Historical collections (Note N)	-	-	-	-
Total assets	$ 3,945,741	$ 6,728,720	$ 10,674,461	$ 11,355,396
LIABILITIES				
Accounts payable and other liabilities	$ 269,390	$ -	$ 269,390	$ 215,022
Deposits	427,700	-	427,700	333,731
Notes payable - line of credit	395,059	-	395,059	299,778
Due to (from) other funds	268,582	(268,582)	-	-
Annuity obligations	-	-	-	7,000
Discount for future interest in life income agreements	-	-	-	6,000
Total liabilities	1,360,731	(268,582)	1,092,149	861,531
NET ASSETS				
Donor restricted:				
Permanently	-	4,411,799	4,411,799	4,419,589
Temporarily	1,830,970	703,849	2,534,819	2,782,534
Unrestricted:				
Board designated for long-term investment	-	1,881,654	1,881,654	2,186,490
Undesignated	754,040	-	754,040	1,105,252
Total net assets	2,585,010	6,997,302	9,582,312	10,493,865
Total liabilities and net assets	$ 3,945,741	$ 6,728,720	$ 10,674,461	$ 11,355,396

See accompanying notes to the financial statements.

SCARRITT-BENNETT CENTER
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	$ 153,142	$ -	$ 8,419	$ 161,561
Fees	1,237,953	-	-	1,237,953
Rent income and use of facilities	778,708	-	-	778,708
Other income	18,431	-	-	18,431
Contribution - facilities usage	-	1,800,000	-	1,800,000
Investment return designated for current operations	336,466	73,842	-	410,308
Net assets released from restrictions:				
Expiration of time restriction	1,800,000	(1,800,000)	-	-
Satisfaction of program restrictions	81,693	(81,693)	-	-
Total revenues, gains and other support	4,406,393	(7,851)	8,419	4,406,961
EXPENSES				
Program expenses:				
Food services	373,851	-	-	373,851
Gift shop	17,945	-	-	17,945
Library	22,120	-	-	22,120
Rooms and guest services	485,606	-	-	485,606
Maintenance	717,041	-	-	717,041
Museum	16,670	-	-	16,670
Technology	171,188	-	-	171,188
Marketing	125,608	-	-	125,608
Programming	180,981	-	-	180,981
Soul Work	26,542	-	-	26,542
Wisdom House	19,950	-	-	19,950
Women's Table	1,076	-	-	1,076
Rent expense	1,800,000	-	-	1,800,000
Supporting services:				
Management and general	821,124	-	-	821,124
Fundraising	54,586	-	-	54,586
Sales	173,317	-	-	173,317
Total expenses	5,007,605	-	-	5,007,605
Changes in net assets from operations	(601,212)	(7,851)	8,419	(600,644)
OTHER CHANGES				
Investment return under amount designated for current operations	(65,134)	(239,864)	(16,209)	(321,207)
Change in annuity obligations	10,298	-	-	10,298
Total other changes	(54,836)	(239,864)	(16,209)	(310,909)
Change in net assets	(656,048)	(247,715)	(7,790)	(911,553)
NET ASSETS AT BEGINNING OF YEAR	3,291,742	2,782,534	4,419,589	10,493,865
NET ASSETS AT END OF YEAR	$ 2,635,694	$ 2,534,819	$ 4,411,799	$ 9,582,312

See accompanying notes to the financial statements.

SCARRITT-BENNETT CENTER
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	$ 179,807	$ 27,950	$ 6,385	$ 214,142
Fees	1,311,122	-	-	1,311,122
Rent income and use of facilities	878,153	-	-	878,153
Other income	29,430	-	-	29,430
Contribution - facilities usage	-	1,800,000	-	1,800,000
Investment return designated for current operations	394,438	96,333	-	490,771
Net assets released from restrictions:			-	
Expiration of time restriction	1,800,000	(1,800,000)	-	-
Satisfaction of program restrictions	132,402	(132,402)	-	-
Total revenues, gains and other support	4,725,352	(8,119)	6,385	4,723,618
EXPENSES				
Program expenses:				
Food services	396,633	-	-	396,633
Gift shop	20,734	-	-	20,734
Library	22,485	-	-	22,485
Rooms and guest services	578,613	-	-	578,613
Maintenance	725,546	-	-	725,546
Museum	23,923	-	-	23,923
Technology	129,882	-	-	129,882
Marketing	86,837	-	-	86,837
Programming	186,550	-	-	186,550
Celebration of Cultures	11,484	-	-	11,484
Rent expense	1,764,864	-	-	1,764,864
Supporting services:				
Management and general	888,304	-	-	888,304
Fundraising	125,706	-	-	125,706
Sales	137,861	-	-	137,861
Total expenses	5,099,422	-	-	5,099,422
Changes in net assets from operations	(374,070)	(8,119)	6,385	(375,804)
OTHER CHANGES				
Investment return over amount designated for current operations	156,343	114,972	18,617	289,932
Change in annuity obligations	(2,220)	-	-	(2,220)
Total other changes	154,123	114,972	18,617	287,712
Change in net assets	(219,947)	106,853	25,002	(88,092)
NET ASSETS AT BEGINNING OF YEAR	3,511,689	2,675,681	4,394,587	10,581,957
NET ASSETS AT END OF YEAR	$ 3,291,742	$ 2,782,534	$ 4,419,589	$ 10,493,865

See accompanying notes to the financial statements.

SCARRITT-BENNETT CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011			2010
	Current Operations	Long-term Investment	Total	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	$ (359,063)	$ (552,490)	$ (911,553)	$ (88,092)
Adjustments to reconcile change in net assets to net cash used in operating activities:				
Depreciation expense	87,560	-	87,560	129,786
Realized and unrealized gain on investments	-	(26,713)	(26,713)	(631,178)
Loss on disposal of property and equipment	-	-	-	450
(Increase) decrease in:				
Accrued interest and dividends	-	57,086	57,086	(54,317)
Accounts receivable	56,704	-	56,704	70,202
Inventory	(27,740)	-	(27,740)	(3,683)
Perpetual trusts held by third parties	-	16,309	16,309	(18,500)
Increase (decrease) in:				
Accounts payable and other liabilities	54,374	-	54,374	19,430
Refundable deposits	93,969	-	93,969	(25,678)
Net cash used in operating activities	(94,196)	(505,808)	(600,004)	(601,580)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of investments	-	(1,600,005)	(1,600,005)	(1,638,257)
Proceeds from sale of investments	-	2,105,813	2,105,813	2,298,127
Purchases of property and equipment	(3,234)	-	(3,234)	(51,692)
Net cash (used in) provided by investing activities	(3,234)	505,808	502,574	608,178
CASH FLOWS FROM FINANCING ACTIVITIES				
Net borrowings under line of credit	95,281	-	95,281	53,400
Net cash provided by financing activities	95,281	-	95,281	53,400
NET (DECREASE) INCREASE IN CASH	(2,149)	-	(2,149)	59,998
CASH AT BEGINNING OF YEAR	65,550	-	65,550	5,552
CASH AT END OF YEAR	$ 63,401	$ -	$ 63,401	$ 65,550
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	$ 18,797	$ -	$ 18,797	$ 13,826

NON-CASH INVESTING ACTIVITY:

During 2011, the Center transferred certain property, totaling $1,811,806, to its joint venture investment in Midtown Place Apartments. See note F.

See accompanying notes to the financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Scarritt-Bennett Center (the "Center") is a conference, retreat, and education center related to the United Methodist Church. The property from which the Center operates is located in Nashville, Tennessee, and is owned by the Women's Division of the General Board of Global Ministries of the United Methodist Church. The Center provides conference and meeting space to groups for day and multi-day meetings. The Center also offers its own program of education for ministry. The mission of the Center includes multi-cultural, ecumenical, and inter-faith activities.

Financial Statement Presentation

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

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

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by action of the Center or the passage of time.

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

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

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

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

Cash and Cash Equivalents

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

Property and Equipment

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts Receivable

Accounts receivable are stated at the amount the Center expects to collect from outstanding balances at year-end. The Center provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written-off through a charge to the valuation allowance and a credit to accounts receivable. At December 31, 2011 and 2010, management concluded that realization losses on balances outstanding would not be material based on management's assessment of credit history and current relationships. Therefore, no valuation allowance account was established at December 31, 2011 or 2010.

Inventory

Inventory consists primarily of food products on hand at the balance sheet date and is stated at the lower of cost or market on a first-in first-out basis.

Investments

Investments in equity and debt securities with readily determinable fair values are carried at fair value based on quoted prices in active markets.

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

Beneficial Interests in Trusts

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

Income Tax Status

The Center qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, the Center qualifies for the charitable contribution deduction under Section 170(b)(l)(A). The Center's federal information and income tax returns for tax years 2008 and later are subject to examination by the Internal Revenue Service.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Functional Allocation of Expenses

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

Advertising

The Center expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2011 and 2010 was $18,874 and $24,101, respectively.

Fair Value Measurements

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

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

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

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reclassifications

Certain 2010 amounts in the financial statements have been reclassified to conform to the presentation adopted for 2011.

B. INVESTMENTS

Investments are presented in the financial statements at fair value. At December 31, 2011 and 2010, the fair value and cost of investments are as follows:

	2011		2010	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	$ 360,014	$ 360,014	$ 303,760	$ 303,760
Equities	3,855,824	3,206,176	4,313,946	3,213,574
Fixed income	2,124,074	1,878,610	2,214,307	2,032,586
	$6,339,912	$5,444,800	$6,832,013	$5,549,920

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2011 and 2010:

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income, net of fees	$ 26,946	$ 51,651	$ 100	$78,697
Net realized and unrealized gains and losses on long-term investments	19,020	7,693	(16,309)	10,404
Spending rule appropriation	225,366	(225,366)	-	-
	$271,332	$(166,022)	$(16,209)	$89,101
Investment return designated for current operations	$ 336,466	$ 73,842	$ -	$ 410,308
Investment return under amount designated for current operations	(65,134)	(239,864)	(16,209)	(321,207)
	$ 271,332	$(166,022)	$(16,209)	$ 89,101

B. INVESTMENTS - Continued

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income, net of fees	$ 46,027	$105,100	$ 117	$151,244
Net realized and unrealized gains and losses on long-term investments	110,316	500,643	18,500	629,459
Spending rule appropriation	394,438	(394,438)	-	-
	$550,781	$211,305	$18,617	$780,703
Investment return designated for current operations	$394,438	$ 96,333	$ -	$490,771
Investment return over amount designated for current operations	156,343	114,972	18,617	289,932
	$550,781	$211,305	$18,617	$780,703

Investment expenses of $100,600 and $85,600 in 2011 and 2010, respectively, have reduced investment income.

C. SPLIT-INTEREST AGREEMENTS

The Center and its donors have established several types of split-interest agreements. Under these agreements, the Center receives benefits that are shared with other beneficiaries designated by the donors.

C. SPLIT-INTEREST AGREEMENTS - Continued

Perpetual Trusts Held by Third Parties

Two donors have established perpetual trusts that are administered by third parties. Under the terms of the first trust, the Center has the irrevocable right to receive the income earned on the trust assets in perpetuity. Income is unrestricted. At December 31, 2011 and 2010, the fair value of the assets held under the first agreement was $166,005 and $181,460, respectively, and is included in permanently restricted net assets. Under the terms of the second trust, the Center has an irrevocable right to receive the income earned on the trust in perpetuity. Income is restricted for scholarships. At December 31, 2011 and 2010, the fair value of the assets held under the second agreement was $197,569 and $198,423, respectively.

Charitable Gift Annuities

At December 31, 2010, the Center had two annuity agreements, under which the donors contributed assets to the Center in exchange for a promise by the Center to pay a fixed amount for a specified period of time to the donor or to individuals designated by the donor. The assets received are held as unrestricted assets of the Center and the liability for estimated future payments is recorded as an obligation. During 2011, one of the annuitants passed-away and the other annuitant was offered a payout to settle the agreement. Accordingly, as of December 31, 2011, the Center has no remaining annuity agreements. The Center’s annuity investments were transferred to the unrestricted general endowment fund during 2011.

Pooled Life Income Agreements

At December 31, 2010, the Center had three participants in pooled life income agreements. Under these agreements, the donors contributed assets to the Center in exchange for a promise by the Center to pay to the donor the income earned on the contributed assets for a specified period of time. The assets were recorded as temporarily restricted assets. During 2011, one of the participants passed-away and the other two participants were offered a payout to settle their agreements. Accordingly, as of December 31, 2011, the Center has no remaining pooled life income agreements. The Center’s pooled life income investments were transferred to the unrestricted general endowment fund during 2011.

D. ENDOWMENT

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

Interpretation of Relevant Law

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

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

D. ENDOWMENT - Continued

Endowment net assets are composed of the following:

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$703,849	$4,411,799	$5,115,648
Board-designated endowment funds	1,881,654	-	-	1,881,654
	$1,881,654	$703,849	$4,411,799	$6,997,302

Changes in endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 2,186,490	$ 943,713	$ 4,419,589	$ 7,549,792
Investment return:				
Investment income	26,946	51,651	100	78,697
Net realized and unrealized gains	19,020	7,693	(16,309)	10,404
Total investment return	45,966	59,344	(16,209)	89,101
Contributions	-	-	8,419	8,419
Appropriation of endowment gains for expenditure	(361,100)	(299,208)	-	(660,308)
Other changes - split-interest agreements	10,298	-	-	10,298
Endowment net assets, end of year	$ 1,881,654	$ 703,849	$ 4,411,799	$ 6,997,302

D. ENDOWMENT - Continued

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$943,713	$4,419,589	$5,363,302
Board-designated endowment funds	2,186,490	-	-	2,186,490
	$2,186,490	$943,713	$4,419,589	$7,549,792

Changes in endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 2,282,367	$ 828,741	$4,394,587	$ 7,505,695
Investment return:				
Investment income	46,027	105,100	117	151,244
Net realized and unrealized gains	110,316	500,643	18,500	629,459
Total investment return	156,343	605,743	18,617	780,703
Contributions	-	-	6,385	6,385
Appropriation of endowment gains for expenditure	(250,000)	(490,771)	-	(740,771)
Other changes - split-interest agreements	(2,220)	-	-	(2,220)
Endowment net assets, end of year	$ 2,186,490	$ 943,713	$4,419,589	$ 7,549,792

D. ENDOWMENT - Continued

Funds With Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TPMIFA requires the Center to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. Deficiencies generally result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions along with continued appropriation for certain programs that are deemed prudent by the Board of Directors. There were no such funds with deficiencies at December 31, 2011 or 2010.

Return Objectives and Risk Parameters

The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that, over time, provide a return of approximately 8% annually while assuming a moderate level of investment risk. Actual returns in any given year will vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Center has a policy of appropriating for distribution each year 6 percent of its endowment fund's average fair value over the prior three years. The calculation is based on the three fiscal years ending on the September 30 preceding the calendar year in which the distribution is planned. In establishing this policy, the Center considered the long-term expected return on its endowment. Accordingly, over the long term, the Center expects the current spending policy to allow its endowment to grow at an average of 2 percent annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

D. ENDOWMENT - Continued

	2011	2010
Permanently Restricted Net Assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by TPMIFA	$4,411,799	$4,419,589

	2011	2010
Temporarily Restricted Net Assets:		
The portion of perpetual endowment funds subject to time or other restrictions under TPMIFA:		
Without purpose restrictions	$309,757	$512,619
With purpose restrictions	394,092	431,094
	$703,849	$943,713

E. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2011 and 2010 is as follows:

	2011	2010
Land	$ -	$ 402,624
Buildings	-	1,610,494
Improvements	407,763	407,763
Furniture	84,108	84,108
Equipment	436,206	432,972
	928,077	2,937,961
Less accumulated depreciation	(747,785)	(861,537)
	$ 180,292	$ 2,076,424

During 2011, under a real estate development agreement, the Center contributed its land and buildings above, to a newly formed entity in exchange for a 50% interest in the new entity. The net book value of the property at the time of transfer was $1,811,806. See Note F.

F. INVESTMENT IN JOINT VENTURE - MIDTOWN PLACE, LLC

During November 2010, the Center entered into a development agreement with a real estate developer. Under the agreement, the Center contributed, during 2011, certain land and buildings in exchange for a 50% equity interest in a newly formed entity, Midtown Place, LLC. The net book value of the assets at the time of transfer totaled $1,811,806, as described in Note E. This amount has been recorded as the Center's investment in the joint venture. The real estate developer owns the other 50% interest in Midtown Place, LLC. During 2011, Midtown Place, LLC demolished the existing structures on the land and in their place is constructing a new 55-unit apartment complex, Midtown Place Apartments. Construction of the new apartments was on-going at December 31, 2011 and is expected to be completed in July 2012. Upon completion, the developer will lease and manage the new complex for a management fee of 4% of gross rents less collectible deposits.

In conjunction with the construction of the new apartment complex, Midtown Place entered into a $5,400,000 construction promissory note, the balance of which is $1,085,500 at December 31, 2011. The loan is collateralized by Midtown Place Apartments and is guaranteed by the developer. The Center does not guarantee the loan.

A summary of the assets and liabilities of Midtown Place, LLC as of December 31, 2011 is as follows:

Total assets	$3,190,113
Total liabilities	1,090,213
Equity	$2,099,900

The Center's carrying value of the investment Midtown Place, LLC exceeds its share of the underlying net assets, which is considered to be equity method goodwill. The Center evaluates the carrying value of its investment in Midtown Place, LLC on at least an annual basis and more frequently if events occur or circumstances change that would likely reduce the fair value below its carrying amount. No impairment allowance was considered necessary at December 31, 2011.

G. PENSION PLAN

All full-time staff and regular part-time staff who work twenty or more hours a week are eligible to participate in one of the pension programs of the General Board of Pensions Health Benefits of the United Methodist Church. Staff members may participate by contributing, through payroll deduction, not more than ten percent to a personal accumulations account. The Center contributes 9% on behalf of the employees. The total pension expense for the years ended December 31, 2011 and 2010, was $84,194 and $85,071, respectively.

H. INSURANCE REFUND RECEIVABLE

Included in accounts receivable as of December 31, 2011 and 2010, is $49,571 and $100,660, respectively that is a receivable from an insurance provider. The insurance provider for the Center is returning $352,307 to the Center over a seven-year period beginning in 2006 and ending in 2012.

I. RELATED PARTY TRANSACTIONS

The Women's Division of the General Board of Global Ministries of the United Methodist Church (the "Women's Division") appoints 8 of the 24 voting directors of Scarritt-Bennett Center. In both 2011 and 2010, the Women's Division provided the Center with financial support in the amount of $45,000 in addition to the rent-free use of the facilities, as described in Note J.

J. CONTRIBUTION - RENT-FREE USE OF FACILITIES

The Women's Division of the General Board of Global Ministries of the United Methodist Church contributed a rent-free lease agreement to the Center. The Center renewed the lease agreement with the Women's Division effective January 1, 2011. The renewed lease agreement provides generally for a lease term through December 2020 with certain renewal options as well as termination provisions. The estimated fair value of the contributed facilities is recorded as a gift in the period the lease is executed and, for any terms in excess of one year, the value is discounted to its present value at that time. Based on the provisions of the lease agreement, the Center generally records the contributions in annual installments when it is known that the lease will remain in effect for the upcoming year. The contribution receivable relating to the rent-free use of facilities is included as leasehold rights - facilities usage in the accompanying balance sheets. The leasehold rights - facilities usage was $1,800,000 at December 31, 2011 and 2010, which represents the right to use the facilities for the 2012 and 2011, respectively. The related rent expense was $1,800,000 for 2011 and 2010. The leasehold rights - facilities usage as of December 31, 2011 and 2010 is a temporarily restricted net asset.

K. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2011 and 2010:

	2011	2010
Time restrictions:		
Facilities usage	$1,800,000	$1,800,000
Life income agreements	-	18,759
General endowment - net accumulated gains	308,760	473,004
Amounts designated for specific programs:		
Miller lectureship	58,064	57,563
Centennial Global Scholars Fund	40,094	39,840
General unrestricted scholarships	296,931	354,547
Library	-	752
Facilities	30,970	38,821
	$2,534,819	$2,782,534

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

	2011	2010
Time restrictions:		
Passage of specified time - rent-free use facilities	$1,800,000	$1,800,000
Program requirements met:		
Satisfaction of program restrictions	81,693	132,402
	$1,881,693	$1,932,402

Permanently restricted net assets consist of the following:

	2011	2010
General endowment	$3,040,278	$3,055,733
Scholarships	1,321,521	1,313,856
Other	50,000	50,000
	$4,411,799	$4,419,589

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

L. CONCENTRATIONS

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

M. LINE-OF-CREDIT

The Center has a $430,000 line-of-credit with a financial institution, the balance of which was $395,059 and $299,778 at December 31, 2011 and 2010, respectively. Interest on the line-of-credit is due monthly at the financial institution’s prime rate. Interest expense for the years ended December 31, 2011 and 2010 was $18,797 and $13,826, respectively. The line-of-credit is secured by certain unrestricted investments. The line-of-credit expired in January 2012 and was renewed with the same terms through April 2013.

N. HISTORICAL COLLECTIONS

The Center’s collections are made up of multicultural artifacts and tribal art, traditional pieces, prehistoric artifacts from North America and other items from cultures around the world. These items are held and displayed in the Center’s various facilities for educational and exhibition purposes. During 2000 and 2001, the Center was given a significant number of collection items from another local museum. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. In conformity with the practice followed by many museums, historical collection items are not included in the statements of financial position. Also, the value of collection items given to the Center is not reflected as revenue. The cost of all objects purchased is reported in program expenses.

O. RETIREMENT BENEFIT OBLIGATIONS

The Center provides certain insurance benefits to retired employees who work for more than five years and reach retirement age while employed. The Center’s management believes that it is not practical to reasonably estimate the amount of its liability for this benefit; accordingly, no liability has been recognized in the accompanying statements of financial position. The Center recognizes this expense when paid. Expense for the each of the years ended December 31, 2011 and 2010 was approximately $14,000.

P. FAIR VALUE OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the Center's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at December 31, 2011 and 2010 for assets measured at fair value on a recurring basis under ASC 820, *Fair Value Measurements and Disclosures*:

	Assets Measured at Fair Value	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2011:				
Investments:				
Short-term investments	$ 360,014	$ 360,014	$ -	$ -
Equities	3,855,824	3,855,824	-	-
Fixed income	2,124,074	-	2,124,074	-
Total investments	$6,339,912	$4,215,838	$2,124,074	$ -
Perpetual trusts held by third parties	$ 363,574	$ 363,574	$ -	$ -
December 31, 2010:				
Investments:				
Short-term investments	$ 303,760	$ 303,760	$ -	$ -
Equities	4,313,946	4,313,946	-	-
Fixed income	2,214,307	-	2,214,307	-
Total investments	$6,832,013	$4,617,706	$2,214,307	$ -
Perpetual trusts held by third parties	$ 379,883	$ 379,883	$ -	$ -

P. FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

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

Investments

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

Perpetual Trusts Held by Third Parties

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

Other

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

Q. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 25, 2012, the date the financial statements were available for issuance, and has determined that except for the renewal of the line-of-credit described in Note M, there are no other subsequent events requiring disclosure.