BOYS AND GIRLS CLUBS OF GREATER MEMPHIS

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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Independent Auditor's Report

Board of Directors
Boys and Girls Clubs of Greater Memphis
Memphis, Tennessee

We have audited the accompanying financial statements of Boys and Girls Clubs of Greater Memphis (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys and Girls Clubs of Greater Memphis as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Frazee Ivy Davis PLC

Memphis, Tennessee
May 23, 2018

Statements of Financial Position ***December 31, 2017 and 2016***

ASSETS

	2017	2016
Cash and cash equivalents	**$ 2,053,849**	$ 1,858,508
Pledges receivable, net	**633,330**	1,441,097
Grants receivable	**1,320,045**	1,615,625
Prepaid expenses	**39,404**	67,979
Receivables, long-term bargain leases	**151,071**	244,737
Assets restricted for endowment	**-**	1,077,909
Investment securities	**10,225,508**	7,356,059
Cash surrender value of life insurance	**140,738**	131,359
Property and equipment, net of accumulated depreciation	**6,621,911**	7,106,022
Total assets	**$ 21,185,856**	$ 20,899,295

LIABILITIES AND NET ASSETS

	2017	2016
Liabilities		
Accounts payable	**$ 40,716**	$ 36,306
Accrued salaries and retirement	**175,286**	112,662
Accrued interest	**16,385**	-
Deferred revenue	**1,621,823**	1,587,476
Derivative financial instrument	**-**	683,185
Notes payable	**5,679,895**	4,965,943
Total liabilities	**7,534,105**	7,385,572
Net assets		
Unrestricted	**8,322,417**	8,043,289
Temporarily restricted	**4,523,390**	4,664,490
Permanently restricted	**805,944**	805,944
Total net assets	**13,651,751**	13,513,723
Total liabilities and net assets	**$ 21,185,856**	$ 20,899,295

Statements of Activities ***For the years ended December 31, 2017 and 2016***

	2017				2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and other revenues								
Annual campaign	**$ 1,517,170**	**$ 96,333**	**$ -**	**$ 1,613,503**	$ 1,393,290	$ -	$ -	$ 1,393,290
Capital campaign	**-**	**52,761**	**-**	**52,761**	-	612,252	-	612,252
United Way of the Mid-South	**481,890**	**-**	**-**	**481,890**	521,918	-	-	521,918
In-kind contributions	**184,423**	**15,455**	**-**	**199,878**	164,807	12,956	-	177,763
Grant income	**1,345,847**	**-**	**-**	**1,345,847**	412,329	-	-	412,329
Other revenues	**223,940**	**-**	**-**	**223,940**	94,518	-	-	94,518
Board dues and membership fees	**117,507**	**-**	**-**	**117,507**	114,640	-	-	114,640
The Phoenix, Inc.	**49,912**	**-**	**-**	**49,912**	12,275	-	-	12,275
Gain (loss) on sale of property and equipment	**(156,002)**	**-**	**-**	**(156,002)**	5,342	-	-	5,342
Net investment income	**710,950**	**299,555**	**-**	**1,010,505**	351,384	142,680	-	494,064
Total support and other revenues	**4,475,637**	**464,104**	**-**	**4,939,741**	3,070,503	767,888	-	3,838,391
Reclassifications								
Net assets released from restrictions	**605,204**	**(605,204)**	**-**	**-**	1,171,384	(1,171,384)	-	-
Total revenue and reclassifications	**5,080,841**	**(141,100)**	**-**	**4,939,741**	4,241,887	(403,496)	-	3,838,391
Expenses								
Program services	**4,246,013**	**-**	**-**	**4,246,013**	3,678,925	-	-	3,678,925
Management and general	**328,789**	**-**	**-**	**328,789**	379,517	-	-	379,517
Fundraising	**279,896**	**-**	**-**	**279,896**	233,678	-	-	233,678
Total expenses	**4,854,698**	**-**	**-**	**4,854,698**	4,292,120	-	-	4,292,120
Change in net assets, before derivative financial instrument	**226,143**	**(141,100)**	**-**	**85,043**	(50,233)	(403,496)	-	(453,729)
Change in fair value of derivative financial instrument	**52,985**	**-**	**-**	**52,985**	240,660	-	-	240,660
Change in net assets	**$ 279,128**	**$ (141,100)**	**$ -**	**$ 138,028**	$ 190,427	$ (403,496)	$ -	$ (213,069)

Statements of Functional Expenses ***For the years ended December 31, 2017 and 2016***

	2017				2016			
	Program Services	**Management and General**	**Fundraising**	**Total**	Program Services	Management and General	Fundraising	Total
Compensatory expenses								
Salaries and wages	**$ 1,661,902**	**$ 286,899**	**$ 80,805**	**$ 2,029,606**	$ 1,317,963	$ 227,524	$ 64,082	$ 1,609,569
Retirement and health benefits	**262,410**	**40,349**	**7,627**	**310,386**	265,412	40,810	7,714	313,936
Payroll taxes	**131,221**	**20,273**	**4,458**	**155,952**	103,822	16,040	3,527	123,389
Subtotal compensatory	**2,055,533**	**347,521**	**92,890**	**2,495,944**	1,687,197	284,374	75,323	2,046,894
Other expenses								
Depreciation	**441,723**	**-**	**-**	**441,723**	423,781	-	-	423,781
Contract services	**350,983**	**35,114**	**23,158**	**409,255**	260,874	26,112	17,213	304,199
Program supplies	**368,457**	**-**	**-**	**368,457**	331,765	-	-	331,765
Interest	**283,706**	**-**	**-**	**283,706**	230,369	-	-	230,369
Work incentive	**187,181**	**-**	**-**	**187,181**	192,551	-	-	192,551
Insurance	**145,843**	**6,204**	**3,103**	**155,150**	139,989	5,955	2,978	148,922
Fundraising expenses	**-**	**-**	**131,817**	**131,817**	-	-	109,306	109,306
Utilities	**101,926**	**7,329**	**3,663**	**112,918**	127,577	9,173	4,585	141,335
Facility rent and maintenance	**78,728**	**14,024**	**7,009**	**99,761**	56,406	11,288	5,642	73,336
Vehicle expenses	**67,109**	**7,024**	**3,901**	**78,034**	66,916	7,004	3,890	77,810
Bank charges	**39,204**	**4,899**	**4,900**	**49,003**	49,178	6,146	6,146	61,470
Office supplies	**30,871**	**12,183**	**5,222**	**48,276**	24,812	9,792	4,197	38,801
Dues and subscriptions	**28,737**	**-**	**-**	**28,737**	18,801	-	-	18,801
Food	**28,295**	**-**	**-**	**28,295**	30,500	-	-	30,500
Telephone	**20,893**	**2,611**	**2,611**	**26,115**	23,634	2,953	2,953	29,540
Travel	**10,885**	**3,113**	**1,558**	**15,556**	3,172	907	454	4,533
Training	**5,384**	**-**	**-**	**5,384**	2,761	-	-	2,761
Miscellaneous	**555**	**64**	**64**	**683**	8,642	991	991	10,624
Provision for doubtful pledges	**-**	**(111,297)**	**-**	**(111,297)**	-	14,822	-	14,822
Total expenses	**$ 4,246,013**	**$ 328,789**	**$ 279,896**	**$ 4,854,698**	$ 3,678,925	$ 379,517	$ 233,678	$ 4,292,120

Statements of Changes in Net Assets ***For the years ended December 31, 2017 and 2016***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, December 31, 2015	7,852,862	5,067,986	805,944	13,726,792
Change in net assets	190,427	(403,496)	-	(213,069)
Net assets, December 31, 2016	**8,043,289**	**4,664,490**	**805,944**	**13,513,723**
Change in net assets	**279,128**	**(141,100)**	**-**	**138,028**
Net assets, December 31, 2017	**$ 8,322,417**	**$ 4,523,390**	**$ 805,944**	**$ 13,651,751**

Statements of Cash Flows ***For the years ended December 31, 2017 and 2016***

	2017	2016
Cash Flows from operating activities		
Change in net assets	$ 138,028	$ (213,069)
Adjustments to reconcile change in net assets		
to net cash provided by (used in) operating activities		
Depreciation	441,723	423,781
Amortization of deferred financing costs	67,752	8,452
Unrealized gain on investments	(788,405)	(184,721)
Realized gain on investments	(24,561)	(143,903)
(Gain) loss on sale of property and equipment	156,002	(5,342)
Provision for doubtful pledges	(111,297)	14,822
Increase in cash surrender value of life insurance	(9,379)	(8,609)
In-kind contributions of property and equipment	-	(38,669)
Contributions restricted for long-term purposes	(979,513)	(1,539,004)
Change in fair value of derivative financial instrument	(52,985)	(240,661)
(Increase) decrease in operating assets		
Pledges receivable	919,064	854,977
Grants receivable	295,580	(1,561,820)
Receivables, long-term bargain leases	93,666	26,344
Prepaid expenses	28,575	(319)
Increase (decrease) in operating liabilities		
Accounts payable	20,410	(124,171)
Accrued salaries and retirement	62,624	(44,641)
Accrued interest	16,385	-
Deferred revenue	34,347	1,536,513
Net cash provided by (used in) operating activities	308,016	(1,240,040)
Cash flows from investing activities		
Proceeds from sale of investment securities	372,141	1,738,281
Proceeds from note receivable	-	105,808
Purchases of investment securities	(2,219,760)	(1,983,172)
Proceeds from sale of property and equipment	950	5,342
Purchase of property and equipment	(114,564)	(571,073)
Net cash used in investing activities	(1,961,233)	(704,814)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term projects	979,513	1,539,004
Net cash provided by financing activities	979,513	1,539,004
Change in cash, cash equivalents, and restricted cash	(673,704)	(405,850)
Cash, cash equivalents, and restricted cash at beginning of year	2,936,417	3,342,267
Cash, cash equivalents, and restricted cash at end of year	$ 2,262,713	$ 2,936,417

See accompanying notes to the financial statements.

Note 1 – Organization and Business Activity

Boys and Girls Clubs of Greater Memphis (the "Organization") is a non-profit corporation which maintains six club facilities, one technical training center, and a camp for the benefit of approximately 4,500 members. The Organization operates a comprehensive program which provides the boys and girls with professional and informal guidance integrated into a year-round program of group club, athletics, science, shops, learning centers, crafts, computer labs, playgrounds, gyms, and special events. The Organization is supported through donor contributions, grants, and special events.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting. Under this method of accounting, support and revenue are recognized in the period earned and expenses are recognized when incurred.

Financial Statement Presentation

Under accounting standards for non-profit organizations, the Organization 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash and cash equivalents consisted of the following:

	2017	2016
Checking and savings accounts	**$ 2,053,849**	$ 1,674,467
Money market funds	**-**	184,041
Cash and cash equivalents	**2,053,849**	1,858,508
Money market funds, pledged as collateral	**208,864**	-
Assets restricted for endowment	**-**	1,077,909
Cash, cash equivalents, and restricted cash	**$ 2,262,713**	$ 2,936,417

Pledges Receivable

Pledges receivable are recorded when they are determined to be an unconditional promise to give. The Organization uses the allowance method to account for doubtful pledges. The amount of the allowance for doubtful pledges is based upon management's assessment of historical and expected collections, economic conditions, and other collection indicators. Pledges receivable due in more than one year are discounted to the present value of estimated future cash flows.

Note 2 – Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is stated at estimated fair value at the date of the contribution, if contributed, or at acquisition cost, if purchased. Major renewals and betterments that extend the useful lives of assets are also recorded at cost. Expenditures for normal repair and maintenance are expensed as they occur. Construction in progress represents renovations that have not been put in service and, therefore, are not being depreciated. Depreciation is determined using the straight-line method over the estimated useful lives of the assets, generally five to thirty-nine years for buildings and improvements and three to ten years for equipment, furniture, and vehicles.

Amortization of Debt Issuance Costs

The costs incurred in conjunction with long-term debt financing arrangements are recorded as a direct deduction from the carrying value of the associated debt and are amortized into interest expense over the life of the debt commitment using the effective interest rate method. Amortization for the years ended December 31, 2017 and 2016 was $7,303 and $8,091, respectively. The bond issue was paid off with an advance from the letter of credit from SunTrust Bank (see Note 7).

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a 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 reported in the statement of activities as net assets released from restrictions. Investment income is available to support any activities of the Organization unless otherwise specified by the donor.

In-Kind Contributions

Donated materials are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donations of property and equipment are recorded as unrestricted contributions at the date of donation unless the donor has temporarily or permanently restricted the donated asset to a specific purpose.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Sections 509(a)(1) and 170(b)(1)(A)(vi). The Organization files tax returns in the United States federal jurisdiction and is not currently under tax examination. The Organization is no longer subject to examination by federal authorities for years prior to 2014.

Based on the evaluation of the Organization's tax positions, management believes all positions taken would more likely than not be upheld under examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the years ended December 31, 2017 and 2016.

Note 2 – Summary of Significant Accounting Policies (continued)

Fair Value Measurements

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establish the framework for a fair value hierarchy. The fair value hierarchy gives the highest priority to observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to inputs (other than quoted prices within Level 1) such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that can be corroborated by observable market data (Level 2), and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Recently Adopted Accounting Guidance

In 2017, the Organization adopted Accounting Standards Update 2015-07, *Fair Value Measurement (Topic 820: Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)* ("ASU 2015-07") which eliminates the requirement to categorize investments within the fair value hierarchy if their fair value is measured using the net asset value per share practical expedient in the Financial Accounting Standards Board's fair value measurement guidance. The amendments also limit certain disclosures to investments for which the Organization has elected to measure at fair value using the net asset value per share practical expedient. The amendments were applied retrospectively by removing from the fair value hierarchy any investments for which fair value is measured using the net asset value per share practical expedient. Adoption of this guidance did not have an impact on the Organization's financial position or result of operations.

Reclassifications

Certain amounts in the financial statements for the year ended December 31, 2016 have been reclassified to conform to current year presentation with no effect on net assets or the change in net assets for the year.

Subsequent Events

Management has evaluated subsequent events through May 23, 2018, the date the financial statements were available to be issued.

Note 3 – Pledges Receivable

At December 31, 2017 and 2016, unconditional promises to give were due as follows:

	2017	2016
Receivable in less than one year	**$ 198,769**	$ 951,111
Receivable in one to five years	**582,994**	876,947
Total pledges receivable	**781,763**	1,828,058
Less discount to net present value	**73,433**	126,194
Pledges receivable, at present value	**708,330**	1,701,864
Less allowance for doubtful pledges	**75,000**	260,767
Pledges receivable, net	**$ 633,330**	$ 1,441,097

Unconditional promises to give due in more than one year are reflected at the net present value of estimated future cash flows using a discount rate of 4.42% at December 31, 2017 and 2016.

Note 4 – Receivables, Long-Term Bargain Leases

As of December 31, 2017, the Organization holds long-term leasehold rights to real estate used in its programs at Camp Phoenix. The lease expires on June 30, 2029 and the annual rental per year for the lease is nil. The present value of the fair market rent over the lease term, determined using a five percent discount rate, was recognized as temporarily restricted support at the effective date of the lease. Receivables, long-term bargain leases at December 31, 2017 of $151,071 represents the future fair rental value of $198,950 net of unamortized discount of $47,879. The unamortized discount will be recognized as additional contributions as time restrictions expire. Rent expense attributable to the lease to be recognized in the next five years is as follows:

Year ending December 31,	
2018	$ 17,300
2019	17,300
2020	17,300
2021	17,300
2022	17,300
Thereafter	112,450
Total	$ 198,950

Due to condemnation of the building that was used for programs of Porter Goodwill Club, the receivable, long-term bargain lease of $61,170 was written off to bad debt expense on December 31, 2017.

Note 5– Investment Securities

Investment securities at December 31, 2017 and 2016 were comprised of the following:

	2017		2016	
	Fair Value	**Cost**	Fair Value	Cost
Money market funds, restricted	**$ 208,864**	**$ 208,864**	$ -	$ -
Fixed income funds	**2,618,267**	**2,642,120**	1,988,064	2,034,255
Domestic equity funds	**3,023,969**	**2,281,819**	2,546,103	2,124,047
International equity funds	**1,543,063**	**1,354,116**	938,372	968,011
Common equity securities	**1,681,050**	**1,429,975**	830,420	713,346
Total equity investments	**6,248,082**	**5,065,910**	4,314,895	3,805,404
Community Foundation of Greater Memphis	**87,163**	**64,208**	77,404	60,399
Hedge fund	**1,063,132**	**577,488**	975,696	577,488
Total investment securities	**$ 10,225,508**	**$ 8,558,590**	$ 7,356,059	$ 6,477,546

Investment securities held by the Community Foundation of Greater Memphis, Inc. consist of funds transferred from the Organization to the Boys and Girls Club Fund of the Community Foundation of Greater Memphis, Inc. (the "Fund"). The beneficiary of the Fund is the Organization. The investments are stated at fair value and are held in a diversified portfolio.

At December 31, 2017, investments included $8,866,349 in securities pledged as collateral under note payable to SunTrust Bank (see Note 7).

Net investment income for the years ended December 31, 2017 and 2016 consisted of the following:

	2017	2016
Net unrealized gain	**$ 788,405**	$ 184,721
Net realized gain	**24,561**	143,903
Net gain	**812,966**	328,624
Interest and dividend income	**243,154**	219,916
Investment fees	**(45,615)**	(54,476)
Net investment income	**$ 1,010,505**	$ 494,064

Note 6 – Property and Equipment

Property and equipment consisted of the following at December 31, 2017 and 2016:

	2017	2016
Land	**$ 275,123**	$ 275,123
Buildings	**6,293,252**	6,293,252
Building improvements	**4,648,789**	4,676,235
Leasehold improvements	**240,458**	431,089
Transportation equipment	**324,375**	274,740
Equipment, furniture, and fixtures	**1,599,749**	1,553,963
	13,381,746	13,504,402
Accumulated depreciation	**(6,759,835)**	(6,398,380)
Property and equipment, net	**$ 6,621,911**	$ 7,106,022
Depreciation expense for the year	**$ 441,723**	$ 423,781

Note 7 – Notes Payable

The Industrial Development Board of the City of Memphis and County of Shelby, Tennessee

On November 16, 2007, The Industrial Development Board of the City of Memphis and County of Shelby, Tennessee issued a tax-exempt revenue bond (Series 2007A) on behalf of the Organization. Interest was payable monthly at an adjustable rate and was partially fixed by an interest rate swap agreement through December 31, 2022 (see Note 8). Principal was payable annually in various amounts beginning January 1, 2019 through January 1, 2028. Face value of the tax-exempt bond was reduced by $136,145 of debt issuance costs, resulting in an effective interest rate of approximately 4.37% at the date of issuance. The bond issue was supported by a stand-by letter of credit from SunTrust Bank (see Note 9). On October 4, 2017, the bond issue was paid off with proceeds from the letter of credit.

SunTrust Bank

On October 4, 2017, the Organization entered into a promissory note with SunTrust Bank in the amount of $5,679,895 to cancel the letter of credit and terminate the interest rate swap. The note requires semi-annual installments of $189,330, including interest at 3.35% per annum, beginning July 5, 2019 through July 5, 2027. The note is secured by the Organization’s investment securities (see Note 5).

Note 7 – Note Payable (continued)

Principal is schedule to mature as follows:

Year ending December 31,	
2018	$ -
2019	189,330
2020	378,660
2021	378,660
2022	378,660
Thereafter	4,354,585
Total	$ 5,679,895

Note 8 – Derivative Financial Instrument

On September 26, 2007, the Organization entered into an interest rate swap agreement ("Agreement") with its bank for a notional principal amount of $5,340,000. The effective date of the Agreement was December 1, 2007. The Agreement was scheduled to mature on December 31, 2022 and provided that the Organization would pay monthly interest on the notional amount at a fixed rate of 4.14% and receive monthly interest on the notional amount at a floating rate based on the USD-SIFMA Municipal Swap Index (0.63% at December 31, 2017). The Organization entered into this Agreement to manage a portion of its interest rate exposure by converting a portion of its variable-rate debt into fixed-rate debt. For the year ended December 31, 2017, the Organization incurred total interest expense of $227,248 on its Series 2007A Bond.

The derivative financial instrument was not held for trading purposes and was reflected on the statement of financial position at its fair value, as determined by the Organization's bank using valuation models and assumptions and available market data. Changes in the fair value of this instrument are included in the change in net assets, and the cash flow effects of the swap arrangement are included in interest expense on the statements of functional expenses. The effect for the years ended December 31, 2017 and 2016 was to increase interest expense by $140,782 and $199,828, respectively.

The Agreement was terminated with proceeds from the issuance of the SunTrust Bank note payable (see Note 7).

Note 9 – Commitments

The Organization maintained an irrevocable letter of credit agreement with its bank in favor of the trustee of the revenue bonds (see Note 7) for the benefit of owners of the bonds. The agreement provided a maximum commitment of $5,096,148 and required commitment fees of 0.5% per annum that were recorded as bank charges. On October 4, 2017 (prior to the November 15, 2017 maturity), the Organization was advanced funds from the letter of credit which were used to refinance the bond issue. The letter of credit was fully satisfied and canceled with proceeds from the issuance of the SunTrust Bank note payable (see Note 7).

Note 10 – Restricted Net Assets

Temporarily restricted net assets consisted of the following as of December 31, 2017 and 2016:

	2017	2016
Time restrictions	**$ 158,985**	$ 191,480
Purpose restrictions		
Capital & Endowment Campaign	**3,446,103**	3,309,040
Club operations	**500,000**	750,000
Tech Training Center, Logistics Track	**80,000**	220,000
Buckman Club	**283,792**	185,058
Endowment campaign	**11,997**	8,128
Irby Cooper Scholarship Fund	**4,013**	1,562
Planning Giving Salary	**38,500**	-
Total	**$ 4,523,390**	$ 4,665,268

For the years ended December 31, 2017 and 2016, net assets were released from restrictions by the passage of time or incurring expenses satisfying the purpose restriction imposed by donors as follows:

	2017	2016
Time restrictions	**$ 47,950**	$ 39,300
Purpose restrictions		
Capital & Endowment Campaign	**100,128**	641,084
Club operations	**250,000**	250,000
Tech Training Center, Logistics Track	**140,000**	140,000
Power Hour Programs	**-**	100,000
Irby Cooper Scholarship Fund	**77**	1,000
Tech Training Center	**25,000**	-
HVAC Repairs	**20,000**	-
Planned Giving Salary	**12,833**	-
Buckman	**9,216**	-
Total	**$ 605,204**	$ 1,171,384

Permanently restricted net assets consisted of the following as of December 31, 2017 and 2016:

	2017	2016
Buckman Club	**$ 759,139**	$ 759,139
Endowment campaign	**29,250**	29,250
Irby Cooper scholarship funds	**17,555**	17,555
Total	**$ 805,944**	$ 805,944

Note 11 – Endowment Funds

The Organization's endowment consists of several funds established for the purpose of raising and investing funds for capital improvements and scholarships. The endowment includes both donor-restricted endowment funds and funds designated by the Organization's Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with the endowment funds, including 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.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the State of Tennessee 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 Organization 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 UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of the investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Annual spending from the endowment fund shall be the lesser of (a) 5% of the endowment fund's fair market value (as valued annually at the beginning of each fiscal year of the organization), or (b) the net income earned by the endowment fund during the Organization's previous fiscal year. In establishing this policy, the Organization considered liquidity and the long-term expected investment return of its endowment fund.

The Organization has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions in accordance with the Organization's annual spending policy while growing the fund. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Note 11 – Endowment Funds (continued)

Endowment net asset composition by fund type as of December 31, 2017 and 2016 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
As of December 31, 2017				
Donor-restricted endowment funds	**$ 245,178**	**$ 2,001,467**	**$ 805,944**	**$ 3,052,589**
Board-designated endowment funds	**173,917**	**-**	**-**	**173,917**
Total endowment funds	**$ 419,095**	**$ 2,001,467**	**$ 805,944**	**$ 3,226,506**
As of December 31, 2016				
Donor-restricted endowment funds	$ 126,389	$ 1,791,487	$ 805,944	$ 2,723,820
Board-designated endowment funds	169,403	-	-	169,403
Total endowment funds	$ 295,792	$ 1,791,487	$ 805,944	$ 2,893,223

Changes in endowment net assets for the year ended December 31, 2017 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2016	**$ 295,792**	**$ 1,791,487**	**$ 805,944**	**$ 2,893,223**
Investment return:				
Interest and dividends	**7,859**	**69,801**	**-**	**77,660**
Net appreciation (realized and unrealized)	**27,399**	**243,340**	**-**	**270,739**
Investment fees	**(1,530)**	**(13,586)**	**-**	**(15,116)**
Total investment return	**33,728**	**299,555**	**-**	**333,283**
Contributions	**-**	**-**	**-**	**-**
Appropriations for expenditure	**89,574**	**(89,574)**	**-**	**-**
Endowment net assets, December 31, 2017	**$ 419,094**	**$ 2,001,468**	**$ 805,944**	**$ 3,226,506**

Note 11 – Endowment Funds (continued)

Changes in endowment net assets for the year ended December 31, 2016 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2015	$ 277,902	$ 1,399,807	$ 805,944	$ 2,483,653
Investment return:				
Interest and dividends	7,300	65,939	-	73,239
Net appreciation (realized and unrealized)	11,507	92,078	-	103,585
Investment fees	(1,917)	(15,337)	-	(17,254)
Total investment return	16,890	142,680	-	159,570
Contributions	-	250,000	-	250,000
Appropriations for expenditure	1,000	(1,000)	-	-
Endowment net assets, December 31, 2016	$ 295,792	$ 1,791,487	$ 805,944	$ 2,893,223

Note 12 – Fair Value Measurements

Fair values of assets and liabilities measured on a recurring basis at December 31, 2017 include the following:

	2017	**Quoted Prices in Active Markets For Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Common equity securities	**$ 1,681,050**	**$ 1,681,050**	**$ -**	**$ -**

Note 12 – Fair Value Measurements (continued)

Fair values of assets and liabilities measured on a recurring basis at December 31, 2016 include the following:

	2016	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Common equity securities	$ 830,420	$ 830,420	$ -	$ -

Common Equity Securities

Fair values for common equity securities are determined by reference to quoted prices in active markets.

The following table provides information related to investments that are valued based primarily on net asset value ("NAV"):

	2017	2016	Redemption Frequency	Redemption Notice Period
Domestic equity funds	**$ 3,023,969**	$ 2,546,103	Daily	Not applicable
International equity funds	**1,543,063**	938,372	Daily	Not applicable
Hedge funds	**1,063,132**	975,696	Annually	90 days

Domestic Equity Funds

This class includes investments in mutual funds that hold common stocks in U.S. companies. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

International Equity Funds

This class includes investments in mutual funds that hold common stocks of companies in developed countries outside the United States. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

Hedge Funds

The hedge fund's overall objective is to achieve capital appreciation through direct and indirect investments in securities, derivative instruments and commodities. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

Note 13 – Retirement Plans

Pension Plan

The Organization maintains a non-contributory defined contribution pension plan covering employees over 20 years of age with at least one thousand hours of annual service. The employer contributes to the plan 3% of participants' annual compensation. Pension expense for the years ended December 31, 2017 and 2016 was $27,031 and $36,000, respectively.

Salary Deferral Plan

The Organization sponsors a defined contribution retirement plan for the benefit of its employees under Section 403(b) of the Internal Revenue Code. All employees may elect to defer a portion of their compensation and contribute it to the plan in an amount not to exceed annual statutory limits. The employer does not contribute to this plan.

Note 14 – Supplemental Disclosure of Cash Flow Information

For the years ended December 31, 2017 and 2016, the Organization's cash payments for interest totaled $208,311 and $221,917, respectively.

Noncash investing and financing activities for the years ended December 31, 2017 and 2016 consisted of the following:

	2017	2016
In-kind contribution of property and equipment	**$ -**	$ 38,669
Refinance of note payable		
SunTrust Bank	**5,679,895**	-
The Industrial Development Board of the City of Memphis and County of Shelby, Tennessee	**(5,033,695)**	-
Derivative financial instrument	**(630,200)**	-
Legal fees	**(16,000)**	-

Note 15 – Concentrations of Risk

Although the Organization has a policy to maintain a diversified portfolio, investment securities are subject to market and credit risk, including the issuers' ability to meet their obligations, which may be affected by general economic conditions or economic developments in a specific geographic region or industry.

Note 16 – Related Party Transactions

The Organization conducts a portion of its business with related parties. Transactions with related parties are consummated at market rates customary for the products provided or services rendered after a competitive bidding process.